

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

**FORM 10-Q**

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

For the quarterly period ended **September 28, 2002**

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-14092

**THE BOSTON BEER COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**MASSACHUSETTS**  
(State or other jurisdiction of incorporation  
or organization)

**04-3284048**  
(I.R.S. Employer  
Identification No.)

**75 Arlington Street, Boston, Massachusetts**  
(Address of principal executive offices)

**02116**  
(Zip Code)

**(617) 368-5000**  
(Registrant's telephone number, including area code)

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

Yes      ☒      No

Number of shares outstanding of each of the issuer's classes of common stock, as of November 8, 2002:

<b>Class A Common Stock, \$.01 par value</b>	<b>11,590,027</b>
<b>Class B Common Stock, \$.01 par value</b>	<b>4,107,355</b>
(Title of each class)	(Number of shares)

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**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**FORM 10-Q**

**QUARTERLY REPORT**  
**SEPTEMBER 28, 2002**

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

	September 28, 2002	December 29, 2001
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 17,406	\$ 45,838
Short-term investments	31,666	2,031
Accounts receivable, net of the allowance for doubtful accounts of \$741 and \$625 as of September 28, 2002 and December 29, 2001, respectively	19,802	19,219
Inventories	11,666	9,323
Prepaid expenses	888	925
Deferred income taxes	2,074	2,291
Other current assets	1,500	844
Total current assets	85,002	80,471
Property, plant and equipment, net of accumulated depreciation of \$31,424 and \$29,816 as of September 28, 2002 and December 29, 2001, respectively	21,206	23,897
Other assets	1,783	1,750
Goodwill, net of accumulated amortization of \$116 as of September 28, 2002 and December 29, 2001	1,377	1,377
Total assets	109,368	\$107,495
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 13,512	\$ 11,201
Accrued expenses	15,609	13,196
Total current liabilities	29,121	24,397
Long-term deferred income taxes	3,746	3,583
Other long-term liabilities	682	1,336
Commitment and Contingencies		
Stockholders' Equity:		
Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 16,601,974 and 16,544,104 issued and outstanding as of September 28, 2002 and December 29, 2001, respectively	166	165
Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 4,107,355 issued and outstanding	41	41
Additional paid-in-capital	58,091	57,610
Unearned compensation	(196)	(212)
Other comprehensive income	535	—
Retained earnings	62,131	55,647
Less: Treasury Stock 5,011,947 and 4,328,300 shares as of September 28, 2002 and December 29, 2001, at cost, respectively	(44,949)	(35,072)
Total stockholders' equity	75,819	78,179
Total liabilities and stockholders' equity	\$109,368	\$107,495

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

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

	Three months ended		Nine months ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Sales	\$62,602	\$54,515	\$178,298	\$154,610
Less excise taxes	6,043	5,410	17,207	15,196
Net sales	56,559	49,105	161,091	139,414
Cost of sales	23,569	20,397	65,450	57,263
Gross profit	32,990	28,708	95,641	82,151
Operating expenses:				
Advertising, promotional and selling expenses	29,366	21,168	75,643	54,744
General and administrative expenses	3,397	3,121	10,745	9,958
Total operating expenses	32,763	24,289	86,388	64,702
Operating income	227	4,419	9,253	17,449
Other income:				
Interest income, net	334	383	731	1,214
Other income (expense), net	13	(26)	1,039	70
Total other income	347	357	1,770	1,284
Income before provision for income taxes	574	4,776	11,023	18,733
Provision for income taxes	212	2,021	4,539	7,813
Net income	\$ 362	\$ 2,755	\$ 6,484	\$ 10,920
Earnings per common share – basic	\$ 0.02	\$ 0.17	\$ 0.40	\$ 0.66
Earnings per common share – diluted	\$ 0.02	\$ 0.17	\$ 0.39	\$ 0.66
Weighted average number of common shares – basic	15,878	16,409	16,196	16,443
Weighted average number of common shares – diluted	16,175	16,568	16,520	16,556

