

BOSTON BEER CO INC  
Form 10-K  
February 18, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 26, 2015**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-14092**

**THE BOSTON BEER COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of  
incorporation or organization)  
**04-3284048**  
(I.R.S. Employer  
Identification No.)  
**One Design Center Place, Suite 850, Boston, Massachusetts**  
(Address of principal executive offices)  
**02210**  
(Zip Code)  
**(617) 368-5000**  
(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Class A Common Stock</b>	<b>NYSE</b>

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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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.

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

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

The aggregate market value of the Class A Common Stock (\$.01 par value) held by non-affiliates of the registrant totaled \$2,284.1 million (based on the average price of the Company's Class A Common Stock on the New York Stock Exchange on June 27, 2015). All of the registrant's Class B Common Stock (\$.01 par value) is held by an affiliate.

As of February 12, 2016, there were 9,465,306 shares outstanding of the Company's Class A Common Stock (\$.01 par value) and 3,367,355 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 2016 Annual Meeting to be held on May 25, 2016 are incorporated by reference into Part III of this report.

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**PART I.**

**Item 1. Business**  
**General**

The Boston Beer Company, Inc. ( Boston Beer or the Company ) is one of the largest craft brewers in the United States. In fiscal 2015, Boston Beer sold approximately 4.2 million barrels of its proprietary products ( core brands ).

During 2015, the Company sold over sixty beers under the Samuel Adams® and the Sam Adams® brand names, twelve flavored malt beverages under the Twisted Tea® brand name, ten hard cider beverages under the Angry Orchard® brand name, and over forty beers under four of the brand names of its subsidiary, A&S Brewing Collaborative LLC, under its trade name Alchemy & Science.

Boston Beer produces malt beverages and hard cider at Company-owned breweries and under contract arrangements at other brewery locations. The Samuel Adams Company-owned breweries are located in Boston, Massachusetts (the Boston Brewery ), Cincinnati, Ohio (the Cincinnati Brewery ) and Breinigsville, Pennsylvania (the Pennsylvania Brewery ). The Alchemy & Science Company-owned small breweries are located in Los Angeles, California (the Angel City Brewery ), Miami, Florida (the Concrete Beach Brewery ) and Brooklyn, New York (the Coney Island Brewery ). The Company owns an apple orchard and cidery located in Walden, New York (the Orchard ).

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

**Industry Background**

Before Prohibition, the United States beer industry consisted of hundreds of small breweries that brewed full-flavored beers. After the end of Prohibition, most domestic brewers shifted production to less flavorful, lighter beers, which use lower-cost ingredients, and can be mass-produced to take advantage of economies of scale in production. This shift towards mass-produced beers coincided with consolidation in the beer industry. Today, two major brewers, Anheuser-Busch InBev ( AB InBev ) and MillerCoors LLC ( MillerCoors ), comprise over 85% 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. The Company's Alchemy & Science brands, which include the Traveler Beer Company®, the Angel City Brewery®, the Concrete Beach Brewery and the Coney Island® Brewery also compete in the Better Beer category. The Company estimates that in 2015 the craft beer category percentage volume growth was in the mid to high teens and the Better Beer category volume growth was approximately 9%, while the total beer category volume was essentially flat. The Company believes that the Better Beer category is approximately 27% of United States beer consumption by volume.

The domestic beer industry, excluding Better Beers, has experienced a decline in shipment volume 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.

The Company's Twisted Tea products compete within the flavored malt beverage ( FMB ) category of the beer industry (and the Company's Twisted Tea products are included in generic references to the Company's beers

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in this report). The Company believes that the FMB category comprises approximately 4% of United States beer consumption and that the volume comprising the FMB category was essentially flat in 2015. This category is highly competitive due to, among other factors, the presence of large brewers and spirits companies in the category, the advertising of malt-based spirits brands in channels not available to the parent brands and a fast pace of product innovation.

The Company's Angry Orchard ciders compete within the hard cider category that has similar characteristics to the beer industry for reporting and regulatory purposes. The Company believes that the hard cider category comprises approximately 1% of United States beer consumption and that the volume comprising the hard cider category increased approximately 9% in 2015. This category is small and highly competitive and includes large international and domestic competitors, as well as many small regional and local hard cider companies, and has experienced very fast growth over the last five years, although this growth stopped during late 2015.

## **Narrative Description of Business**

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

### ***Beers and Hard Ciders Marketed***

The Company's strategy is to create and offer a world-class variety of traditional and innovative beers and hard ciders, with a focus on promoting the Samuel Adams brand, but supported by a portfolio of complementary brands. The Angry Orchard brand family was launched in the second half of 2011 in several markets and achieved national distribution in 2012. Since 2013, Angry Orchard has been the largest selling hard cider in the United States. The Twisted Tea brand family has grown each year since the product was first introduced in 2001 and has established a loyal drinker following. The Company's subsidiary, Alchemy & Science currently has four brands, including Angel City Brewery, The Traveler Beer Co., Coney Island Brewery and the Concrete Beach Brewery. In 2015, the Company began national distribution of certain styles of the Traveler Beer brand and the Coney Island beer brand, including Coney Island Hard Root Beer.

The Company sells its beers and hard ciders in various packages. Kegs are sold primarily for on-premise retailers, which include bars, restaurants and other venues, and bottles and cans are sold primarily for off-premise retailers, which include grocery stores, club stores, convenience stores and liquor stores.

Samuel Adams Boston Lager® is the Company's flagship beer that was first introduced in 1984. The Samuel Adams Seasonal beers are brewed specifically for limited periods of time and include Samuel Adams Cold Snap, Samuel Adams Summer Ale, Samuel Adams Oktoberfest, and Samuel Adams Winter Lager.

Certain Samuel Adams beers may be produced at select times during the year solely for inclusion in the Company's seasonal variety packs. During 2015, Samuel Adams Crystal Pale Ale was brewed and included in the Spring Seasonal Collection variety pack, Samuel Adams Harvest Pumpkin and Samuel Adams Hoppy Red were brewed and included in the Fall variety pack and Samuel Adams Old Fezziwig® Ale, Samuel Adams Chocolate Bock, Samuel Adams Holiday Porter and Samuel Adams Sparkling Ale were brewed and included in the Winter Classics variety pack. Additionally, beginning in 2011 the Company began limited releases of seasonal beers in various packages. These limited seasonal release beers currently include Samuel Adams Escape Route, Samuel Adams Porch Rocker, Samuel

Adams Pumpkin Batch and Samuel Adams White Christmas.

After being in test markets during 2013, the Company began a national rollout of Samuel Adams Rebel IPA, a West Coast style IPA brewed with hops from the Pacific Northwest, in early 2014. During 2014 and 2015, the



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Company added additional styles to support Samuel Adams Rebel IPA, including Sam Adams Rebel Rouser IPA, Samuel Adams Rebel Rider IPA, Samuel Adams Grapefruit IPA and Samuel Adams Rebel Raw IPA.

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 and certain specialty variety packs are produced in limited quantities and are sold at higher prices than the Company's other products. The Company also releases a variety of specialty draft beers brewed in limited quantities for festivals and Beer Week celebrations.

Since 2012, the Twisted Tea and Angry Orchard brand families have been available nationally. In 2015 the Company began national distribution of certain styles of the Traveler Beer brand and the Coney Island beer brand, including Coney Island Hard Root Beer. All of these nationally available brands are available in various packages, including cans. 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 and hard cider styles and the rationalization of its product line as a whole. Periodically, the Company discontinues certain styles and packages, such as Samuel Adams Double Agent IPL, Samuel Adams White Lantern, Samuel Adams Whitewater IPA, Samuel Adams Noble Pils, Angry Orchard Traditional Dry and Twisted Pink Lemonade that were discontinued during 2015. Certain styles or brands discontinued in previous years may be produced for the Company's variety packs or reintroduced.

