BOSTON BEER CO INC
Form 10-K
February 20, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2012

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

One Design Center Place, Suite 850, Boston, Massachusetts

(Address of principal executive offices)

02210

(Zip Code)

(617) 368-5000

(Registrant s telephone number, including area code)

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

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

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

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

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 þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files. Yes þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the Class A Common Stock ($.01 par value) held by non-affiliates of the registrant totaled $1,010.6 million (based on the average price of the Company s Class A Common Stock on the New York Stock Exchange on June 30, 2012). All of the registrant s Class B Common Stock ($.01 par value) is held by an affiliate.

As of February 15, 2013, there were 8,758,696 shares outstanding of the Company s Class A Common Stock ($.01 par value) and 4,107,355 shares outstanding of the Company s Class B Common Stock ($.01 par value).

DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of the registrant s definitive Proxy Statement for its 2013 Annual Meeting to be held on May 29, 2013 are incorporated by reference into Part III of this report.

THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE PERIOD ENDED DECEMBER 29, 2012

Table of Contents

PART I

Item 1. ***Business***
General

The Boston Beer Company, Inc. (Boston Beer or the Company) is the largest craft brewer in the United States. In fiscal 2012, Boston Beer sold approximately 2.7 million barrels of its proprietary products (core brands) and brewed or packaged approximately 19,000 barrels under contract (non-core brands) for third parties.

During 2012, the Company sold over fifty beers under the Samuel Adams® or the Sam Adams® brand names, ten flavored malt beverages under the Twisted Tea® brand name, five hard cider beverages under the Angry Orchard ® brand name, and five beers under two brand names under its Alchemy & Science subsidiary. Boston Beer produces malt beverages and hard cider at Company-owned breweries and under contract arrangements at other brewery locations. The Company-owned breweries are located in Boston, Massachusetts (the Boston Brewery), Cincinnati, Ohio (the Cincinnati Brewery), Breinigsville, Pennsylvania (the Pennsylvania Brewery) and Los Angeles, California, (the Angel City Brewery).

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

Beer Industry Background

Before Prohibition, the United States beer industry consisted of hundreds of small breweries that brewed full-flavored beers. 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. Today, two major brewers, Anheuser-Busch InBev (AB InBev) and MillerCoors LLC (MillerCoors), comprise over 90% of all United States domestic beer production, excluding imports.

The Company s beers are primarily positioned in the Better Beer category of the beer industry, which includes craft (small, independent and traditional) brewers, domestic specialty beers and most imports. Better Beers are determined by higher price, quality, image and taste, as compared with regular domestic beers. Samuel Adams® is one of the largest brands in the Better Beer category of the United States brewing industry. In addition, AB InBev and MillerCoors have entered the Better Beer category, either by developing their own domestic specialty beers, acquiring, in whole or part, existing craft brewers, or by importing and distributing foreign brewers brands. The Company estimates that in 2012 the craft beer category grew approximately 11% to 13%, and the Better Beer category was up approximately 6% to 7%, while the total beer category was up approximately 1%. The Company believes that the Better Beer category is approximately 22% of United States beer consumption by volume.

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

The Company s *Twisted Tea* product line competes primarily within the flavored malt beverage (FMB) category of the beer industry. FMB s, such as *Twisted Tea*, Smirnoff Ice®, Mike s Hard Lemonade®, and Bud Light Lime®Lime-a-Rita are flavored malt beverages that are typically priced competitively with Better Beers. The Company believes that the FMB category comprises approximately 2% of United States beer consumption. The Company believes that the volume comprising the FMB category increased 9% in 2012 and that the increased volume in 2012 was due to the launch of Bud Light Lime® Lime-a-Rita which made up most of the category s growth.

Table of Contents

The Company s *Angry Orchard* product line competes within the hard cider category. Hard ciders are typically priced competitively with Better Beers and may compete with beer, wine, spirits, or FMBs for drinkers. Some of these competitors include C&C Group PLC under the brand names Woodchuck , Magners and Hornsby s ; Heineken under the brand name Strongbow ; MillerCoors under the brand name Crispin Cider ABI InBev under Michelob Ultra Cider. The Company believes that the hard cider category comprises less than 0.5% of United States beer consumption and that the volume comprising the hard cider category increased 60% to 70% in 2012.

Narrative Description of Business

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

Products Marketed

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

The Samuel Adams® Brewmaster s Collection is an important part of the Company s portfolio and heritage, but receives limited promotional support. The Small Batch Collection, Barrel Room Collection and Limited Edition Beers are produced in limited quantities and are sold at higher prices than the Company s other products. The *Twisted Tea* brand family has grown each year since the product was first introduced and has established a drinker following in several markets. The *Angry Orchard* brand family was launched in the second half of 2011 in several markets. In 2012, the Company completed its national distribution for both *Twisted Tea* and *Angry Orchard* brand families.

The following is a list of significant continuing styles as of December 29, 2012:

	Year First Introduced
Core Focus Beers	
Samuel Adams Boston Lager® (Flagship brand)	1984
Sam Adams Light®	2001
Seasonal Beers	
Samuel Adams Octoberfest	1989
Samuel Adams Winter Lager	1989
Samuel Adams Summer Ale	1996
Samuel Adams Alpine Spring	2011
Seasonal Limited Releases	
Samuel Adams Porch Rocker	2012
Samuel Adams Harvest Pumpkin Ale	2010
Samuel Adams White Christmas	2012

Table of Contents

	Year First Introduced
Brewmaster s Collection	
Samuel Adams Boston Ale	1987
Samuel Adams Cream Stout	1993
Samuel Adams Cherry Wheat®	1995
Samuel Adams Black Lager	2005
Samuel Adams Irish Red	2008
Samuel Adams Blackberry Witbier	2009
Samuel Adams Coastal Wheat	2009
Samuel Adams Noble Pils	2009
Samuel Adams Latitude 48 IPA	2010
Samuel Adams Whitewater IPA	2011
Small Batch Collection	
Samuel Adams Double Bock	1988
Samuel Adams Imperial White	2009
Samuel Adams Imperial Stout	2009
Samuel Adams Wee Heavy	2011
Samuel Adams Tasman Red	2011
Samuel Adams Third Voyage	2011
Samuel Adams The Vixen	2011
Samuel Adams Griffin s Bow	2011
Samuel Adams Dark Depths	2012
Samuel Adams Norse Legend	2012
Samuel Adams Verloren	2012
Samuel Adams Cinder Bock	2012
Samuel Adams Fat Jack	2012
Samuel Adams Merry Mischief	2012
Barrel Room Collection	
Samuel Adams American Kriek	2009
Samuel Adams Stony Brook Red	2009
Samuel Adams New World Tripel	2009
Samuel Adams Thirteenth Hour	2011
Limited Edition Beers	
Samuel Adams Utopias®	2001
Infinium™	2010
Flavored Malt Beverages	
Twisted Tea Hard Iced Tea	2001
Twisted Tea Raspberry Hard Iced Tea	2001
Twisted Tea Half Hard Iced Tea & Half Hard Lemonade	2003
Twisted Tea Peach Hard Iced Tea	2005
Twisted Tea Light Hard Iced Tea	2007
Twisted Tea Sun-Tea Style Hard Iced Tea	2009
Twisted Tea Blueberry Hard Iced Tea	2011
Twisted Tea Cranberry Hard Iced Tea	2012
Twisted Tea Mango Hard Iced Tea	2012
Twisted Tea Black Cherry Hard Iced Tea	2012
Hard Cider	
Angry Orchard Crisp Apple Hard Cider	2011
Angry Orchard Apple Ginger Hard Cider	2011
Angry Orchard Traditional Dry Hard Cider	2011
Angry Orchard Iceman Hard Cider	2012
Angry Orchard Strawman Hard Cider	2012