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

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

	Nine months ended	
	September 28, 2002	September 29, 2001
Cash flows from operating activities:		
Net income	\$ 6,484	\$ 10,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,497	4,885
Loss (gain) on disposal of fixed assets	206	(46)
Bad debt expense	116	—
Realized gain on sale of marketable equity security	(21)	—
Stock option compensation expense	64	64
Changes in assets and liabilities:		
Accounts receivable	(699)	(3,960)
Inventory	(2,343)	99
Prepaid expenses	38	654
Other current assets	(623)	104
Deferred Taxes	380	—
Other assets	(942)	(51)
Accounts payable	2,311	1,362
Accrued expenses	2,413	1,340
Other long-term liabilities	(286)	(473)
Net cash provided by operating activities	<u>11,595</u>	<u>14,898</u>
Cash flows from investing activities:		
Purchases of available-for-sale investments	(36,130)	(8,000)
Purchases of held-to-maturity investments	(9,027)	(10,214)
Maturities of short-term investments	11,059	12,568
Proceeds from the sale of held-to-maturity investments	5,021	—
Purchases of property, plant and equipment	(1,663)	(2,959)
Proceeds on disposal of fixed assets	202	46
Net cash used in investing activities	<u>(30,538)</u>	<u>(8,559)</u>
Cash flows from financing activities:		
Purchase of treasury stock	(9,877)	(2,974)
Proceeds from exercise of stock options	304	—
Net proceeds from sale of investment shares	84	147
Net cash used in financing activities	<u>(9,489)</u>	<u>(2,827)</u>
Net (decrease) increase in cash and cash equivalents	(28,432)	3,512
Cash and cash equivalents at beginning of period	45,838	25,750
Cash and cash equivalents at end of period	<u>\$ 17,406</u>	<u>\$ 29,262</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ —	11
Income taxes paid	<u>\$ 3,773</u>	<u>\$ 4,110</u>

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

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

**A. BASIS OF PRESENTATION**

The Boston Beer Company, Inc. and its subsidiaries (the "Company") is engaged in the business of brewing and selling malt beverages and cider products throughout the United States and in selected international markets. The accompanying consolidated statement of financial position as of September 28, 2002 and the statement of consolidated operations and consolidated cash flows for the quarters ended September 28, 2002 and September 29, 2001 have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 29, 2001.

**Management's Opinion**

In the opinion of the Company's management, the Company's unaudited consolidated financial position as of September 28, 2002 and the results of its consolidated operations and consolidated cash flows for the interim periods ended September 28, 2002 and September 29, 2001, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

**B. SHORT-TERM INVESTMENTS**

Short-term investments held by the Company as of September 28, 2002 were classified as available-for-sale and held-to-maturity, depending upon the nature of the investment. Available-for-sale investments include mutual bond funds comprised of taxable and tax-advantaged securities. The cost of available-for-sale investments were \$31.1 million and \$0, as of September 28, 2002 and December 29, 2001, respectively. Available-for-sale securities are recorded at fair market value, with the change in fair market value during the period excluded from earnings and recorded net of tax as a component of other comprehensive income. Held-to-maturity investments consisted of debt securities, which typically mature in one year or less and are valued at amortized cost, which approximates fair value. The Company has the positive intent and ability to hold these securities until maturity. The aggregate fair value of held-to-maturity securities at September 28, 2002 and December 29, 2001 was \$0 and \$2.0 million, respectively.

The Company recorded unrealized gains of approximately \$535,000 and \$0 on available-for-sale securities as of September 28, 2002 and December 29, 2001, respectively. The Company also recorded realized gains of approximately \$21,000 and \$0 during the period ended September 28, 2002 and September 29, 2001.

**C. INVENTORIES**

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

Inventories consist of the following (in thousands):

	September 28, 2002	December 29, 2001
Raw materials, principally hops	\$ 8,087	\$7,605
Work in process	742	773
Finished goods	2,837	945
	<u>\$11,666</u>	<u>\$9,323</u>

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

**D. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share in accordance with Statement of Financial Accounting Standard No. 128 (in thousands, except per share data):

	For the three months ended		For the nine months ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Net income	\$ 362	\$ 2,755	\$ 6,484	\$10,920
Shares used in earnings per common share — basic	15,878	16,409	16,196	16,443
Dilutive effect of common equivalent shares — stock options	297	159	324	113
Shares used in earnings per common share — diluted	16,175	16,568	16,520	16,556
Earnings per common share — basic	\$ 0.02	\$ 0.17	\$ 0.40	\$ 0.66
Earnings per common share — diluted	\$ 0.02	\$ 0.17	\$ 0.39	\$ 0.66

**E. COMPREHENSIVE INCOME**

Comprehensive income calculated in accordance with Statement of Financial Accounting Standard No. 130 is as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Net income	\$362	\$2,755	\$6,484	\$10,920
Plus: unrealized gain on available-for-sale securities	425	95	535	201
Comprehensive income	\$787	\$2,850	\$7,019	\$11,121

Accumulated other comprehensive income calculated in accordance with Statement of Financial Accounting Standard No. 130 is as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Beginning Balance	\$110	\$106	\$ —	\$ —
Unrealized gain on available-for-sale securities	425	95	535	201
Ending balance	\$535	\$201	\$535	\$201

**F. GOODWILL**

Effective January 1, 2002 the Company adopted Financial Accounting Standards Board Statements of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and other Intangible Assets. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests. SFAS No. 142 requires that purchased goodwill and certain indefinite-lived intangibles no longer be amortized, but instead tested for impairment at least annually.

SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase, required to be completed by June 30, 2002, screens for impairment; while the second phase (if necessary), required to be completed by December 31, 2002, measures the impairment. The Company completed its first phase impairment analysis during the second quarter 2002 and found



no instances of impairment of its recorded goodwill; accordingly, the second testing phase, absent future indicators of impairment, is not necessary during 2002.

The Company recorded approximately \$25,000 and \$75,000 of goodwill amortization during the three and nine months ended September 29, 2001, respectively. In accordance with SFAS No. 142, the Company recorded no amortization related to goodwill during 2002. The pro-forma effect of goodwill amortization is not deemed to be material.

## **G. RECENT ACCOUNTING POUNDOUNCEMENTS**

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company expects that the initial application of SFAS No. 143 will not have a material impact on its financial statements.

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for all financial statements issued in fiscal 2003. The Company expects that the initial application of SFAS No. 144 will not have a material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment to FASB Statement 13, and Technical Corrections". One of the major changes of this statement is to change the accounting for the classification of gains and losses from the extinguishment of debt. Upon adoption, the Company will follow APB 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions in determining whether such extinguishment of debt may be classified as extraordinary. The provisions of this statement related to the rescission of FASB Statement 4 shall be applied in fiscal years beginning after May 15, 2002 with early application encouraged. The Company believes that the adoption of SFAS No. 145 will not have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Cost Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that the adoption of SFAS No. 146 will not have a material impact on its financial statements.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations of the Company for the three and nine-month periods ended September 28, 2002 as compared to the three and nine-month periods ended September 29, 2001. This discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, Consolidated Financial Statements of the Company and Notes thereto included in the Form 10-K for the fiscal year ended December 29, 2001.

### RESULTS OF OPERATIONS

For purposes of this discussion, Boston Beer's "core brands" include all products sold under the Samuel Adams®, Sam Adams Light®, Oregon Original™, HardCore® and Twisted Tea® trademarks. "Core brands" do not include the products brewed at the Cincinnati Brewery under contract arrangements for third parties. Volume produced under contract arrangements is referred to below as "non-core products". Boston Beer's flagship product is Samuel Adams Boston Lager®.

#### Three Months Ended September 28, 2002 compared to Three Months Ended September 29, 2001

**Net sales.** Net sales increased by \$7.5 million or 15.2% to \$56.6 million for the three months ended September 28, 2002 from \$49.1 million for the three months ended September 29, 2001. The increase is primarily due to an increase in volume of Boston Beer's core brands and an increase in weighted average price.

**Volume.** Total volume increased by 11.6% to 336,000 barrels in the three months ended September 28, 2002 from 301,000 barrels in the three months ended September 29, 2001. Core brands increased by 11.7% to 335,000 barrels for the quarter ended September 28, 2002, from 299,000 barrels for the quarter ended September 29, 2001. The increase in core brands is primarily due to volume contributed from Sam Adams Light®. Sam Adams Light® was initially launched in certain test markets during the second half of 2001. As of September 2002, Sam Adams Light® had been introduced in markets which represented over 85% of the Company's business. The Company plans to have completed its national roll-out by year-end.

**Selling Price.** The selling price per barrel increased approximately 3.2% to \$168.33 per barrel for the quarter ended September 28, 2002. This increase is due to changes in the packaging mix and normal price increases. The ratio of bottles to kegs increased, with bottles representing 74.4% of total shipments in the three months ended September 28, 2002 as compared to 70.5% for the same period last year. The shift in the mix to bottles from kegs increased revenue per barrel, as the selling price per equivalent barrel is higher for bottles than for kegs. This shift is primarily due to the introduction of Sam Adams Light®, as this product is only available in bottles.

**Gross Profit.** Gross profit was 58.3% as a percentage of net sales or \$98.18 per barrel for the quarter ended September 28, 2002, as compared to 58.5% and \$95.38 for the quarter ended September 29, 2001. The increase per barrel was primarily due to packaging mix changes, selling price increases, offset by an increase in cost of goods sold.