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

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

The Company is committed to maintaining its position as a leading innovator in the Better Beer and hard cider categories by developing new beers and hard ciders. To that end, the Company continually test brews different beers and hard ciders 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 homebrewers and employees of the Company submit their homebrews for inclusion in the LongShot® six-pack in the following year. In 2015, the Company sold over sixty 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 hard ciders for the Company's potential future commercial development.

In 2013, the Company completed a two-year research effort to develop a can to improve the beer drinker's experience compared to the traditional can. The features of this can were designed to enhance the drinking experience and include a wider lid with an opening slightly further from the edge of the lid, an extended lip and an hourglass ridge. Currently, Samuel Adams Boston Lager, Samuel Adams Seasonal Beers, Samuel Adams Porch Rocker, Samuel Adams Rebel IPA and some of the Alchemy & Science beers are available in this uniquely-designed can.

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 Company, as a craft brew incubator. Alchemy & Science is 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 has access to the brewing talents and broad resources of the Company, as it looks for opportunities around the

country. During 2012 and 2013, Alchemy & Science purchased the assets of Southern California Brewing Company, Inc., a Los Angeles based craft brewer doing business as Angel City

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Brewing Company, and the assets of the Coney Island beer brand and certain other assets from Shmaltz Brewing Company, a New York based craft brewer. Since 2013, Alchemy & Science has also developed and sold beers under The Traveler Beer Co. brand name, including Illusive Traveler<sup>®</sup>, Curious Traveler<sup>®</sup> and other shandy-style and fruit flavored beers. During 2015, Alchemy & Science built and opened two small breweries and beer halls, one in Miami, Florida, named Concrete Beach Brewery, and one in Brooklyn, New York named the Coney Island Brewery. Also in 2015, the Company began national distribution of certain styles of the Alchemy & Science Traveler Beer brand and the Coney Island beer brand, including Coney Island Hard Root Beer. In 2015, Alchemy & Science annual net sales were approximately 7% of the Company's total net sales.

***Sales, Distribution and Marketing***

Most all of the Company's sales are made to a network of approximately 350 wholesalers in the United States and to a network of foreign wholesalers, importers or other agencies (collectively referred to as Distributors). These Distributors, in turn, sell the products to retailers, such as pubs, restaurants, grocery stores, convenience stores, package stores, stadiums and other retail outlets, where the products are sold to drinkers, and in some limited circumstances to parties who act as sub-distributors. The Company sells its products predominantly in the United States, but also has markets in Canada, Europe, Israel, Australia, New Zealand, the Caribbean, the Pacific Rim, Mexico, and Central and South America.

With few exceptions, the Company's products are not the primary brands in Distributors' portfolios. Thus, the Company, in addition to competing with other beers and hard ciders for a share of the drinker's business, competes with other brewers for a share of the Distributor's attention, time and selling efforts. During 2015, the Company's largest customer accounted for approximately 7% of the Company's net sales. The top three Distributors collectively accounted for approximately 12% of the Company's net sales. In some states and countries, 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 relationship.

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 from domestic Distributors in the first week of a month for products to be shipped the following month and the Distributor would then carry three to five weeks of packaged inventory (usually at ambient temperatures) and three to four weeks of draft inventory.

In an effort to reduce both the time and temperature the Company's beers experience at Distributor warehouses before reaching the retail market, in late 2010 the Company introduced its Freshest Beer Program with domestic Distributors in several markets. The goal of the Freshest Beer Program is to provide better on-time service, forecasting, production planning and cooperation with the Distributors, while substantially reducing inventory levels at the Distributor. At the close of its 2015 fiscal year, the Company had 139 Distributors participating in the program, which constitutes approximately 71% of its volume. The Company has successfully reduced the inventories of participating Distributors in the aggregate by approximately two weeks, resulting in fresher beer being delivered to retail. The Freshest Beer Program has resulted in lower shipments of approximately 87,000, 103,000 and 212,000 case equivalents in 2015, 2014 and 2013, respectively, as measured at the end of the year by evaluating the year-on-year inventory reduction from the inventory levels that might otherwise have been expected. In 2015, the Company began piloting a small group of distributors on a pure replenishment service model within our Freshest Beer Program, which if successful would further reduce Distributor inventories. The ordering process has changed significantly for Distributors 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.

Boston Beer has a sales force of approximately 420 people, which the Company believes is one of the largest in the domestic beer industry. The Company's sales organization is designed to develop and strengthen relations at the Distributor, retailer and drinker levels by providing educational and promotional programs. The Company's sales force has a high level of product knowledge and is trained in the details of the brewing and selling

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processes. Sales representatives typically carry samples of the Company's beers and hard ciders, certain ingredients, such as hops and barley, and other promotional materials to educate wholesale and retail buyers about the quality and taste of the Company's products. The Company has developed strong relationships with its Distributors and retailers, many of which have benefited from the Company's premium pricing strategy and growth.

The Company also engages in media campaigns including television, radio, digital and social media, billboards and print. These media efforts are complemented by participation in sponsorships 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.

In 2008, the Company launched its core philanthropic initiative, Samuel Adams Brewing the American Dream<sup>®</sup>. In partnership with ACCION, the nation's largest non-profit micro-lender, the program supports small business owners in the food, beverage, brewing and hospitality industries through access to business capital, coaching, and new market opportunities. The goal is to help strengthen small businesses, create local jobs and build vibrant communities. Since the inception of the Samuel Adams Brewing the American Dream program, Samuel Adams and ACCION have worked together to loan more than \$8.2 million to nearly 800 small business owners who have subsequently repaid these loans at a rate of more than 98%. Samuel Adams employees, together with local business partners and community organizations, have provided coaching and mentoring to more than 6,000 business owners across the country. These efforts have helped to create or maintain more than 3,000 local jobs.

***Ingredients and Packaging***

The Company has been successful to date in obtaining sufficient quantities of the ingredients used in the production of its beers and hard ciders. 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 2014 North American barley crop, which supported most 2015 malt needs, was well below historical long term averages with regards to both quality and quantity, driven by acreage declines and adverse weather events in key barley growing areas. The 2015 North American barley crop, which will support 2016 malt needs, was generally consistent with historical long term averages with regards to both quality and quantity, though quality from key areas in Canada was highly variable and below long term averages. The 2014 barley crop prices booked early in the calendar year were at prices comparable to historical long term averages. The 2014 crop prices booked late in the calendar year, as the impact of the weather events became clear, were well above historical long-term averages. The 2015 barley crop prices are consistent with historic long-term averages. There has been a long-term trend of declining acres and production in North America against relatively stable malt demand. The Company purchased most of the malt used in the production of its beer from two suppliers during 2015. The Company currently has a multi-year contract with one of its suppliers and a 1 year agreement with the other supplier. The Company also believes that there are other malt suppliers available that are capable of supplying its needs.

***Hops.*** The Company uses Noble hop varieties for many of its Samuel Adams beers and also uses hops grown in the United States, England and New Zealand. Noble hops are grown in several specific areas recognized for growing hops with superior taste and aroma properties. These include Hallertau-Hallertauer, Tettnang-Tettnanger, Hersbrucker and Spalt-Spalter from Germany and Saaz from the Czech Republic. The United States hops, grown primarily in the Pacific Northwest, namely Cascade, Simcoe, Centennial, Chinook, Citra, Amarillo and Mosaic are used in certain of the Company's ales and lagers, as are the Southern Hemisphere hop varieties, Galaxy and Nelson Sauvin. Traditional English hops, namely, East Kent Goldings and Fuggles, are also used in certain of the Company's ales. Other hop sources and varieties are also tested and used from time to time.