Certain products may be produced at select times during the year solely for inclusion in the Company s variety packs. During 2012, *Samuel Adams* Mighty Oak Ale, was brewed and included in the *Samuel Adams* Brewers Choice Variety Mix Pack, *Samuel Adams* Belgian Session and *Samuel Adams* East West Kolsh were brewed and included in the Summer Styles variety pack, *Samuel Adams* Dunkelweizen and *Samuel Adams* Hazel Brown Ale were brewed and included in the Harvest Collection variety pack and *Samuel Adams* Chocolate Bock, *Samuel Adams* Old Fezziwig® Ale and *Samuel Adams* Holiday Porter were brewed and included in the *Samuel Adams* Winter Classics variety pack.

During 2012, the Company released *Samuel Adams* IPA Hopology Variety Mix Pack, a specialty variety pack which included *Samuel Adams* Latitude 48 IPA, *Samuel Adams* Whitewater IPA and *Samuel Adams* Grumpy Monk Belgian IPA along with three Small Batch IPA beers, *Samuel Adams* Dark Depths, *Samuel Adams* Tasman Red and *Samuel Adams* Third Voyage. Also, the Company released *Samuel Adams* Hop Tour Variety Six Pack, a specialty variety six pack which included *Samuel Adams* Latitude 48 IPA and *Samuel Adams* Whitewater IPA and *Samuel Adams* Noble Pils.

Also during 2012, the Company released a variety of specialty draft beers brewed in limited quantities for its Single Batch Series, festivals and Beer Week celebrations.

In 2012, the Company completed its national rollout for both the *Twisted Tea* and *Angry Orchard* brand families. The company believes the gross profits from these brands have helped the Company increase its investment in Samuel Adams and have built a stronger Boston Beer brand portfolio with wholesalers and retailers. The Company will continue to look for complementary opportunities to leverage its capabilities, provided that they do not distract from its primary focus on its Samuel Adams brand.

The Company continually evaluates the performance of its various beers, flavored malt beverages and hard cider styles and the rationalization of its product line, as a whole. Periodically, the Company discontinues certain styles, *Samuel Adams* Pale Ale and *HardCore* cider were discontinued during 2012. Certain styles discontinued in previous years may be produced for the Company s variety packs or reintroduced.

Product Innovations

The Company is committed to maintaining its position as a leading innovator in the Better Beer category by developing new products that allow the *Samuel Adams* beer drinker to try new styles of malt beverages. To that end, the Company continually test brews different beers and occasionally sells them under various brand labels for evaluation of drinker interest. The Company also promotes the annual *LongShot* American Homebrew Contest® in which *Samuel Adams* beer drinkers and employees of the Company submit homebrews for inclusion in the *LongShot*® six-pack in the following year. During the year, the Company sold over fifty *Samuel Adams* beers commercially and brewed many more test brews. The Company s Boston Brewery spends most of its time ideating, testing and developing beers and ciders for the Company s potential future commercial development.

In late 2011, the Company formed a subsidiary, A&S Brewing Collaborative LLC, d/b/a Alchemy & Science, headed by Alan Newman, founder of Magic Hat Brewing, as a craft brew incubator headquartered in Burlington, Vermont. The mission of Alchemy & Science is to find new opportunities in craft brewing which may be geographical or stylistic and some may be with existing breweries or brewpubs. Alchemy & Science will be looking for unique brewing techniques and ingredients, as well as hunting for ancient or new recipes and beer styles to develop and introduce to beer lovers, and will have the brewing talents and broad resources of the Company as it looks for opportunities around the country. During the first quarter of 2012, Alchemy and Science purchased the assets of Southern California Brewing Company, Inc., a Los Angeles based craft brewer doing business as Angel City Brewing Company. During 2012, Angel City Brewery launched two new beers, Angeleno IPA and Eureka Wit on draft in the Los Angeles market, and the Angel City Brewery and Beer Hall in downtown Los Angeles opened to the public in the first quarter of 2013. Also during 2012, Alchemy & Science formed

House of Shandy (later renamed Traveler Beer Co.) which rolled out in test markets with its Curious Traveler and Tenacious Traveler shandy style beers. The Traveler Beer Co. is likely to roll-out more markets in 2013. These projects have had minimal sales to date.

Sales, Distribution and Marketing

The Company sells its products to a network of approximately 340 wholesale distributors. These distributors, in turn, sell the products to retailers, such as pubs, restaurants, grocery, convenience stores, package stores, stadiums and other retail outlets, where the products are sold to drinkers. With few exceptions, the Company s products are not the primary brands in distributors portfolios. Thus, the Company, in addition to competing with other malt beverages for a share of the drinker s business, competes with other brewers for a share of the distributor s attention, time and selling efforts.

The Company sells its products predominantly in the United States, but also has markets in Canada, Europe, Israel, the Caribbean, the Pacific Rim and Mexico. During 2012, the Company s largest customer accounted for approximately 6% of the Company s net sales. The top three customers accounted for approximately 12%, collectively. In some states, the terms of the Company s contracts with its distributors may be affected by laws that restrict the enforcement of some contract terms, especially those related to the Company s right to terminate the services of its distributors.