Cost of sales increased by \$2.39 per barrel to 41.7% as a percentage of net sales or \$70.15 per barrel for the quarter ended September 28, 2002, as compared to 41.5% as a percentage of net sales or \$67.76 per barrel for the quarter ended September 29, 2001. This is primarily due to packaging mix changes and increases in costs of packaging, glass, and contracting fees.

**Advertising, Promotional and Selling.** As a percentage of net sales, advertising, promotional and selling expenses were 51.9% for the quarter ended September 28, 2002, as compared to 43.1% for the quarter ended September 29, 2001. Advertising, promotional and selling expenses increased by \$8.2 million or 38.7% to \$29.4 million for the three months ended September 28, 2002, compared to \$21.2 million for the three months ended September 29, 2001. This increase is primarily due to the significant investment in brand support for the launch of Sam Adams Light®. The Company plans to continue its roll-out of Sam Adams Light® during the fourth quarter 2002 with similar high investment levels in brand support.

**General and Administrative.** General and administrative expenses increased by 8.8% or \$276,000 to \$3.4 million for the quarter ended September 28, 2002 as compared to the same period last year, primarily due to increases in employee-related costs, rent, and insurance premiums.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Interest income, net.** Interest income decreased by 12.8% to \$334,000 for the quarter ended September 28, 2002 from \$383,000 for the quarter ended September 28, 2001. This decrease is primarily due to a change in investment allocation and declines in interest rates during the quarter ended September 28, 2002, as compared to the same period last year.

**Provision for income taxes.** The Company's effective tax rate decreased to 36.9% for the three months ended September 28, 2002 from 42.3% for the same period last year. This decline is due to the restructuring of certain entities that was completed during the second quarter 2002. The Company anticipates that its effective tax rate for the full year will be approximately the 41% rate recorded for the year ended December 29, 2001.

### **Nine Months Ended September 28, 2002 compared to Nine Months Ended September 29, 2001**

**Net sales.** Net sales increased by \$21.7 million or 15.5% to \$161.1 million for the nine months ended September 28, 2002 from \$139.4 million for the nine months ended September 29, 2001. The increase is primarily due to an increase in volume of Boston Beer's core brands coupled with increases in selling prices.

**Volume.** Total volume increased by 10.1% to 964,000 barrels in the nine months ended September 28, 2002 from 875,000 barrels in the nine months ended September 29, 2001. Core brands increased by 12.9% to 959,000 barrels for the nine months ended September 28, 2002 as compared to the same period last year. The increase in core brands is primarily due to volume contributed from Sam Adams Light®. Sam Adams Light® was initially launched in certain test markets during the second half of 2001. By the end of the nine months ended September 28, 2002, the Company had launched the new product into markets representing over 85% of the Company's total volume. The Company plans to have completed its national launch by year-end.

Non-core volume decreased by 82.1% to 5,000 barrels for the nine months ended September 28, 2002 from 26,000 barrels for the nine months ended September 29, 2001. As gross profit is significantly lower on non-core products as compared to core brands, the Company does not believe that this change will have a material impact on its financial position, results of operations or cash flows in the short or long-term.

**Selling Price.** The selling price per barrel increased approximately 4.9% to \$167.11 per barrel for the nine months ended September 28, 2002. This increase is due to a decline in non-core volume, changes in packaging mix, and price increases. As net selling price is significantly lower for non-core products as compared to core brands, the decline in non-core products effectively increased the combined net selling price per equivalent barrel. The ratio of bottles to kegs increased, with bottles representing 72.5% of total shipments in the nine months ended September 28, 2002 as compared to 68.8% for the same period last year. The shift in the mix to bottles from kegs effectively increased revenue per barrel, as the selling price per equivalent barrel is higher for bottles than for kegs. This shift is primarily due to the introduction of Sam Adams Light®, as this product is only available in bottles.

**Gross Profit.** Gross profit was 59.4% as a percentage of net sales or \$99.21 per barrel for the nine months ended September 28, 2002, as compared to 58.9% and \$93.89 for the nine months ended September 29, 2001. The increase was primarily due to a decline in non-core products, packaging mix changes and price increases, offset by an increase in cost of goods sold.

Cost of sales increased by \$2.45 per barrel to 40.6% as a percentage of net sales or \$67.89 per barrel for the nine months ended September 28, 2002, as compared to 41.1% as a percentage of net sales or \$65.44 per barrel for the nine months ended September 29, 2001. The increase per barrel is primarily due to packaging mix changes and increases in costs of packaging, glass, and contracting fees.