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The European hop crop harvested in 2015 was well below historical long term averages with regards to both quality and quantity due to warmer than normal temperatures and insufficient precipitation. The United States hop crop harvested in 2015 was consistent with historical long term averages with regards to quality, with an increase in overall quantity driven by expansion of planted acres in recent years. However, the demand for certain hops grown in the United States has risen dramatically due to the success and proliferation of craft brewers and the popularity of beer styles that include hop varieties grown in the United States, with the result that certain United States hops are now in tight supply and prices have risen for both spot purchases and forward contract pricing, accordingly.

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

The Company expects to realize full delivery on United States and New Zealand hop contracts on the hop crop harvested in 2015. The Company experienced significant under-delivery on European hop contracts on the hop crop harvested in 2015. However, because the Company attempts to maintain up to a two-year supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply, the underdelivery from current crop is not expected to have a material impact on its operations.

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

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

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

**Apples.** The Company uses special varieties and origins of apples in its hard ciders that it believes are important for their flavor profile. In 2015, these apples were sourced primarily from European, United States and New Zealand suppliers and include bittersweet apples from France and New Zealand and culinary apples from Italy and Washington State. Purchases and commitments are denominated in Euros for European apples, US Dollars for United States apples and New Zealand Dollars for the New Zealand apples. There is limited availability of some of these apple varieties, and many outside factors, including weather conditions, growers rotating from apples to other crops, competitor demand, government regulation and legislation affecting agriculture, could affect both price and supply. The 2015 apple crops in Europe, the United States and New Zealand were consistent with historical long term averages. The Company has entered into contracts to cover its expected needs for 2016 and expects to realize full delivery against these contracts.

The Company purchased and opened its cidery at the Orchard in 2015. The Company expects to use the apple varieties harvested at the Orchard primarily to experiment and develop new hard ciders. The Company may also use the apples harvested at the Orchard in small quantities in the Company's current hard ciders, but, given the current varieties of apples grown at the Orchard, such use is likely to be insignificant.

***Other Ingredients.*** The Company maintains competitive sources for most of the other ingredients used in its beers and hard ciders.



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***Packaging Materials.*** The Company maintains competitive sources for the supply of certain packaging materials, such as shipping cases and glass. The Company enters into limited-term supply agreements with certain vendors in order to receive preferential pricing. In 2015, cans, crowns, six pack carriers and labels were each supplied by a single source; however, 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, Distributors and dealers in recycled products. There is no guarantee that the current economics relating to the use of returned glass will continue or that the Company will continue to reuse returnable bottles.

## ***Quality Assurance***

As of December 26, 2015, the Company employed over twenty brew masters to monitor the Company's brewing operations and control the production of its beers and hard ciders. Extensive tests, tastings and evaluations are typically required to ensure that each batch of the Company's beers and hard ciders conform to the Company's standards. The Company has on-site quality control labs at each of its Samuel Adams company-owned breweries, and supports the smaller local breweries with additional centralized lab services.

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

## ***Beer and Hard Cider Production Strategy***

During 2015, the Company brewed, fermented and packaged over 95% of its core brand volume at breweries owned by the Company. The Company made capital investments in 2015 of approximately \$74.2 million. These investments were made to expand the quality, capacity, efficiency and capabilities of its breweries, both to meet the 2015 growth and the anticipated future growth. The Company expects to invest between \$60 million and \$80 million in 2016, which is highly dependent on estimates of future growth and the capital investments to meet those volume growth estimates. The actual amount spent may well be different from these estimates. The Company believes that by executing this capital plan and expanding its use of production arrangements with third parties, it should be able to support its projected growth in 2016. The Company continues to evaluate capacity optimization at its breweries and the potential significant capital required for expansion of existing capacity.

The Company also engages in various product development activities. Such activities include researching market needs and competitive products, and sample brewing and market taste testing.

The Pennsylvania Brewery and the Cincinnati Brewery produce most of the Company's shipment volume. The Pennsylvania Brewery is the Company's largest brewery and the Cincinnati Brewery is the primary brewery for the production of most of the Company's specialty 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 for retail sales on site and in the local market area.

The Company's Angry Orchard Innovation Cider House located in Walden, New York, opened in November 2015 and its production is mainly for developing new types of innovative hard ciders and fermenting and packaging ciders for retail sales on site and in the local market area.

The Alchemy & Science breweries include the Angel City Brewery, Concrete Beach Brewery and Coney Island Brewery. The production at the Alchemy & Science breweries is mainly for developing new types of innovative

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and traditional beers and supporting draft accounts in the respective local market areas and providing for on-premise consumption of its beers at its beer halls.

The Company currently has a brewing services agreement with a subsidiary of City Brewing Company, LLC, to produce its products at facilities in Latrobe, Pennsylvania and an agreement with Shmaltz Brewing Company, LLC to produce at facilities in Clifton Park, New York. The Company carefully selects breweries and packaging facilities owned by others with (i) the capability of utilizing traditional brewing, fermenting and finishing methods and (ii) first-rate quality control capabilities throughout the process. Under its brewing and packaging arrangements with third parties, the Company is charged a service fee based on units produced at each of the facilities and bears the costs of raw materials, risk, excise taxes and deposits for pallets and kegs and specialized equipment required to brew and package the Company's malt beverages and hard ciders.

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

***Competition***

The Better Beer category within the United States beer market is highly competitive due to the increasing number of craft brewers, imported beers with similar pricing and target drinkers, and efforts by large domestic brewers to enter this category. The Company anticipates competition and innovation among domestic craft brewers to remain strong, as craft brewers experienced their eleventh successive year of growth in 2015 and there were many new startups. The Company estimates there are over 5,000 craft breweries in operation or in the planning stages, up from approximately 1,409 operating craft breweries in 2006. Also, established craft breweries are building more capacity, expanding geographically, and 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®, Heineken® and Modelo Especial®, continue to compete aggressively in the United States and have gained market share over the last ten years. Heineken and Constellation Brands (owner of the United States Distribution rights to Corona and Modelo Especial) may have substantially greater financial resources, marketing strength and distribution networks than the Company has. 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 breweries, 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 addition, Miller Coors Tenth and Blake and AB InBev's High End Division have been formed as business units headquartered in the United States that are focused exclusively on competing in the Better Beer market.

During 2015, there were numerous acquisitions announced in the beer industry including AB InBev's \$107 billion purchase of SAB Miller and the related sale by SAB Miller to MolsonCoors of its 58% share of the MillerCoors joint venture with MolsonCoors. Both of these transactions are scheduled to close during 2016 and are subject to various regulatory and financing requirements. There were also numerous announcements of acquisitions of or investments in

craft brewers by larger breweries, private equity and other investors. The most significant include Heineken's acquisition of a 50% interest of Lagunitas Brewing Company for approximately \$500 million, Constellation Brands acquisition of Ballast Point Brewing & Spirits for approximately \$1 billion

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and AB InBev's purchase of multiple craft breweries, including Elysian Brewing Company, Golden Road Brewing, Four Peaks Brewing Company and Breckenridge Brewery. During 2015, Pabst Brewing Company acquired an ownership interest in and entered into an exclusive distribution agreement to distribute nationally Small Town Brewery's brands, including Not Your Fathers Hard Root Beer®. Also, during 2015, Pabst Brewing Company entered a distribution agreement to distribute various United States cider brands of C&C Group PLC, including Woodchuck®, Magners and Hornsby's.

The Company's products also compete with other alcoholic beverages for drinker attention and consumption and the pace of innovation in the categories the Company competes in is increasing. In recent years, wine and spirits have been competing more directly with beers. The Company monitors such activity and attempts to develop strategies which benefit from the drinker's interest in trading up, in order to position its beers and hard ciders competitively with wine and spirits.