Most core brands are shipped within days of completion and there has not been any significant product order backlog. The Company has historically received most of its orders in the first week of a month for products to be shipped the following month and would 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 wholesaler warehouses before reaching the market, the Company introduced its Freshest Beer Program with domestic wholesalers in several markets in late 2010. The goal of the Freshest Beer Program is to provide better on-time service, forecasting, production planning and cooperation with the wholesalers, while substantially reducing inventory levels at the wholesaler. At December 29, 2012, the Company had 89 wholesalers participating in the program at various stages of inventory reduction, which constitutes over 59% of its volume. The Company believes that by the end of 2013 between 65% and 75% of its volume will be in the Freshest Beer Program. The Company successfully reduced the inventories of participating wholesalers by approximately two weeks, resulting in fresher beer being delivered to retail. The Freshest Beer Program has resulted in lower shipments of approximately 50,000, 133,000 and 241,000 case equivalents in 2010, 2011 and 2012, respectively, when measured at the end of the year, which historically has been the low point of the year for wholesaler inventories. The wholesaler ordering process has changed significantly for wholesalers that participate in the Freshest Beer Program and has resulted in a shorter period between order placement and shipment. There are various risks associated with the Freshest Beer Program that are discussed in *Risk Factors* below.

During 2012, Boston Beer had a sales force of approximately 330 people, which the Company believes is one of the largest in the domestic beer industry. The Company s sales organization is designed to develop and strengthen relations at each level of the three-tier distribution system by providing educational and promotional programs encompassing distributors, retailers and drinkers. The Company s sales force has a high level of product knowledge and is trained in the details of the brewing and selling processes. Sales representatives typically carry hops, barley and other samples to educate wholesale and retail buyers about the quality and taste of the Company s beers. The Company has developed strong relationships with its distributors and retailers, many of which have benefited from the Company s premium pricing strategy and growth.

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

Table of Contents

The Company launched a philanthropic program in 2008 called Samuel Adams Brewing the American Dream®. Partnering with ACCION USA, the nation s largest non-profit micro-lender, the program is designed to provide low to moderate income small business owners in the food, beverage and hospitality industries with small loans and support through training and speed coaching programs. Since its inception, the *Samuel Adams Brewing the American Dream* fund at ACCION has made loans of over $1.9 million to over 200 small business owners and craft brewers.

Ingredients and Packaging

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

Malt. The two-row varieties of barley used in the Company s malt are mainly grown in the United States and Canada. The 2012 barley crop in the United States and Canada was consistent with ten-year averages overall in terms of quality and quantity. The 2011, barley crop in the United States and Canada was slightly below ten-year averages overall in terms of quality and quantity. The 2012 and 2011 barley crop prices were significantly above the comparable averages. The Company purchased most of the malt used in the production of its beer from two major suppliers during 2012. The Company currently has a multi-year contract with one supplier, but also believes that there are other malt vendors available that are capable of supplying its needs.

Hops. The Company uses Noble hops varieties for most of its Samuel Adams® beers. Noble hops are produced in several specific growing areas recognized for growing hops with 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. Traditional English hops, namely, East Kent Goldings and English Fuggles, are used in many of the Company s ales and United States hops, namely Ahtanum, Cascade and Simcoe are used in certain of the Companys ales and lagers. The Company enters into purchase commitments with six 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. The contracts with the hop dealers are denominated in Euros for the German and Czech hops, in Pounds Sterling for the English hops and in US Dollars for United States hops. The Company does not currently hedge its forward currency commitments. The crops harvested in 2012 were consistent with historical averages in terms of both quality and quantity for most hop varieties and the Company expects to realize near full delivery on hops that were contracted for. While under-delivery occurred with some niche varieties, this under-delivery was not significant and is not expected to impact the production of the Company s beers. The Company attempts to maintain approximately two year s supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply. The Company stores its hops in multiple cold storage warehouses to minimize the impact of a catastrophe at a single site.

Yeast. The Company maintains a supply of proprietary strains of yeast used in its breweries. Since these yeasts would be impossible to duplicate if destroyed, the Company maintains secure supplies in several locations and the strains are stored and protected at an outside laboratory.

Apples. The Company uses special varieties of apples in its ciders that it believes are important for the ciders flavor profile. These apples are purchased from European suppliers and include bittersweet apples from France and culinary apples from Italy. There is limited availability of these 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. During 2012, the Company experienced shortages of apples that impacted the timing of shipments of ciders to wholesalers. In late 2012, the Company entered into purchase commitments with apple suppliers, designed to cover its 2013 needs. The Company is evaluating entering into multiple year contracts for apples with various suppliers.

Table of Contents

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

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

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 cost associated with reusing the glass varies, based on the costs of collection, sorting and handling, including arrangements with retailers, wholesalers and dealers in recycled products. There is no guarantee that the current economics relating to the use of returned glass will continue or that the Company will continue to reuse returnable bottles.

Quality Assurance

As of December 29, 2012, the Company employed over fifteen brewmasters to monitor the Company s brewing operations and control the production of its beers and ciders. Extensive tests, tastings and evaluations are typically required to ensure that each batch of *Samuel Adams* beer, *Twisted Tea* flavored malt beverage and *Angry Orchard* hard cider conforms to the Company s standards. The Company has on-site quality control labs at each brewery.

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

Brewing Strategy

During 2012, the Company brewed and packaged approximately 90% of its core brand volume at Company-owned breweries. The Company had capital investments in 2012 of approximately $67 million to invest in efficiency projects, support the increasing complexity of its portfolio and the Freshest Beer Program, and to expand the quality, capacity and capabilities of its breweries to meet anticipated future growth. The Company expects to invest between $70 million and $85 million in 2013, after which capital investment should return to a level of between $30 million and $50 million, including capacity expansion initiatives to accommodate expected growth; however, the actual amount spent may well be different from these estimates. Under this capital plan, along with expanding the Company s use of production arrangements with third parties, the Company believes it should be able to support the projected growth in 2013. The Company continues to evaluate capacity optimization at its breweries and the potential significant capital required for expansion of absolute capacity at its existing breweries.

The Company-owned breweries are located in Breinigsville, Pennsylvania (Pennsylvania Brewery), Cincinnati, Ohio Cincinnati Brewery), Boston, Massachusetts (Boston Brewery) and Los Angeles, California, (the Angel City Brewery). The Pennsylvania and Cincinnati Breweries produce the full range of the Company s core brands and 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 and lower volume products. The Boston Brewery s production is mainly for developing new types of innovative and traditional beers and brewing and packaging beers in the *Samuel Adams* Barrel Room Collection and certain keg beers for the local market. The Angel City Brewery production currently supports draft accounts in the Los Angeles market and on-premise consumption at its beer hall. Product development entails researching market needs and competitive products, sample brewing and market taste testing. Most of the Company s *Samuel Adams* beers are produced at the Boston Brewery in the course of each year.