**Advertising, Promotional and Selling.** As a percentage of net sales, advertising, promotional and selling expenses were 47.0% for the nine months ended September 28, 2002, as compared to 39.3% for the nine months ended September 29, 2001. Advertising, promotional and selling expenses increased by \$20.9 million or 38.2% to \$75.6 million for the nine months ended September 28, 2002, compared to \$54.7 million for the nine months ended September 29, 2001. This increase is primarily due to the investment in brand support for the launch of Sam Adams Light®. The Company plans to continue its roll-out of Sam Adams Light® during the fourth quarter 2002 with similar high investment levels in brand support.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**General and Administrative.** General and administrative expenses increased by 7.9% or \$787,000 to \$10.7 million for the nine months ended September 28, 2002 as compared to the same period last year, primarily due to increases in employee-related costs, rent, and insurance premiums.

**Interest income, net.** Interest income decreased by 39.7% to \$731,000 for the nine months ended September 28, 2002 from \$1.2 million for the nine months ended September 28, 2001. This decrease is primarily due to a change in investment allocation and declines in interest rates during the nine months ended September 28, 2002, as compared to the same period last year.

**Other income.** Other income increased by \$969,000 to \$1.0 million for the nine months ended September 28, 2002 from \$70,000 for the nine months ended September 29, 2001. During the second quarter 2002, the Company received shares of stock from the demutualization of a third party insurance provider. The Company recorded the value of this stock receipt of \$1.3 million in the nine months ended September 28, 2002. This gain was partially offset by losses relating to the disposal of assets.

**Provision for income taxes.** The Company's effective tax rate decreased to 36.9% for the three months ended September 28, 2002 from 42.3% for the same period last year. This decline is due to the restructuring of certain entities that was completed during the second quarter 2002. The Company anticipates that its effective tax rate for the full year will be approximately the 41% rate recorded for the year ended December 29, 2001.

### **LIQUIDITY AND CAPITAL RESOURCES**

The company's financial condition continued to be strong during the nine months of 2002. Cash and short-term investments increased to \$49.1 million as of September 28, 2002 from \$47.9 million as of December 29, 2001. For the nine months ended September 28, 2002, cash (excluding short-term investments) provided by operating activities of \$11.6 million was partially offset by cash used in financing activities of \$9.5 million. Cash provided by operating activities during the first nine months of 2002 was lower than operating cash flow for the same period in 2001 due to the higher advertising and promotional expenditures incurred to support the launch of Sam Adams Light®.

During the third quarter, the Company's Board of Directors authorized an additional \$5.0 million, increasing the aggregate expenditure limitation to \$50.0 million, for the Company's Class A Common Stock repurchase program. As of September 28, 2002, the Company had repurchased a total of 5.0 million shares under this program at a cost of \$45.0 million. The Company repurchased 635,000 shares of its outstanding Class A Common Stock during the third quarter of 2002.

The Company utilized \$1.7 million for the purchase of capital equipment during the nine months ended September 28, 2002 as compared to \$3.0 million during the same period last year. Purchases during the first nine months of 2002 primarily consisted of kegs and computer equipment.

With working capital of \$55.9 million and \$45.0 million in unused bank lines of credit as of September 28, 2002, the Company believes that its existing resources should be sufficient to meet the Company's short-term and long-term operating and capital requirements. There were no amounts outstanding under the Company's credit facilities as of September 28, 2002 or as of the date of this filing.

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

#### ***Hops Purchase Commitments***

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

During 2001, the Company completed certain hop disposal transactions and cancelled certain hop future contracts. The transactions were deemed necessary in order to bring hop inventory levels and future contracts into balance with the Company's current brewing volume and hop usage, as the Company did not believe that these hop inventories and future hop contracts would be used by the Company within the foreseeable future. During the nine months ending September 28, 2002 and September 29, 2001, the Company did not record significant charges for inventory reserves and cancellation fees associated with excess hops inventories and purchase commitments.

The computation of the excess inventory and purchase commitment reserve requires management to make certain assumptions regarding future sales growth, product mix, cancellation costs and supply, among others. The Company's accounting policy for hops inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed forecasted needs. The Company continues to manage inventory levels and purchase commitments in an effort to maximize utilization of hops on hand and hops under commitment. The current levels are deemed adequate, based upon foreseeable future brewing requirements. The Company does not anticipate further material losses related to hop inventories or contract commitments within the foreseeable future. However, if actual results differ from management's assumptions or if management assumptions change regarding future sales growth, product mix, and hop market conditions, future material losses could result.

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

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company expects that the initial application of SFAS No. 143 will not have a material impact on its financial statements.