The Company competes with other beer and alcoholic beverage companies within a three-tier distribution system. The Company competes for a share of the Distributor's attention, time and selling efforts. In retail establishments, the Company competes for shelf, cold box and tap space. From a drinker perspective, competition exists for brand acceptance and loyalty. The principal factors of competition in the 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.

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

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 product line competes primarily within the FMB category of the beer industry. FMBs, such as Twisted Tea, Smirnoff Ice®, Mike's Hard Lemonade®, Bud Light Lime® Ritas, and Redd's Apple Ale® are flavored malt beverages that are typically priced competitively with Better Beers. This category is highly competitive due to, among other factors, the presence of large brewers and spirits companies in the category, the advertising of malt-based spirits brands in channels not available to the parent brands and a fast pace of product innovation.

The Company's Angry Orchard product line competes within the hard cider category. This category is small and highly competitive and includes large international and domestic competitors, as well as many small regional and local hard cider companies. Hard ciders are typically priced competitively with Better Beers and may compete for drinkers with beer, wine, spirits, or FMBs. Some of these competitors include C&C Group PLC under the brand names Woodchuck®, Magners and Hornsby's; Heineken under the brand names Strongbow; AB InBev under Mike's Hard Lemonade, Ultra Cider and Stella Cidre and MillerCoors under the brand names Smith and Forge and Crispin Cider.

**Regulation and Taxation**

The alcoholic beverage industry is regulated by federal, state and local governments. These regulations govern the production, sale and distribution of alcoholic beverages, including permitting, licensing, marketing and advertising. To operate its breweries, the Company must obtain and maintain numerous permits, licenses and

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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 taxes at varying rates based on the type of beverage and alcohol content. Failure by the Company to comply with applicable federal, state or local laws and regulations could result in higher taxes, penalties, fees and suspension or revocation of permits, licenses or approvals. While there can be no assurance that any such regulatory action would not have a material adverse effect upon the Company or its operating results, the Company is not aware of any infraction affecting any of its licenses or permits that would materially impact its ability to continue its current operations.

## **Trademarks**

The Company has obtained United States trademark registrations for over 190 trademarks, including Samuel Adams<sup>®</sup>, the design logo of Samuel Adams<sup>®</sup>, Sam Adams<sup>®</sup>, Samuel Adams Boston Lager<sup>®</sup>, Samuel Adams Utopias<sup>®</sup>, Samuel Adams Rebel<sup>®</sup>, Samuel Adams Brewing the American Dream<sup>®</sup>, Angry Orchard<sup>®</sup>, Twisted Tea<sup>®</sup>, Lazy River<sup>®</sup>, The Traveler Beer Co.<sup>®</sup>, Coney Island<sup>®</sup>, Angel City Brewery<sup>®</sup>, Concrete Beach<sup>®</sup>. It also has a number of common law marks, including Infinium and Know More Love More. 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 have registrations 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 oppose 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 of, and for certain damages resulting from, sites of past releases of hazardous materials. The Company believes that it currently conducts, and in the past has conducted, its activities and operations in substantial compliance with applicable environmental laws, and believes that any costs arising from existing environmental laws will not have a material adverse effect on the Company's financial condition or results of operations.

As part of its efforts to be environmentally friendly, the Company has 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.

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



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new and more restrictive requirements might not be adopted, compliance with which might have a material, adverse financial effect on the Company and its operating results, or that such policies and procedures will be consistently followed and be sufficient to prevent serious accidents.

## **Employees**

As of December 26, 2015, the Company employed 1,429 people, of which 104 were covered by collective bargaining agreements at the Cincinnati Brewery. The collective bargaining agreements involve three labor unions, with two contracts expiring in 2017 and one expiring in 2020. 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](http://www.bostonbeer.com), or upon written request to Investor Relations, The Boston Beer Company, Inc., One Design Center Place, Suite 850, Boston, Massachusetts 02210.

## **Item 1A. Risk Factors**

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

### ***The Company Faces Substantial Competition.***

The Better Beer category within the United States beer market is highly competitive, due to the increasing number of craft brewers with similar pricing and target drinkers and gains in market share achieved by domestic specialty beers and imported beers, and more recently the acquisition of craft brewers by the four largest market competitors, AB InBev, MillerCoors, Constellation and Heineken. The Company faces strong competition from these brewers as they acquire craft brewers, or introduce new domestic specialty brands to many markets and expand their efforts behind existing brands. Imported beers, such as Corona®, Heineken® and Modelo Especial®, also continue to compete aggressively in the United States beer market. The Company anticipates competition among domestic craft brewers will remain strong, as craft brewers experienced their eleventh successive year of growth in 2015 and there were many new startups. The Company estimates there are now over 5,000 craft breweries in operation or in the planning stages up from 1,409 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.

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The Company's products compete generally with other alcoholic beverages. The Company competes with other beer and beverage companies not only for drinker acceptance and loyalty, but also for shelf, cold box and tap space in retail establishments and for marketing focus by the Company's Distributors and their customers, all of which also distribute and sell other beers and alcoholic beverage products. Many of the Company's competitors, including AB InBev, MillerCoors, Heineken and Constellation Brands, have substantially greater financial resources, marketing strength and distribution networks than the Company. Moreover, the introduction of new products by competitors that compete directly with the Company's products or that diminish the importance of the Company's products to retailers or Distributors may have a material adverse effect on the Company's business and financial results.

Further, the beer industry has seen continued consolidation among brewers in order to take advantage of cost savings opportunities for supplies, distribution and operations. Illustrative of this consolidation in 2015 is AB InBev's \$107 billion purchase of SAB Miller and the related sale by SAB Miller to MolsonCoors of its 58% share of the MillerCoors joint venture with MolsonCoors, as well as Heineken's acquisition of a 50% interest of Lagunitas Brewing Company for approximately \$500 million and Constellation Brand's acquisition of Ballast Point Brewing & Spirits for approximately \$1 billion. Due to the increased leverage that these combined operations will have in distribution and sales and marketing expenses, the costs to the Company of competing could increase and the availability of contract brewing capacity could be reduced. The potential also exists for these large competitors to increase their influence with their Distributors, making it difficult for smaller brewers to maintain their market presence or enter new markets. These potential increases in the number and availability of competing brands, the costs to compete, reductions in contract brewing capacity and decreases in distribution support and opportunities may have a material adverse effect on the Company's business and financial results.

***There Is No Assurance of Continued Growth. Conversely, the Company May Not Be Able to Manage Demand for Its Products.***

The Company's future growth may be limited, both by 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 increasing number of competitors in the craft beer and the Better Beer markets. The development of new products by the Company may lead to reduced sales of 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 and/or targets at the Company's owned breweries, its ability to enter into new brewing contracts with third party-owned breweries on commercially acceptable terms, disruption or operating performance issues at the Company's owned breweries or limits on the availability of suitable production capacity at third party-owned breweries, and its ability to obtain sufficient quantities of certain ingredients and packaging materials, such as hops, malt, cider ingredients, bottles and cans, from suppliers.

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

The Company has significantly increased the number of its commercially available beers, FMBs and hard ciders that it produces. Since 2010, the Company has introduced many new beers under the Samuel Adams brand name. During 2014 and 2015, the Company significantly increased distribution for both the Twisted Tea and Angry Orchard brand families, as well as adding more styles and packages. Alchemy & Science currently has four brands, including three small breweries and retail beer halls where beer is sold and consumed on-premise. In 2015, the Company began national distribution of certain styles of the Traveler Beer brand and the Coney Island beer brand, including Coney Island Hard Root Beer. Also in November 2015, the Company opened the Angry Orchard Innovation Cider House at

its apple orchard located in Walden, New York, where hard cider is fermented, sold and consumed on-premise. These additional brands and locations, along with the increases in demand for existing brands, have added to the complexity of the Company's beer and hard cider development

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process, as well as its brewing, packaging, marketing and selling processes. The Company does not have significant experience with managing this number of brands and products and has limited experience with integrating acquired brands or operating small production facilities and retail operations. 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 and financial results.