Table of Contents

The Company currently has a brewing and packaging services agreement with City Brewing Company, LLC, to produce its products at facilities in Latrobe, Pennsylvania and La Crosse, Wisconsin and an agreement with Pleasant Valley Wine Company to brew and/or package at facilities in Hammondsport, New York. The Company carefully selects breweries and packaging facilities owned by others with (i) the capability of utilizing traditional brewing methods and (ii) first-rate quality control capabilities throughout brewing, fermentation, finishing and packaging. Under its brewing 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, excise taxes and deposits for pallets and kegs and specialized equipment required to brew and package the Company s beers.

The Company believes that it has secured sufficient alternatives in the event that production at any of its brewing locations is interrupted, although as volumes at the Pennsylvania Brewery increase, interruptions there could become more problematic. 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 such replacement brewing locations. Potential interruptions at breweries include labor issues, governmental actions, quality issues, contractual disputes, machinery failures or operational shut downs. Also, as the brewing industry has consolidated, the financial stability of the breweries owned by others where the Company could brew some of its beers, if necessary, and their ability or willingness to meet the Company s needs, has become a more significant concern. The Company continues to work with all of its breweries to attempt to minimize any potential disruptions.

Competition

The Better Beer category within the United States beer market is highly competitive due to the large number of craft brewers and imported beers with similar pricing and target drinkers. The Company anticipates competition and innovation among domestic craft brewers to remain strong, as craft brewers experienced their eighth successive year of growth in 2012 and there were many new startups. The Company estimates there are approximately 3,600 breweries in operation or in the planning stages up from approximately 420 operating craft breweries in 2006. Also, existing craft breweries are building more capacity, expanding geographically, adding more SKUs and styles, as distributors and retailers are promoting and making more shelf space available for more craft beer brands.

Imported beers, such as Corona® and Heineken®, continue to compete aggressively in the United States and have gained market share over the last ten years. These import competitors may have substantially greater financial resources, marketing strength and distribution networks than the Company. The two largest brewers in the United States, MillerCoors and AB InBev, have entered the Better Beer category with domestic specialty beers, either by developing their own beers, acquiring, in whole or part, existing craft brewers, importing and distributing foreign brewers brands or increasing their development and marketing efforts on their own domestic specialty beers that might compete in the Better Beer category.

In June 2012, AB InBev agreed to purchase an additional 50% interest in the Mexican brewer Grupo Modelo, owner of Corona and other imported brands for $20.1 billion, which if completed would result in AB InBev s 100% ownership of Grupo Modelo. This acquisition is currently the subject of a complaint filed by the U.S. Department of Justice Anti-Trust Division.

The Company s products also compete with other alcoholic beverages for drinker attention and consumption. 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 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 Better Beer segment of the beer industry include product quality and taste, brand advertising and imagery, trade and drinker promotions, pricing, packaging and the development of new products.

Table of Contents

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

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

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

The Company s *Angry Orchard* ciders compete within the hard cider category. This category is small but growing and highly competitive and includes large international competitors and many small regional and local hard cider companies.

Regulation and Taxation

The alcoholic beverage industry is regulated by federal, state and local governments. These regulations govern the production and distribution of alcoholic beverages, including permitting, licensing, marketing and advertising, distributor relationships, sales, environmental, and occupational health and safety issues. To operate its breweries, the Company must obtain and maintain numerous permits, licenses and approvals from various governmental agencies, including the Alcohol and Tobacco Tax and Trade Bureau, 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. The federal excise tax on malt beverages is $18 per barrel, on hard cider (with alcohol by volume of 7% or less) is $0.226 per gallon and on artificially carbonated wine (hard cider with alcohol by volume greater than 7%) is $3.30 per gallon. States levy excise tax 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 United States Trademark Registrations for over 90 trademarks, including Samuel Adams®, the design logo of Samuel Adams®, Samuel Adams Boston Lager®, Samuel Adams Utopias®, Twisted Tea®, Angry Orchard ® and Samuel Adams Brewing the American Dream ®. It also has a number of common law marks, including Infinium . The *Samuel Adams* trademark, the *Samuel Adams Boston Lager* trademark, the design logo of Samuel Adams, the *Twisted Tea* trademark and other Company trademarks are also registered or registration is pending in various foreign countries. The Company regards its *Samuel Adams* family of trademarks and other trademarks as having substantial value and as being an important factor in the marketing of its products. The Company is not aware of any trademark infringements that could materially affect its current business or any prior claim to the trademarks that would prevent the Company from using such trademarks in its business. The Company s policy is to pursue registration of its marks whenever appropriate and to vigorously oppose any infringements of its marks.

Environmental, 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, 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.

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.

As part of its efforts to be environmentally friendly, the Company has reused its glass bottles returned from certain states that have bottle deposit bills. The Company believes that it benefits economically from washing and reusing these bottles, which result in a lower cost than purchasing new glass, and that it benefits the environment by the reduction in landfill usage, the reduction of usage of raw materials and the lower utility costs for reusing bottles versus producing new bottles. The economics of using recycled glass varies based on the cost of collection, sorting and handling, and may be affected by local regulation, and retailer, distributor and glass dealer behavior. There is no guarantee that the current economics of using returned glass will continue, or that the Company will continue its current used glass practices.

Employees

As of December 29, 2012, the Company employed approximately 950 people, of which approximately 79 were covered by collective bargaining agreements at the Cincinnati Brewery. The representation involves three labor unions with one contract expiring in 2015 and two expiring in 2017. The Company believes it maintains a good working relationship with all three labor unions and has no reason to believe that the good working relationship will not continue. The Company has experienced no work stoppages, or threatened work stoppages, and believes that its employee relations are good.

Other

The Company submitted the Section 12(a) CEO Certification to the New York Stock Exchange in accordance with the requirements of Section 303A of the NYSE Listed Company Manual. This Annual Report on Form 10-K contains at Exhibits 31.1 and 31.2 the certifications of the Chief Executive Officer and Chief Financial Officer, respectively, in accordance with the requirements of Section 302 of the Sarbanes-Oxley Act of 2002. The Company makes available free of charge copies of its Annual Report on Form 10-K, as well as other reports required to be filed by Section 13(a) or 15(d) of the Securities Exchange Act of 1934, on the Company s website at *www.bostonbeer.com*, or upon written request to Investor Relations, The Boston Beer Company, Inc., One Design Center Place, Suite 850, Boston, Massachusetts 02210.

Table of Contents

Item 1A. *Risk Factors*

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

The Company Faces Substantial Competition.