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for all financial statements issued in fiscal 2003. The Company expects that the initial application of SFAS No. 144 will not have a material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment to FASB Statement 13, and Technical Corrections". One of the major changes of this statement is to change the accounting for the classification of gains and losses from the extinguishment of debt. Upon adoption, the Company will follow APB 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions in determining whether such extinguishment of debt may be classified as extraordinary. The provisions of this statement related to the rescission of FASB Statement 4 shall be applied in fiscal years beginning after May 15, 2002 with early application encouraged. The Company believes that the adoption of SFAS No. 145 will not have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Cost Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that the adoption of SFAS No. 146 will not have a material impact on its financial statements.

#### ***Critical Accounting Policies***

The Company's financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for the Company are outlined in the Form 10-K, Footnote B for the fiscal year ended December 29, 2001. Also, refer to *Hops Purchase Commitments* above.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Since December 29, 2001, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

#### **FORWARD-LOOKING STATEMENTS**

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

#### **Item 4. CONTROLS AND PROCEDURES**

Within the ninety day period prior to the date of this report, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

The Company is party to certain claims and litigation in the ordinary course of business. The Company does not believe any of these proceedings will, individually or in the aggregate, have a material adverse effect upon its financial condition or results of operations.

### **Item 2. CHANGES IN SECURITIES**

Not Applicable

### **Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

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

Not Applicable

### **Item 5. OTHER INFORMATION**

Brewing Strategy

The Company continues to believe that its current strategy of combining brewery ownership with contract brewing, which utilizes the excess capacity of other breweries, provides the Company flexibility as well as quality and cost advantages over its competitors. Consistent with this belief the Company continues to produce its products at its breweries in Cincinnati, Ohio, and Boston, Massachusetts, at Miller Brewing Company facilities in Tumwater, Washington and Eden, North Carolina and at the High Falls Brewing Company, LLC facility in Rochester, New York. Cognizant of changes in the beer industry and the possible impact of brewing capacity of so-called “malternative” beverages, the Company is also pursuing relationships with other third party brewers as possible supplements to or replacements for its existing production facilities. During the quarter ended September 28, 2002, the Company entered into a production agreement with City Brewing Company, LLC of La Crosse, Wisconsin and has recently begun modest levels of production at the La Crosse facility.

The Company’s chief executive officer and chief financial officer have furnished to the SEC the certification with respect to this Form 10-Q that is required by Section 906 and Section 302 of the Sarbanes-Oxley Act of 2002.

### **Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

#### **(a) Exhibits**

Exhibit No.	Title
3.1	Amended and Restated By-Laws of the Company, dated June 2, 1998 (incorporated by reference to Exhibit 3.5 to the Company’s Form 10-Q filed on August 10, 1998).
3.2	Restated Articles of Organization of the Company, dated July 21, 1998 (incorporated by reference to Exhibit 3.6 to the Company’s Form 10-Q filed on August 10, 1998).
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement No. 33-96164).



Exhibit No.	Title
10.1	Revolving Credit Agreement between Fleet Bank of Massachusetts, N.A. and Boston Beer Company Limited Partnership (the “Partnership”), dated as of May 2, 1995 (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement No. 33-96162).
10.2	Loan Security and Trust Agreement, dated October 1, 1987, among Massachusetts Industrial Finance Agency, the Partnership and The First National Bank of Boston, as Trustee, as amended (incorporated by reference to Exhibit 10.2 to the Company’s Registration Statement No. 33-96164).
10.3	Deferred Compensation Agreement between the Partnership and Alfred W. Rossow, Jr., effective December 1, 1992 (incorporated by reference to Exhibit 10.3 to the Company’s Registration Statement No. 33-96162).
10.4	The Boston Beer Company, Inc. Employee Equity Incentive Plan, as adopted effective November 20, 1995 and amended effective February 23, 1996 (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement No. 333-1798).
10.5	Form of Employment Agreement between the Partnership and employees (incorporated by reference to Exhibit 10.5 to the Company’s Registration Statement No. 33-96162).
10.6	Services Agreement between The Boston Beer Company, Inc. and Chemical Mellon Shareholder Services, dated as of October 27, 1995 (incorporated by reference to the Company’s Form 10-K, filed on April 1, 1996).
10.7	Form of Indemnification Agreement between the Partnership and certain employees and Advisory Committee members (incorporated by reference to Exhibit 10.7 to the Company’s Registration Statement No. 33-96162).
10.8	Stockholder Rights Agreement, dated as of December, 1995, among The Boston Beer Company, Inc. and the initial Stockholders (incorporated by reference to the Company’s Form 10-K, filed on April 1, 1996).
+10.9	Agreement between Boston Brewing Company, Inc. and The Stroh Brewery Company, dated as of January 31, 1994 (incorporated by reference to Exhibit 10.9 to the Company’s Registration Statement No. 33-96164).
+10.10	Agreement between Boston Brewing Company, Inc. and the Genesee Brewing Company, dated as of July 25, 1995 (incorporated by reference to Exhibit 10.10 to the Company’s Registration Statement No. 33-96164).
+10.11	Amended and Restated Agreement between Pittsburgh Brewing Company and Boston Brewing Company, Inc. dated as of February 28, 1989 (incorporated by reference to Exhibit 10.11 to the Company’s Registration Statement No. 33-96164).
10.12	Amendment to Amended and Restated Agreement between Pittsburgh Brewing Company, Boston Brewing Company, Inc., and G. Heileman Brewing Company, Inc., dated December 13, 1989 (incorporated by reference to Exhibit 10.12 to the Company’s Registration Statement No. 33-96162).
+10.13	Second Amendment to Amended and Restated Agreement between Pittsburgh Brewing Company and Boston Brewing Company, Inc. dated as of August 3, 1992 (incorporated by reference to Exhibit 10.13 to the Company’s Registration Statement No. 33-96164).