***Unexpected Events at Company-Owned Production Facilities, 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 its Cincinnati Brewery, which 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 their excess capacity, providing the Company with production flexibility, as well as cost advantages over its competitors, while maintaining full control over the brewing process for its beers. The Company purchased the Pennsylvania Brewery in June 2008. As a result of that acquisition and the subsequent expansion of the Pennsylvania Brewery's capacity, the volume of core brands brewed at Company-owned breweries increased and currently over 95% of the Company's volume is brewed and packaged at breweries that it owns.

In 2015, the Company brewed its flagship beer, Samuel Adams Boston Lager, at each of its three Samuel Adams 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 continue to brew most all of its core brands volume in 2016 at its Company-owned breweries. This reliance on its own breweries exposes the Company to capacity constraints and risk of disruption of supply, as these breweries are operating at or close to current capacity in peak months. Management believes that it has alternatives available to it, in the event that production at any of its brewing locations is temporarily interrupted, although as volumes at the Pennsylvania Brewery increase, severe interruptions there would be problematic, particularly during peak season. 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 replacement brewing locations. Potential interruptions at breweries include labor issues, governmental action, quality issues, contractual disputes, machinery failures, operational shut downs or natural or unavoidable catastrophe.

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

The Company continues to avail itself of capacity at third-party breweries. During 2015, the Company brewed and/or packaged certain products under service contracts at facilities located in Latrobe, Pennsylvania, LaCrosse, Wisconsin, and Clifton Park, New York. In selecting third party breweries for brewing services arrangements, the Company carefully weighs brewery's (i) capability of utilizing traditional brewing, fermenting and finishing methods, (ii) first

rate quality control capabilities throughout the production process. 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

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or an unexpected decline in the brewing capacity available to it, either of which could have a material adverse effect on the Company's business and financial results. The use of such third party facilities also creates higher logistical costs and uncertainty in the ability to deliver product to the Company's customers efficiently and on time.

As the brewing industry continues to consolidate and the Company has grown, the capacity and willingness of breweries owned by others where the Company could brew some of its beers, if necessary, has become a more significant concern and, thus, there is no guarantee that the Company's brewing needs will be met. The Company continues to work at its own Breweries, and with its contract brewers to attempt to minimize any potential disruptions. Nevertheless, should an interruption occur, the Company could experience temporary shortfalls in production and/or increased production and/or distribution costs and be required to make significant capital investments to secure alternative capacity for certain brands and packages, the combination of which could have a material adverse effect on the Company's business and financial results. A simultaneous interruption at several of the Company's production locations or an unexpected interruption at one of the Company-owned breweries would likely cause significant disruption, increased costs and, potentially, lost sales.

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

In the United States, where approximately 96% of its beer is sold, the Company sells nearly all of its beer to independent beer Distributors for distribution to retailers and, ultimately, to drinkers. Although the Company currently has arrangements with approximately 350 wholesale Distributors, sustained growth will require it to maintain such relationships and possibly enter into agreements with additional Distributors. Changes in control or ownership within the current distribution network could lead to less support of the Company's products. 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 relatively short notice. While these distribution agreements contain provisions giving the Company enforcement and termination rights, some state laws prohibit the Company from exercising these contractual rights. The Company's ability to maintain its existing distribution arrangements may be adversely affected by the fact that many of its Distributors are reliant on one of the major beer producers for a large percentage of their revenue and, therefore, they may be influenced by such producers. If the Company's existing distribution agreements are terminated, it may not be able to enter into new distribution agreements on substantially similar terms, which may result in an increase in the costs of distribution.

***The Company's Freshest Beer Program Could Adversely Impact the Company's Business and Operating Results***

In late 2010, the Company started the implementation of its Freshest Beer Program with domestic Distributors to reduce both the time and temperature the Company's beers experience at Distributor warehouses before reaching the market. Historically, Distributors 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 warehouse time through better on-time service, forecasting, production planning and cooperation with the Distributors. At December 26, 2015, the Company had 139 Distributors, representing approximately 71% of its volume, participating in the program at various stages of inventory reduction. The Company has successfully reduced the inventories of participating Distributors by approximately two weeks, resulting in fresher beer being delivered to retail. The Freshest Beer Program has resulted in lower shipments of approximately 87,000, 103,000 and 212,000 case equivalents in 2015, 2014 and 2013 respectively as measured at the end of the year by evaluating the year on year inventory reduction from the inventory levels that might otherwise have been expected. In 2015, the Company began piloting a small group of distributors on a pure replenishment service model within our Freshest Beer Program, which if successful would further reduce

Distributor inventories. The ordering process has changed significantly for Distributors that participate in the Freshest Beer Program and has resulted in a shorter



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period between order placement and shipment and posed much greater challenges for forecasting and production planning. Also, changes to the Distributor ordering process has increased the complexity of the Company's revenue recognition for shipments to Distributors 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 Distributor cooperation. These issues may in the past have led and in the future could lead to shortages and out of stocks of the Company's products at the Distributor and retailer levels, result in increased costs, negatively impact Distributor 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. Additionally, the Company experienced growth rates significantly higher than planned during 2013 and 2014 and such growth placed much greater stress on the Company's supply chain, given the lower inventories at Distributors. As a result, the Company currently cannot predict the long-term success of this program, the scope of its further implementation or the full extent of the costs or business impacts associated with the program that might be incurred. Although the Company currently believes the program will, in the long term, be beneficial to its business, there can be no assurances that this result will be achieved or, if achieved, to what extent.

The Company also fills orders from those of its Distributors who may independently choose to build their inventories or run their inventories down. Such a change in Distributor inventories is unpredictable and can lead to fluctuations in the Company's quarterly or annual results.

***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 one major supplier during 2015. Nevertheless, the Company believes that there are other malt vendors available that are capable of supplying part of its needs. The Company is exposed to the quality of the barley crop each year, and significant failure of a crop would adversely affect the Company's costs.

The Company predominantly uses Noble hops for its Samuel Adams lagers. Noble hops are varieties from several specific growing areas recognized for superior taste and aroma properties and include Hallertau-Hallertauer, Tettnang-Tettnanger, Hersbruck-Hersbrucker and Spalt-Spalter from Germany and Saaz-Saazer from the Czech Republic. Noble hops are rare and more expensive than most other varieties of hops. Traditional English hops, namely, East Kent Goldings and English Fuggles, and/or United States hops are used in most of the Company's ales. The demand for hops grown in the United States has grown due to the success and growth of craft brewers and the popularity of beer styles that include hops grown in the United States. Certain United States hops are in tight supply and prices have risen for both spot purchases and forward contract pricing, accordingly. The Company enters into purchase commitments with several hops dealers, based on the Company's projected future volumes and brewing needs. The dealers then contract with farmers to meet the Company's needs. However, the performance and availability of the hops, as with any agricultural product, may be materially adversely affected by factors such as adverse weather or pests. Further, the use of fertilizers and pesticides that do not conform to United States regulations, the imposition of export/import restrictions (such as increased tariffs and duties) and changes in currency exchange

rates could result in increased prices.

The Company attempts to maintain up to a two years 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

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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 sourced primarily from European, United States and New Zealand suppliers and include bittersweet apples from France and New Zealand and culinary apples from Italy and Washington State. 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. In 2012, the Company experienced shortages of apples, primarily due to growth in excess of that planned, that impacted the timing of shipments of its hard ciders to Distributors. During 2013, 2014 and 2015, the Company did not experience any shortage of apples. The Company has entered into contracts to cover its expected needs for 2016 and expects to realize full delivery against these contracts.