The Better Beer category within the United States beer market is highly competitive, due to the large number of craft brewers with similar pricing and target drinkers and gains in market share achieved by domestic specialty beers and imported beers, a number of which are now promoted or imported by the two largest domestic brewing companies, AB InBev and MillerCoors. The Company faces strong competition from these two brewers as they introduce new domestic specialty brands to many markets and expand their efforts behind existing brands. Imported beers, such as Corona® and Heineken®, continue to compete aggressively in the United States beer market. *Samuel Adams* is one of the largest brands in the Better Beer category of the United States brewing industry. The Company anticipates competition among domestic craft brewers to remain strong, as craft brewers experienced their eighth successive year of growth in 2012 and there were many new startups. In 2012, the Company estimates there are approximately 3,600 breweries in operation or in the planning stages up from approximately 420 operating craft breweries in 2006. Also, existing craft breweries are building more capacity, expanding geographically, adding more SKUs and styles as distributors and retailers are promoting and making more shelf space available for more craft beer brands. The continued growth in the sales of craft-brewed domestic beers and in imported beers is expected to increase the competition in the Better Beer category within the United States beer market and, as a result, prices and market share of the Company s products may fluctuate and possibly decline. No assurance can be given that any decline in price would be offset by an increase in market share.

The Company s products, including its *Twisted Tea* and *Angry Orchard* products, also compete generally with other alcoholic beverages. The Company competes with other beer and beverage companies not only for drinker acceptance and loyalty, but also for shelf, 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 Corona®, Heineken®, AB InBev and MillerCoors, 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 results of operations, cash flows and financial position.

Further, in recent years, the beer industry has seen continued consolidation among brewers in order to take advantage of cost savings opportunities for supplies, distribution and operations. Illustrative of this consolidation are the domestic joint venture between SABMiller and Molson Coors and the acquisition of Anheuser Busch by InBev, both of which occurred in 2008, the acquisition of FEMSA Cerveza by Heineken in 2010, and the planned acquisition of Grupo Modelo by AB InBev. Due to the increased leverage that these combined operations will have, the costs to the Company of competing could increase and the availability of brewing capacity could be reduced. The potential also exists for MillerCoors, AB InBev and Heineken to increase their influence with their distributors, making it difficult for smaller brewers to maintain their market presence or enter new markets. These potential increases in the number and availability of competing brands, the costs to compete, reductions in contract brewing capacity and decreases in distribution support and opportunities may have a material adverse effect on the Company s results of operations, cash flows and financial position.

Table of Contents

There Is No Assurance of Continued Growth.

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

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

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

Such a change in wholesaler inventories is somewhat unpredictable, and can lead to fluctuations in the Company s quarterly or annual results.

Unexpected Events at Company-Owned Breweries, Reduced Availability of Breweries Owned by Others, Increased Complexity of the Company s Business, or the Expansion Costs of the Company-Owned Breweries Could Have A Material Adverse Effect on the Company s Operations or Financial Results.

Prior to 2008, the Company pursued a production strategy that combined the capacity at the Cincinnati Brewery that was acquired in 1997, with significant production arrangements at breweries owned by third parties. The brewing services arrangements with breweries owned by others allowed the Company to utilize excess capacity, providing the Company flexibility, as well as cost advantages over its competitors, while maintaining full control over the brewing process for the Company s beers. The Company purchased the Pennsylvania Brewery in June 2008. As a result, the volume of core brands brewed at Company-owned breweries increased from approximately 35% in 2007 to virtually all of its volume in 2012.

In 2012, the Company brewed its flagship beer, *Samuel Adams Boston Lager*, at each of its breweries, but at any particular time it may rely on only one brewery for its products other than *Samuel Adams Boston Lager*. The Company expects to brew almost all of its core brands volume in 2013 at its Company-owned breweries and to have less reliance on brewing services arrangements with third parties. This increased reliance on its own breweries exposes the Company to capacity constraints, as these breweries are operating close to current capacity in peak months. Nevertheless, management believes that it has secured sufficient alternatives for most of its brands and packages in the event that production at any of its brewing locations is interrupted or discontinued, although it may not be able to maintain its current economics if such a disruption were to occur and it might experience interruptions to supply. Potential disruptions at breweries include labor issues, governmental action, quality issues, contractual disputes, machinery failures or operational shut downs.

The combination of the Company s recent growth, increased product complexity, and its reliance on its own breweries, continues to increase the operating complexity of the Company s business. There can be no assurance that the Company will effectively manage such increasing complexity, without experiencing planning failures, operating inefficiencies, control deficiencies or other issues that could have a material adverse effect on the Company s business. The growth of the Company, changes in operating procedures and increased complexity, are also requiring significant capital investment.

While the Company has shifted its production to its own breweries, it continues to avail itself of capacity at third-party breweries. During 2012, the Company brewed and/or packaged certain products under service contracts at facilities located in Latrobe, Pennsylvania and Hammondsport, New York. In selecting third party breweries for brewing services arrangements, the Company carefully weighs brewery s (i) capability of utilizing traditional brewing methods and (ii) first rate quality control capabilities throughout brewing, fermentation, finishing and packaging. To the extent that the Company needs to avail itself of 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 or an unexpected decline in the brewing capacity available to it, either of which could have a material adverse effect on the Company s results of operations, cash flows and financial position.

As the brewing industry continues to consolidate, the financial stability of the breweries owned by others where the Company could brew some of its beers, if necessary, and their ability or willingness to meet the Company s needs, has become a more significant concern and there are no guarantees that the Company s brewing needs will be met. The Company continues to work with all of the breweries at which it might brew its products in an attempt to minimize any potential interruptions. Nevertheless, should an interruption occur, the Company could experience temporary shortfalls in production and/or increased production or distribution costs, and be required to make significant capital investments to secure alternative capacity for certain brands and packages, the combination of which could have a material adverse effect on the Company s results of operations, cash flows and financial position. A simultaneous interruption at 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 Is Dependent on Its Distributors.

In the United States, where approximately 97% of its beer is sold, the Company sells its beer to independent beer distributors for distribution to retailers and, ultimately, to drinkers. Although the Company currently has arrangements with approximately 340 wholesale distributors, sustained growth will require it to maintain such relationships and possibly enter into agreements with additional distributors. Changes in control or ownership of the current distribution network could lead to less support of the Company s products. No assurance can be given that the Company will be able to maintain its current distribution network or secure additional distributors on terms favorable to the Company.

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

Table of Contents

The Company Expects That the Freshest Beer Program Will Adversely Affect Short-term Operating Results and Cash Flow During Implementation and Could Disrupt the Company s Business.