Exhibit No.	Title
+10.14	Third Amendment to Amended and Restated Agreement between Pittsburgh Brewing Company and Boston Brewing Company, Inc. dated December 1, 1994 (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement No. 33-96164).
10.15	Fourth Amendment to Amended and Restated Agreement between Pittsburgh Brewing Company and Boston Brewing Company, Inc. dated as of April 7, 1995 (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement No. 33-96162).
+10.16	Letter Agreement between Boston Beer Company Limited Partnership and Joseph E. Seagram & Sons, Inc. (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement No. 33-96162).
10.17	Services Agreement and Fee Schedule of Mellon Bank, N.A. Escrow Agent Services for The Boston Beer Company, Inc. dated as of October 27, 1995 (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement No. 33-96164).
10.18	Amendment to Revolving Credit Agreement between Fleet Bank of Massachusetts, N.A. and the Partnership (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement No. 33-96164).
10.19	1996 Stock Option Plan for Non-Employee Directors (incorporated by reference to the Company's Form 10-K, filed on March 31, 1997).
+10.20	Production Agreement between The Stroh Brewery Company and Boston Beer Company Limited Partnership, dated January 14, 1997 (incorporated by reference to the Company's Form 10-K, filed on March 31, 1997).
+10.21	Letter Agreement between The Stroh Brewery Company and Boston Beer Company Limited Partnership, dated January 14, 1997 (incorporated by reference to the Company's Form 10-K, filed on March 31, 1997).
+10.22	Agreement between Boston Beer Company Limited Partnership and The Schoenling Brewing Company, dated May 22, 1996 (incorporated by reference to the Company's Form 10-K, filed on March 31, 1997).
10.23	Revolving Credit Agreement between Fleet Bank of Massachusetts, N.A. and The Boston Beer Company, Inc., dated as of March 21, 1997 (incorporated by reference to the Company's Form 10-Q, filed on May 12, 1997).
+10.24	Amended and Restated Agreement between Boston Brewing Company, Inc. and the Genesee Brewing Company, Inc. dated April 30, 1997 (incorporated by reference to the Company's Form 10-Q, filed on August 11, 1997).
+10.26	Fifth Amendment, dated December 31, 1997, to Amended and Restated Agreement between Pittsburgh Brewing Company and Boston Brewing Company, Inc. (incorporated by reference to the Company's Form 10-K, filed on March 26, 1998).
10.27	Extension letters, dated August 19, 1997, November 19, 1997, December 19, 1997, January 22, 1998, February 25, 1998 and March 11, 1998 between The Stroh Brewery Company and Boston Brewing Company, Inc. (incorporated by reference to the Company's Form 10-K, filed on March 26, 1998).
+10.28	Employee Equity Incentive Plan, as amended and effective on December 19, 1997 (incorporated by reference to the Company's Form 10-K, filed on March 26, 1998).