Except for the shortage of apples in 2012, the Company has not experienced material difficulties in obtaining timely delivery from its suppliers, although the Company has had to pay significantly above historical prices to secure supplies when inventory and supply have been tight. The Company's new product development can also be constrained by any limited availability of certain ingredients. Growth rates higher than planned or the introduction of new products requiring special ingredients could create demand for ingredients greater than the Company can source. Although the Company believes that there are alternative sources available for some of the ingredients and packaging materials, there can be no assurance that the Company would be able to acquire such ingredients or packaging materials from substitute sources on a timely or cost effective basis, in the event that current suppliers could not adequately fulfill orders. The loss or significant reduction in the capability of a supplier to support the Company's requirements could, in the short-term, adversely affect the Company's business and financial results, until alternative supply arrangements were secured.

The Company's contracts for certain hops and apples that are payable in Euros, Pounds Sterling and New Zealand dollars, and therefore, the Company is subject to the risk that the Euro, Pound or New Zealand dollar may fluctuate adversely against the U.S. dollar. The Company has, as a practice, not hedged this exposure, although this practice is regularly reviewed. Significant adverse fluctuations in foreign currency exchange rates may have a material adverse effect on the Company's business and financial results. The cost of hops has increased in recent years due to the rising market price of hops and exchange rate changes. The continuation of these trends will impact the Company's product cost and potentially the Company's ability to meet the demand for its beers. The Company buys some other ingredients and capital equipment from foreign suppliers for which the Company also carries exposure to foreign exchange rate changes.

The Company's accounting policy for hops inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed management's expected future usage. The computation of the excess inventory requires management to make certain assumptions regarding future sales growth, product mix, cancellation costs 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 competitive sources for the supply of certain packaging materials, such as shipping cases and glass. The Company enters into limited-term supply agreements with certain vendors in order to receive preferential

pricing. In 2015, cans, crowns, six pack carriers and labels were each supplied by single sources. Although the Company believes that alternative suppliers are available, the loss of any of the Company's packaging materials suppliers could, in the short-term, adversely affect the Company's results of

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operations, cash flows and financial position until alternative supply arrangements were secured. Additionally there has been acquisition and consolidation activity in several of the packaging supplier networks which could potentially lead to disruption in supply and changes in economics. If packaging costs continue to increase, there is no guarantee that such costs can be fully passed along 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 when renewed. 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 variation in direct and indirect energy costs, and energy costs could rise unpredictably. Increased energy costs would result in higher transportation, freight and other operating costs, including increases in the cost of ingredients and supplies. The Company's future operating expenses and margins could be dependent on its ability to manage the impact of such cost increases. If energy costs increase, there is no guarantee that such costs can be fully passed along to drinkers through increased prices.

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

As a growth-oriented company, the Company has made, and expects to continue to make, significant advertising and promotional expenditures to enhance its brands, even though these expenditures may adversely affect the Company's results of operations in a particular quarter or even for the full year, and may not result in increased sales. Variations in the levels of advertising and promotional expenditures have in the past caused, and are expected in the future to continue to cause, variability in the Company's quarterly results of operations. While the Company attempts to invest only in effective advertising and promotional 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.

***The Company's Operations are Subject to Certain Operating Hazards Which Could Result in Unexpected Costs or Product Recalls That Could Harm the Company's Business.***

The Company's operations are subject to certain hazards and liability risks faced by all brewers, such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging, or defective packaging and handling. Such occurrences may create bad tasting beer or cider, or pose risk to the integrity and safety of the packaging. These could result in unexpected costs to the Company and, in the case of a costly product recall, potentially serious damage to the Company's reputation for product quality, as well as claims for product liability.



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***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 existing laws and regulations relating to the Company's operations or any revisions to such laws and regulations or the failure to pay taxes or other fees imposed on the Company's operations and results could result in the loss, revocation or suspension of the Company's licenses, permits or approvals, and could have a material adverse effect on the Company's business, financial condition and results of operations.

***Changes in 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 driving under the influence, underage drinking and health consequences from the misuse of alcohol, including alcoholism. As an outgrowth of these concerns, the possibility exists that advertising by beer producers could be restricted, that additional cautionary labeling or packaging requirements might be imposed, that further restrictions on the sale of alcohol might be imposed or that there may be renewed efforts to impose increased excise or other taxes on beer sold in the United States.

The domestic beer industry, other than 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.

Certain states are considering or have passed laws and regulations that allow the sale and distribution of marijuana. It is possible that legal marijuana usage could adversely impact the demand for the Company's products.

***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 Samuel Adams brand history, equity and current and potential future brand messaging 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 negatively affect the

strength of the Company's messaging and, accordingly, the Company's growth prospects. The Company and its brands may also be impacted if Drinkers' views of Mr. Koch were to



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negatively change. If either of these were to occur, the Company might need to adapt its strategy for communicating its key messages regarding its traditional brewing processes, brewing heritage and quality. Any such change in the Company's messaging strategy might have a detrimental impact on the future growth of the Company.

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

While the Company has from time to time in the past been involved in material litigation, it is not currently a party to any pending or threatened litigation, the outcome of which would be expected to have a material adverse effect on its financial condition or the results of its operations. In general, while the Company believes it conducts its business appropriately in accordance with laws, regulations and industry guidelines, claims, whether or not meritorious, could be asserted against the Company that might adversely impact the Company's results. See *Item 3 Legal Proceedings* below.

***The Class B Shareholder Has Significant 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 (1) approve certain mergers, charter amendments and by-law amendments and (2) elect a minority of the directors of the Company. Although not as a matter of right, the Class A stockholders have also been afforded the opportunity to vote on an advisory basis on executive compensation. Consequently, the election of a majority of the Company's directors and all other matters requiring stockholder approval are currently decided by C. James Koch, who is the founder and Chairman of the Company, as the holder of 100% of the 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.

***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, including increases resulting from currency fluctuations; (b) the Company's key suppliers may not be able to fund their capital requirements, resulting in disruption in the supplies of the Company's raw and packaging materials; (c) the credit risks of the Company's Distributors may increase; (d) the impact of currency fluctuations on amounts owed to the Company by distributors that pay in foreign currencies; (e) the Company's credit facility, or portion thereof, may become unavailable at a time when needed by the Company to meet critical needs; (f) overall beer consumption may decline; or (g) drinkers of the Company's beers may change their purchase preferences and frequency, which might result in sales declines.

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

The Company depends on information technology to be able to operate efficiently and interface with customers and suppliers, as well as maintain financial and accounting reporting accuracy to ensure compliance with all applicable laws. If the Company does not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, the Company could be subject to transaction errors, processing inefficiencies, the loss of

customers, business disruptions, or the loss of or damage to intellectual property

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through security breach. The Company recognizes that many groups on a world-wide basis have experienced increases in cyber attacks and other hacking activity. The Company has dedicated internal and external resources to review and address such threats. However, as with all large information technology systems, the Company's systems could be penetrated by outside parties intent on extracting confidential or proprietary information, corrupting information, disrupting business processes, or engaging in the unauthorized use of strategic information. Such unauthorized access could disrupt business operations and could result in the loss of assets or revenues, remediation costs or damage to the Company's reputation, as well as litigation against the Company by third parties adversely affected by the unauthorized access. Such events could have a material adverse effect on the Company's business and financial results. The Company also relies on third parties for supply of software, software and data hosting and telecommunications and networking, and is reliant on those third parties for the quality and integrity of these complex services. Failure by a third party supplier could have material adverse effect on the Company's ability to operate.