In late 2010, the Company started a Freshest Beer Program with domestic wholesalers in different markets to reduce both the time and temperature the Company s beers experience at wholesaler warehouses before reaching the market. Historically, wholesalers carry three to five weeks of packaged inventory (usually at ambient temperatures) and three to four weeks of draft inventory. The Company s goal is to reduce this through better on-time service, forecasting, production planning and cooperation with the wholesalers. At December 29, 2012, the Company had 89 wholesalers participating in the program at various stages of inventory reduction. The Company has over 59% of its volume on the Freshest Beer Program and believes this could reach 65 to 75% by the end of 2013. The Company successfully reduced the inventories of participating wholesalers by approximately two weeks, resulting in fresher beer being delivered to retail. The Freshest Beer Program has resulted in lower shipments of approximately 50,000, 133,000 and 241,000 case equivalents in 2010, 2011 and 2012 respectively when measured at the end of the year, which historically has been the low point of the year for wholesaler inventories. The wholesaler ordering process has changed significantly for wholesalers that participate in the Freshest Beer Program and has resulted in a shorter period between order placement and shipment and posed much greater challenges for forecasting and production planning. Also, changes to the wholesaler ordering process has increased the complexity of the Company s revenue recognition for shipments to wholesalers that participate in the Freshest Beer Program.

It is possible that the Freshest Beer Program may not ultimately be successful; that its costs of implementation may exceed the value realized or that the outcome of such inventory reductions may prove detrimental to the Company s business trends and ability to execute at retail. The Company may encounter unexpected problems with forecasting, accounting, production and wholesaler cooperation. These issues could lead to shortages and out of stocks of the Company s products at the wholesaler and retailer levels, result in increased costs, negatively impact wholesaler relations, and/or delay the Company s implementation of this program.

Because the Company is still in the process of rolling out the Freshest Beer Program, there necessarily remain implementation and execution issues to be addressed. As a result, the Company currently cannot predict with any precision the long-term success of this program, the scope of its further implementation in 2013 or the full extent of the costs or business impacts associated with the program that might be incurred. The Company currently believes the program will, in the long term, be beneficial to its business, but there can be no assurances that this result will be achieved or, if achieved, to what extent.

The Company is Dependent on Key Suppliers, Including Foreign Sources; Its Dependence on Foreign Sources Creates Foreign Currency Exposure for the Company; The Company s Use of Natural Ingredients Creates Weather and Crop Reliability and Excess 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, barley 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 major suppliers during 2012. 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. Traditional English hops, namely, East Kent Goldings and English Fuggles, along with United States hops are used in most of the Company s ales. The Company enters into purchase commitments with six 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 may be materially adversely affected by factors such as adverse weather, the use of fertilizers and pesticides that do not conform to United States regulations, the imposition of export restrictions (such as increased tariffs and duties) and changes in currency exchange rates resulting in increased prices. The Company attempts to maintain approximately two year s supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply. The Company stores its hops in multiple cold storage warehouses to minimize the impact of a catastrophe at a single site. Hops and malt are agricultural products and therefore many outside factors, including weather conditions, farmers rotating out of hops or barley to other crops, government regulations and legislation affecting agriculture, could affect both price and supply.

The Company uses special varieties of apples in its ciders that it believes are important for the ciders flavor profile. These apples are purchased from European suppliers and include bittersweet apples from France and culinary apples from Italy. There is limited availability of these 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. During 2012, the Company experienced shortages of apples that impacted shipments to wholesalers. In late 2012, the Company entered into purchase commitments with apple suppliers, designed to cover its 2013 needs. The Company is evaluating entering into multiple year contracts for apples with various suppliers.

Historically, other than the apple shortages discussed above, 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. Although the Company believes that there are alternate sources available for some of the ingredients and packaging materials, there can be no assurance that the Company would be able to acquire such ingredients or packaging materials from substitute sources on a timely or cost effective basis in the event that current suppliers could not adequately fulfill orders. The loss or significant reduction in the capability of a supplier to support the Company s requirements could, in the short-term, adversely affect the Company s results of operations, cash flows and financial position until alternative supply arrangements were secured.

The Company s contracts for certain hops and apples that are payable in Euros and Pounds Sterling, and therefore, the Company is subject to the risk that the Euro or Pound 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 results of operations, cash flows and financial position. Currently, the cost of hops is approximately 3% of the Company s product cost. The cost of hops has greatly increased in recent years due to exchange rate changes and the rising market price of hops, and continuation of these trends will impact the Company s product cost and potentially the Company s ability to meet demand. The Company also buys some other ingredients and capital equipment from foreign suppliers for which the Company also carries exposure to foreign exchange rate changes.

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

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

The Company maintains multiple sources of supply for most of its packaging materials, such as shipping cases, six-pack carriers and crowns. Currently, glass and labels for core brands are each supplied by single sources. Although the Company believes that alternative suppliers are available, the loss of the Company s glass or other packaging materials suppliers could, in the short-term, adversely affect the Company s results of operations, cash flows and financial position until alternative supply arrangements were secured. If packaging costs continue to increase, there is no guarantee that such costs can be fully passed along to drinkers through increased prices. The Company has entered into long-term supply agreements for certain packaging materials that have shielded it from some cost increases. These contracts have varying lengths and terms and there is no guarantee that the economics of these contracts can be replicated at time of renewal. The Company s inability to preserve the current economics on renewal could expose the Company to significant cost increases in future years.

The Company initiates bottle deposits in some states and reuses glass bottles that are returned pursuant to certain state bottle recycling laws. The cost associated with reusing the glass varies. The Company believes that it benefits economically from cleaning and reusing these bottles, which result in a lower cost than purchasing new glass, and that it benefits the environment by the reduction in landfill usage, the reduction of usage of raw materials and the lower utility costs for reusing bottles versus producing new bottles. The economics of using recycled glass varies based on the cost of collection, sorting and handling, retailer, distributor and glass dealer behavior, the availability of equipment and service providers that will clean bottles for reuse, and may be adversely affected by changes in state regulation. There is no guarantee that the current economics of using returned glass will continue, or that the Company will continue its current used glass practices.

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

In the last five years, the Company has experienced significant increases in direct and indirect energy costs, and energy costs could continue to rise. Increasing 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 continue to increase, there is no guarantee that such costs can be fully passed along to drinkers through increased prices.

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

The Company s operations are subject to certain hazards and liability risks faced by all brewers, such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging. As discussed elsewhere, the Company announced a voluntary product recall of certain glass bottles of its Samuel Adams® products during 2008. The recall resulted from routine quality control inspections where glass inclusions were detected in certain bottles of beer. The Company substantially completed the recall process during 2008. While the Company does not anticipate repetition of such problems, the Company s operations are subject to a range of operating hazards which include product contamination, the occurrence of which could result in unexpected costs to the Company, and in the case of a costly product recall, potentially serious damage to the Company s reputation for product quality, as well as claims for product liability.