Exhibit No.	Title
+10.29	1996 Stock Option Plan for Non-Employee Directors, as amended and effective on December 19, 1997 (incorporated by reference to the Company's Form 10-K, filed March 26, 1998).
+10.30	Glass Supply Agreement between The Boston Beer Company and Owens' Brockway Glass Container Inc., dated April 30, 1998 (incorporated by reference to the Company's Form 10-Q, filed on August 10, 1998).
10.31	Extension letters, dated April 13, 1998, April 27, 1998, June 11, 1998, June 25, 1998 and July 20, 1998 between The Stroh Brewery Company and Boston Brewing Company, Inc. (incorporated by reference to the Company's Form 10-Q, filed on August 10, 1998).
+10.33	Amended and Restated Production Agreement between The Stroh Brewery Company and Boston Beer Company Limited Partnership, dated November 1, 1998 (incorporated by reference to the Company's Form 10-K, filed on March 25, 1999).
10.34	Agreement between Boston Beer Company Limited Partnership, Pabst Brewing Company and Miller Brewing Company, dated February 5, 1999 (incorporated by reference to the Company's Form 10-K, filed on March 25, 1999).
10.35	Amendment to Revolving Credit Agreement between Fleet Bank of Massachusetts, N.A. and The Boston Beer Company, Inc., dated March 30, 1999 (incorporated by reference to the Company's Form 10-Q, filed on May 10, 1999).
+10.36	Agreement between Boston Beer Company Limited Partnership and Landstar Logistics and Transportation, dated January 9, 1999 (incorporated by reference to the Company's Form 10-Q, filed on May 10, 1999).
+10.37	Consent to Assignment of the Amended and Restated Agreement between Boston Brewing Company, Inc. and the Genesee Brewing Company, Inc. dated April 30, 1997 to Monroe Brewing Co., LLC (now known as High Falls Brewing Company, LLC) dated December 15, 2000 (incorporated by reference to the Company's 10-K, filed on March 30, 2001).
+10.38	Guaranty of The Genesee Brewing Company, Inc. dated December 15, 2000 in favor of Boston Brewing Company, Inc., for itself and as the sole general partner of Boston Beer Company Limited Partnership in connection with the Consent of Assignment of the Amended and Restated Agreement between Boston Brewing Company, Inc. and the Genesee Brewing Company, Inc. dated April 30, 1997 to Monroe Brewing Co., LLC (now known as High Falls Brewing Company, LLC) dated December 15, 2000 (incorporated by reference to the Company's 10-K, filed on March 30, 2001).
+10.39	Second Amended and Restated Agreement between Boston Beer Corporation and High Falls Brewing Company, LLC effective as of April 15, 2002 (incorporated by reference to the Company's 10-Q, filed on August 13, 2002).
+10.40	Guaranty Release Agreement by and between GBC Liquidating Corp., formerly known as The Genesee Brewing Company, Inc., and Boston Beer Corporation, d/b/a The Boston Beer Company dated April 22, 2002 (incorporated by reference to the Company's 10-Q, filed on August 13, 2002).
10.41	Second Amended and Restated Credit Agreement between The Boston Beer Company, Inc. and Boston Beer Corporation, as Borrowers, and Fleet National Bank, effective as of July 1, 2002 (incorporated by reference to the Company's 10-Q, filed on August 13, 2002).
*+10.42	Brewing Services Agreement between Boston Beer Corporation and City Brewing Company, LLC, effective as of July 1, 2002.

Exhibit No.	Title
*11.1	The information required by exhibit 11 has been included in Note D of the notes to the consolidated financial statements.
21.1	List of subsidiaries of The Boston Beer Company, Inc. (incorporated by reference to the Company's Form 10-K, filed on March 28, 1997).
21.2	List of subsidiaries of The Boston Beer Company, Inc. effective as of December 30, 2000 (incorporated by reference to the Company's Form 10-K, filed on March 30, 2001)
21.3	List of subsidiaries of The Boston Beer Company, Inc. effective as of March 30, 2002 (incorporated by reference to the Company's Form 10-Q, filed on May 14, 2002).
*99.1	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99.2	Certification of the Chief Financial Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99.3	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*99.4	Certification of the Chief Financial Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

\* Filed with this report.

+ Portions of this Exhibit have been omitted pursuant to an application for an order declaring confidential treatment filed with the Securities and Exchange Commission.

**(b) Reports on Form 8-K.**

On August 20, 2002, the Company filed a report under Item 5 on Form 8-K with the Securities and Exchange Commission.

## SIGNATURES

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

THE BOSTON BEER COMPANY, INC.  
(Registrant)

Date: November 12, 2002

By: /s/ Martin F. Roper

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

Date: November 12, 2002

By: /s/ Richard P. Lindsay

Richard P. Lindsay  
Chief Financial Officer and  
Treasurer (principal accounting  
and financial officer)