### **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 2015 fiscal year, and (3) remain unresolved.

### **Item 2. Properties**

The Company maintains its principal corporate offices in approximately 54,200 square feet of leased space located in Boston, Massachusetts, the term of which is set to expire in 2026. The Company also leases small offices in California and 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, although it has an option to extend the term for an additional five years.

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

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

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

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

The Company leases approximately 11,365 square feet of space in Miami, Florida, which houses a small brewery, beer hall and tour center. The current term of the lease for this facility will expire in 2023.

The Company leases approximately 1,500 square feet of space within the retail section of MCU Park in Brooklyn, New York, which houses a small brewery and tasting room. The current term of the lease for this facility will expire in 2019.

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The Company owns 52.7 acres of vacant land in Freetown, Massachusetts. In January 2015, the Company entered into an agreement for the sale of this land. The closing of the sale is now expected to occur in the first quarter of 2016, subject to buyer due diligence and certain other conditions.

The Company believes that its facilities are adequate for its current needs and that suitable additional space will be available on commercially acceptable terms as required.

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not Applicable

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

The graph set forth below shows the value of an investment of \$100 on January 1, 2011 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 26, 2015.

**Total Return To Shareholders**

(Includes reinvestment of dividends)

**ANNUAL RETURN PERCENTAGE**

Company Name / Index	Years Ending				
	12/31/11	12/29/12	12/28/13	12/27/14	12/26/15
The Boston Beer Company, Inc.	10.88	22.49	82.06	22.16	-30.55
S&P 500 Index	2.18	14.07	34.12	15.76	0.77
S&P 500 Beverages Index	7.30	7.16	22.48	19.04	10.52
Peer Group	-12.09	1.17	36.24	37.43	25.24

Base

INDEXED RETURNS

Company Name / Index	Years Ending					
	Period	12/25/10	12/31/11	12/29/12	12/28/13	12/27/14
<b>The Boston Beer Company, Inc.</b>	<b>100</b>	110.88	135.82	247.27	302.05	209.78
<b>S&amp;P 500 Index</b>	<b>100</b>	102.18	116.56	156.34	180.97	182.36
<b>S&amp;P 500 Beverages Index</b>	<b>100</b>	107.30	114.99	140.84	167.65	185.29
<b>Peer Group</b>	<b>100</b>	87.91	88.93	121.16	166.51	208.53

**Peer Group Companies**

Craft Brew Alliance Inc

Molson Coors Brewing Co

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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:

<b>Fiscal 2015</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 323.99	\$ 257.24
Second Quarter	\$ 272.83	\$ 237.62
Third Quarter	\$ 236.55	\$ 197.05
Fourth Quarter	\$ 258.43	\$ 201.90
<b>Fiscal 2014</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 249.81	\$ 203.81
Second Quarter	\$ 246.04	\$ 212.07
Third Quarter	\$ 232.61	\$ 215.69
Fourth Quarter	\$ 297.78	\$ 210.44

There were 10,248 holders of record of the Company's Class A Common Stock as of February 12, 2016. 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 12, 2016, as reported under the New York Stock Exchange-Composite Transaction Reporting System, was \$185.04.

**Class A Common Stock**

At December 26, 2015, the Company had 22,700,000 authorized shares of Class A Common Stock with a par value of \$.01, of which 9,449,927 were issued and outstanding, which includes 60,922 shares that have trading restrictions. The Class A Common Stock has no voting rights, except (1) as required by law, (2) for the election of Class A Directors, and (3) that the approval of the holders of the Class A Common Stock is required for (a) future authorizations or issuances of additional securities which have rights senior to Class A Common Stock, (b) alterations of rights or terms of the Class A or Class B Common Stock as set forth in the Articles of

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Organization of the Company, (c) certain other amendments of the Articles of Organization of the Company, (d) certain mergers or consolidations with, or acquisitions of, other entities, and (e) sales or dispositions of any significant portion of the Company's assets.

**Class B Common Stock**

At December 26, 2015, the Company had 4,200,000 authorized shares of Class B Common Stock with a par value of \$.01, of which 3,367,355 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 12, 2016, C. James Koch, the Company's Chairman, was the sole holder of record of all of the Company's issued and outstanding Class B Common Stock.

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

**Repurchases of the Registrant's Class A Common Stock**

On February 10, 2016, the Board of Directors of the Company increased the aggregate expenditure limit for the Company's Stock Repurchase Program by \$50.0 million, thereby increasing the limit from \$525.0 million to \$575.0 million. As of December 26, 2015, the Company has repurchased a cumulative total of approximately 11.5 million shares of its Class A Common Stock for an aggregate purchase price of approximately \$446.1 million.

During the twelve months ended December 26, 2015, the Company repurchased 617,274 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		Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
			Purchased as Part of Publicly Announced Plans or Programs		
December 28, 2014 to January 31, 2015	2,460	\$ 280.98	2,460		\$ 41,920,501
February 1, 2015 to February 28, 2015	24	119.14			41,920,501
March 1, 2015 to March 28, 2015	32,871	268.15	32,693		33,122,126
March 29, 2015 to May 2, 2015	17,934	267.92	17,879		28,328,911



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May 3, 2015 to May 30, 2015				78,328,911
May 31, 2015 to June 27, 2015	34,367	247.26	34,363	69,830,129
June 28, 2015 to August 1, 2015	105,248	224.93	105,134	122,163,970
August 2, 2015 to August 29, 2015	82,285	223.18	82,153	103,816,477
August 30, 2015 to September 26, 2015	88,262	215.19	88,262	83,819,092
September 27, 2015 to October 31, 2015	76,697	226.93	76,697	116,410,572
November 1, 2015 to November 28, 2015	86,938	212.77	86,938	97,908,260
November 29, 2015 to December 26, 2015	90,188	210.69	90,168	78,906,271
<b>Total</b>	<b>617,274</b>	<b>\$ 224.77</b>	<b>616,747</b>	<b>\$ 78,906,271</b>

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Of the shares that were purchased during the period, 527 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. 26 2015	Dec. 27 2014	Dec. 28 2013	Dec. 29 2012 (53 weeks)	Dec. 31 2011
<b>(in thousands, except per share and net revenue per barrel data)</b>					
<b>Income Statement Data:</b>					
Revenue	\$ 1,024,040	\$ 966,478	\$ 793,705	\$ 628,580	\$ 558,282
Less excise taxes	64,106	63,471	54,652	48,358	45,282
Net revenue	959,934	903,007	739,053	580,222	513,000
Cost of goods sold	458,317	437,996	354,131	265,012	228,433
Gross profit	501,617	465,011	384,922	315,210	284,567
Operating expenses:					
Advertising, promotional and selling expenses	273,629	250,696	207,930	169,306	157,261
General and administrative expenses	71,556	65,971	62,332	50,171	43,485
Impairment of assets	258	1,777	1,567	149	666
Settlement proceeds					(20,500)
Total operating expenses	345,443	318,444	271,829	219,626	180,912
Operating income	156,174	146,567	113,093	95,584	103,655
Other expense, net	(1,164)	(973)	(552)	(67)	(155)
Income before provision for income taxes	155,010	145,594	112,541	95,517	103,500
Provision for income taxes	56,596	54,851	42,149	36,050	37,441
Net income	\$ 98,414	\$ 90,743	\$ 70,392	\$ 59,467	\$ 66,059
Net income per share basic	\$ 7.46	\$ 6.96	\$ 5.47	\$ 4.60	\$ 5.08
Net income per share diluted	\$ 7.25	\$ 6.69	\$ 5.18	\$ 4.39	\$ 4.81
Weighted average shares outstanding basic	13,123	12,968	12,766	12,796	13,012
Weighted average shares outstanding diluted	13,520	13,484	13,504	13,435	13,741
<b>Balance Sheet Data:</b>					
Working capital	\$ 112,443	\$ 97,292	\$ 59,901	\$ 73,448	\$ 58,674
Total assets	\$ 645,400	\$ 605,161	\$ 444,075	\$ 359,484	\$ 272,488
Total long-term obligations	\$ 73,019	\$ 58,851	\$ 37,613	\$ 25,499	\$ 20,694
Total stockholders' equity	\$ 461,221	\$ 436,140	\$ 302,085	\$ 245,091	\$ 184,745

**Statistical Data:**

Barrels sold	4,256	4,103	3,416	2,746	2,484
Net revenue per barrel	\$ 226	\$ 220	\$ 216	\$ 211	\$ 207

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

In this Form 10-K and in other documents incorporated herein, as well as in oral statements made by the Company, statements that are prefaced with the words may, will, expect, anticipate, continue, estimate, project, 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

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Company's current expectations and estimates as to prospective events and circumstances about which the Company can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect future events or circumstances. Forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth above and the other information set forth in this Form 10-K.