Changes in tax, environmental and other regulations 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. Failure to comply with current or changes to existing laws and regulations relating to the Company s operations or in the payment of taxes or other fees 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 ability of the Company s business, financial condition and results of operations.

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 become the subject of considerable societal and political attention in recent years, due to increasing public concern over alcohol-related social problems, including drunk driving, underage drinking and health consequences from the misuse of alcohol, including alcoholism. As an outgrowth of these concerns, the possibility exists that advertising by beer producers could be restricted, that additional cautionary labeling or packaging requirements might be imposed, that further restrictions on the sale of alcohol might be imposed or that there may be renewed efforts to impose increased excise or other taxes on beer sold in the United States. The domestic beer industry, other than Better Beers, has experienced a slight decline in shipments over the last ten years. The Company believes that this slower growth is due to both declining alcohol consumption per person in the population and increased competition from wine and spirits companies. If beer consumption in general were to come into disfavor among domestic drinkers, or if the domestic beer industry were subjected to significant additional governmental regulations, the Company s business could be materially adversely affected.

In addition, there has been a recent focus by state and federal authorities on caffeinated alcoholic beverages. In November 2010, in response to intense media attention regarding the misuse of high alcohol malt beverages with added caffeine that are marketed as energy drinks, the United States Food and Drug Administration (FDA) informed producers of these products that it has not approved the use of caffeine as an additive in alcoholic beverages and thus, such beverages can be lawfully marketed only if their use is subject to prior FDA approval or is otherwise generally recognized as safe. As a result, several producers have reformulated their products to remove the added caffeine. The Company s *Twisted Tea* products and certain other craft styles contain naturally-occurring, but not added, caffeine, so the recent FDA pronouncements do not apply. Nevertheless, there is an inherent risk that the concern about added caffeine in alcoholic beverages could subsequently be applied to naturally occurring caffeine, adversely affecting the Company s products in the future. In addition, this regulatory attention to caffeinated alcoholic beverages included concerns about the availability of malt beverages in larger size single serve containers, which could adversely affect the Company s ability to sell certain of its beers and flavored malt beverages in certain single serve packages.

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

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. 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 Influence over the Company

The Company s Class A Common Stock is not entitled to any voting rights, except for the right as a class to approve certain mergers and charter and by-law amendments and to elect a minority of the directors of the Company. Consequently, the election of a majority of the Company s directors and all other matters requiring stockholder approval are currently decided by C. James Koch, Chairman of the Board of Directors of the Company, as the holder of 100% of 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. In addition, Mr. Koch could transfer some shares of the Class B Common Stock to others, which could impact the nature of the control currently held by him as the sole holder of the Class B Common Stock.

Table of Contents

Impact of Changes in Drinker Attitudes on Brand Equity and Inherent Risk of Reliance on the Company s Founder in the Samuel Adams® Brand Communications.

There is no guarantee that the brand equities that the Company has built in its brands will continue to appeal to drinkers. Changes in drinker attitudes or demands could adversely affect the strength of the brands and the revenue that is generated from that strength. It is possible that the Company could react to such changes and reposition 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 the brand equities as opposed to building them. If such damage should occur, it could have a negative effect on the financial condition of the Company.

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

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

Volatility and uncertainty in the financial markets and economic conditions may directly or indirectly affect the Company s performance and operating results in a variety of ways, including: (a) prices for energy and agricultural products may rise faster than current estimates; (b) the Company s key suppliers may not be able to fund their capital requirements, resulting in disruption in the supplies of the Company s raw and packaging materials; (c) the credit risks of the Company s wholesalers may increase; (d) the Company s credit facility, or portion thereof, may become unavailable at a time when needed by the Company to meet critical needs; (e) overall beer consumption may decline; or (f) drinkers of the Company s beers may change their purchase preferences and frequency, which might result in sales declines.

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

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

The Company has significantly increased the number of commercially available beers, FMBs and ciders. Since 2010, the Company has introduced over 30 new beers under the *Samuel Adams* brand name. During 2012, the Company completed its national distribution for both *Twisted Tea* and *Angry Orchard* brand families and added additional styles. Also during 2012, Alchemy & Science purchased the assets of Southern California Brewing Company, Inc., a Los Angeles based craft brewer doing business as Angel City Brewing Company, which includes a small brewery and a beer hall where beer will be sold and consumed on premise. In addition, Alchemy & Science launched five beers under two brand names and the Company expects Alchemy & Science to roll out additional brands in 2013. These additional brands along with the increases in activity for existing brands have added to the complexity of the Company s beer and cider development process as well as its brewing, packaging, marketing and selling processes. The Company does not have experience with managing this number of brands and products and has limited experience with integrating acquired brands or operating beer halls. There can be no assurance that the Company will effectively manage such increased complexity without experiencing operating inefficiencies or control deficiencies. Such inefficiencies or deficiencies could have a material adverse effect on the Company s business.

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 2012 fiscal year, and (3) remain unresolved.

Item 2. ***Properties***

The Company maintains its principal corporate offices in approximately 42,400 square feet of leased space located in Boston, Massachusetts, the initial term of which is set to expire in 2017. The Company also leases a small sales office in California and an office in Vermont.

The Company maintains a brewery and tour center in Boston, Massachusetts in approximately 37,000 square feet of leased space. The current term of the lease for this facility will expire in 2019.

The Company owns approximately 69 acres of land in Breinigsville, Pennsylvania, on which the Company s Pennsylvania Brewery is located. The buildings on this property consist of approximately 853,000 square feet of brewery and warehouse space.

The Company leases approximately 48,650 square feet of space in Los Angeles, California which includes a small brewery, beer hall and tour center. The current term of the lease for this facility will expire in 2021.

The Company owns approximately 10 acres of land in Cincinnati, Ohio, on which the Company s Cincinnati Brewery is located. The buildings on this property consist of approximately 128,500 square feet of brewery and warehouse space.

The Company owns 52.7 acres of vacant land in Freetown, Massachusetts which is currently on the market for sale.

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***

In 2009, the Company was informed that ownership of the High Falls brewery located in Rochester, New York (the Rochester Brewery) changed and that the new owners would not assume the Company s existing contract for brewing services at the Rochester Brewery. Brewing of the Company s products at the Rochester Brewery subsequently ceased in April 2009. In February 2010, the Company filed a Demand for Arbitration with the American Arbitration Association (the arbitration) which, as amended, asserted a breach of contract claim against the previous owner of the Rochester Brewery. In March 2010, the new and previous owners of the Rochester Brewery filed a complaint in federal court seeking a declaratory judgment and injunction to require certain of the Company s claims to proceed in court, rather than in the arbitration. In April 2010, the Company filed an answer to that complaint and asserted certain counterclaims, including a claim against the new owners of the Rochester Brewery for interference with contract. The court denied the new and previous owners motion for a preliminary injunction in June 2010. A hearing in the arbitration was held in October 2010. In January 2011, the arbitrator issued an award of approximately $1.3 million in damages and expenses to be paid by

Table of Contents

High Falls Brewery Company, LLC to the Company, although the likelihood of collection of such award is in doubt. In August 2011, the district court granted the previous owner s motion to dismiss the interference claim, and in June 2012 the court denied a motion to amend that claim. The Company filed an appeal of those rulings in September 2012, which is pending.

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, 2008 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 Brewing Company and Craft Brewers Alliance, Inc. (formerly Redhook Ale Brewery, Inc.), the two remaining U.S. publicly-traded brewing companies (Peer Group), for the five years ending December 29, 2012.

	ANNUAL RETURN PERCENTAGE Years Ending				
Company Name / Index	**12/27/08**	**12/26/09**	**12/25/10**	**12/31/11**	**12/29/12**
The Boston Beer Company, Inc.	-29.02	74.93	109.16	10.88	23.85
S&P 500 Index	-39.54	32.21	13.82	2.18	14.07
S&P 500 Beverages Index	-19.85	26.05	17.63	7.30	7.16
Peer Group	-8.90	-2.75	18.03	-12.09	1.43

	Base Period	INDEXED RETURNS Years Ending				
Company Name / Index	**12/29/07**	**12/27/08**	**12/26/09**	**12/25/10**	**12/31/11**	**12/29/12**
The Boston Beer Company, Inc.	**100**	70.98	124.16	259.71	287.96	356.63
S&P 500 Index	**100**	60.46	79.93	90.98	92.97	106.05
S&P 500 Beverages Index	**100**	80.15	101.03	118.84	127.51	136.64
Peer Group	**100**	91.10	88.59	104.57	91.93	93.24

Peer Group Companies
Craft Brewers Alliance Inc
Molson Coors Brewing Co

Table of Contents

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

Fiscal 2012	**High**	**Low**
First Quarter	$ 106.79	$ 94.52
Second Quarter	$ 121.00	$ 98.31
Third Quarter	$ 127.98	$ 100.96
Fourth Quarter	$ 139.24	$ 105.19
Fiscal 2011	**High**	**Low**
First Quarter	$ 97.66	$ 85.19
Second Quarter	$ 94.86	$ 80.01
Third Quarter	$ 92.31	$ 73.50
Fourth Quarter	$ 112.88	$ 72.13

There were 13,075 holders of record of the Company s Class A Common Stock as of February 15, 2013. 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 15, 2013, as reported under the New York Stock Exchange-Composite Transaction Reporting System, was $147.53.

Class A Common Stock

At December 29, 2012, the Company had 22,700,000 authorized shares of Class A Common Stock with a par value of $.01, of which 8,703,670 were issued and outstanding. The Class A Common Stock has no voting rights, except (1) as required by law, (2) for the election of Class A Directors, and (3) that the approval of the holders of the Class A Common Stock is required for (a) future authorizations or issuances of additional securities which have rights senior to Class A Common Stock, (b) alterations of rights or terms of the Class A or Class B Common Stock as set forth in the Articles of Organization of the Company, (c) certain other amendments of the Articles of Organization of the Company, (d) certain mergers or consolidations with, or acquisitions of, other entities, and (e) sales or dispositions of any significant portion of the Company s assets.

Table of Contents

Class B Common Stock

At December 29, 2012, the Company had 4,200,000 authorized shares of Class B Common Stock with a par value of $.01, of which 4,107,355 shares were issued and outstanding. The Class B Common Stock has full voting rights, including the right to (1) elect a majority of the members of the Company s Board of Directors and (2) approve all (a) amendments to the Company s Articles of Organization, (b) mergers or consolidations with, or acquisitions of, other entities, (c) sales or dispositions of any significant portion of the Company s assets and (d) equity-based and other executive compensation and other significant corporate matters, 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 15, 2013, C. James Koch, the Company s Chairman, was the sole holder of record of all the Company s issued and outstanding Class B Common Stock.

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

Repurchases of the Registrants Class A Common Stock

On October 1, 2012, the Board of Directors of the Company increased the aggregate expenditure limit for the Company s Stock Repurchase Program by $25.0 million, thereby increasing the limit from $275.0 million to $300.0 million. As of December 29, 2012, the Company has repurchased a cumulative total of approximately 10.7 million shares of its Class A Common Stock for an aggregate purchase price of approximately $269.9 million.

During the twelve months ended December 29, 2012, the Company repurchased 165,192 shares of its Class A Common Stock as illustrated in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2012 to February 4, 2012	25,557	$ 96.73	24,346	$ 20,673,592
February 5, 2012 to March 3, 2012	240	31.72		20,673,592
March 4, 2012 to March 31, 2012	13,053	99.63	13,053	19,373,145
April 1, 2012 to May 5, 2012	6,143	98.25	6,063	18,772,967
May 6, 2012 to June 2, 2012	4,734	95.72	4,000	18,352,757
June 3, 2012 to June 30, 2012	26,207	107.99	26,207	15,522,629
July 1, 2012 to August 4, 2012	16	65.14		15,522,629
August 5, 2012 to September 1, 2012				15,522,629
September 2, 2012 to September 29, 2012	46,123	108.16	46,123	10,534,090
September 30, 2012 to November 3, 2012	25,025	107.04	25,000	32,857,424
November 4, 2012 to December 1, 2012				32,857,424
December 2, 2012 to December 29, 2012	20,400	137.23	20,400	30,057,894
Total	167,498	$ 108.27	165,192	$ 30,057,894

Table of Contents

Of the shares that were purchased during the period, 2,306 shares represent repurchases of unvested investment shares issued under the Investment Share Program of the Company s Employee Equity Incentive Plan.

Item 6. ***Selected Consolidated Financial Data***

	Year Ended				
	Dec. 29 2012	Dec. 31 2011 (53 weeks)	Dec. 25 2010	Dec. 26 2009	Dec. 27 2008
	(in thousands, except per share and net revenue per barrel data)				
Income Statement Data:					
Revenue	$ 628,580	$ 558,282	$ 505,870	$ 453,446	$ 449,554
Less recall returns					13,222
Less excise taxes	48,358	45,282	42,072	38,393	37,932
Net revenue	580,222	513,000	463,798	415,053	398,400
Cost of goods sold	265,012	228,433	207,471	201,235	205,040
Recall related costs					9,473
Gross profit	315,210	284,567	256,327	213,818	183,887
Operating expenses:					
Advertising, promotional and selling expenses	169,306	157,261	135,737	121,560	132,901
General and administrative expenses	50,171				