## **Introduction**

The Boston Beer Company is engaged in the business of producing and selling alcohol beverages primarily in the domestic market and, to a lesser extent, in selected international markets. The Company's revenues are derived by selling its beers and hard ciders to Distributors, who in turn sell the products to retailers and drinkers.

The Company's beers compete primarily in the Better Beer category, which includes imported beers and craft beers. This category has seen high single-digit compounded annual growth over the past ten years. Defining factors for Better Beer include superior quality, image and taste, supported by appropriate pricing. The Company believes that the Better Beer category is positioned to increase market share, as drinkers continue to trade up in taste and quality. The Company estimates that in 2015 the craft beer category percentage volume growth was in the mid to high teens, the Better Beer category volume was up approximately 9%, and the total beer category was essentially flat. The Company believes that the Better Beer category is approximately 27% of United States beer consumption by volume. The Company estimates the Hard Cider category to be approximately 1% of the total beer category and believes it has many characteristics similar to the Better Beer category. The Company believes that significant opportunity continues to exist for the Better Beer and Hard Cider categories to gain market share in the total beer category. Depletions or Distributor sales to retailers of the Company's beers and hard ciders, increased approximately 4% in 2015 from the comparable 52 week period in the prior year.

## **Outlook**

Year-to-date depletions reported to the Company for the 6 weeks ended February 6, 2016 are estimated by the Company to have decreased approximately 3% from the comparable period in 2015.

The Company is targeting earnings per diluted share for 2016 of between \$7.60 and \$8.00, but actual results could vary significantly from this target. The 2016 fiscal year includes 53 weeks compared to the 2015 fiscal year which included only 52 weeks. The Company is currently planning that 2016 depletions and shipments percentage growth will be in the mid-single digits. The Company is targeting national price increases of between 1% and 2%. Full-year 2016 gross margins are currently expected to be between 52% and 54%. The Company intends to increase advertising, promotional and selling expenses by between \$10 million and \$20 million for the full year 2016, which does not include any increases in freight costs for the shipment of products to its Distributors. The Company intends to increase its investment in its brands in 2016 commensurate with the opportunities for growth that it sees, but there is no guarantee that such increased investments will result in increased volumes. The Company estimates a full-year 2016 effective tax rate of approximately 37%.

The Company is continuing to evaluate 2016 capital expenditures. Its current estimates are between \$60 million and \$80 million, consisting mostly of continued investments in the Company's breweries. The actual total amount spent on 2016 capital expenditures may well be different from these estimates. Based on information currently available, the Company believes that its capacity requirements for 2016 can be covered by its Company-owned breweries and existing contracted capacity at third-party brewers.



**Table of Contents****Results of Operations**

Boston Beer's flagship product is Samuel Adams Boston Lager. For purposes of this discussion, Boston Beer's core brands or core products include all products sold under the Samuel Adams, Twisted Tea, Angry Orchard and various Alchemy & Science trade names. Core products do not include the products brewed or packaged at the Company's brewery in Cincinnati, Ohio (the Cincinnati Brewery) under a contract arrangement for a third party. Sales of such products are not significant to the Company's net revenues.

The following table sets forth certain items included in the Company's consolidated statements of comprehensive income:

	<b>Year Ended</b>		
	<b>Dec. 26</b>	<b>Dec. 27</b>	<b>Dec. 28</b>
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>Barrels Sold (in thousands)</b>		
Core brands	4,241	4,093	3,403
Non-core products	15	10	13
<b>Total barrels</b>	<b>4,256</b>	<b>4,103</b>	<b>3,416</b>
	<b>Percentage of Net Revenue</b>		
Net revenue	100%	100%	100%
Cost of goods	47.7	48.5	47.9
Gross profit	52.3	51.5	52.1
Advertising, promotional and selling expenses	28.5	27.8	28.2
General and administrative expenses	7.5	7.3	8.4
Impairment of assets	0.0	0.2	0.2
Total operating expenses	36.0	35.3	36.8
Operating income	16.3	16.2	15.3
Interest income	0.0	0.0	0.0
Other expense, net	(0.1)	(0.1)	(0.1)
Income before provision for income taxes	16.1	16.1	15.2
Provision for income taxes	5.9	6.1	5.7
<b>Net income</b>	<b>10.3%</b>	<b>10.0%</b>	<b>9.5%</b>

***Year Ended December 26, 2015 (52 weeks) Compared to Year Ended December 27, 2014 (52 weeks)***

**Net revenue.** Net revenue increased by \$56.9 million, or 6.3%, to \$959.9 million for the year ended December 26, 2015, as compared to \$903.0 million for the year ended December 27, 2014, due primarily to increased shipments and increased revenue per barrel.

*Volume.* Total shipment volume of 4,256,000 barrels for the year ended December 26 2015 includes shipments of core brands of 4,241,000 barrels and other shipments of 15,000 barrels. Shipment volume for core brands increased by 3.6% over comparable 2014 levels of 4,093,000 barrels, due primarily to increases in shipments of Coney Island, Twisted Tea, Angry Orchard and Traveler brand products that were only partially offset by shipment declines in Samuel Adams brand products.

Depletions, or sales by Distributors to retailers, of the Company's core products for the year ended December 26, 2015 increased by approximately 4% compared to the prior year, primarily due to increases in depletions of Twisted Tea, Coney Island, Angry Orchard and Traveler brand products that were only partially offset by declines in depletions of Samuel Adams brand products.

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*Net Revenue per barrel.* The net revenue per barrel for core brands increased by 2.6% to \$226.18 per barrel for the year ended December 26, 2015, as compared to \$220.46 per barrel for the year ended December 27, 2014, due primarily to price increases and changes in product and package mix.

Significant changes in the package mix could have a material effect on net revenue. The Company primarily packages its core brands in kegs, bottles and cans. Assuming the same level of production, a shift in the mix from bottles and cans to kegs would effectively decrease revenue per barrel, as the price per equivalent barrel is lower for kegs than for bottles and cans. The percentage of bottles and cans to total shipments increased by 1.7% to 78.7% of total shipments for the year ended December 26, 2015 as compared to the year ended December 27, 2014.

**Gross profit.** Gross profit for core products was \$118.29 per barrel for the year ended December 26, 2015, as compared to \$113.55 per barrel for the year ended December 27, 2014. Gross margin for core products was 52.3% for the year ended December 26, 2015, as compared to 51.5% for the year ended December 27, 2014. The increase in gross profit per barrel of \$4.74 is primarily due to an increase in net revenue per barrel, partially offset by an increase in cost of goods sold per barrel.

Cost of goods sold for core brands was \$107.89 per barrel for the year ended December 26, 2015, as compared to \$106.91 per barrel for the year ended December 27, 2014. The 2015 increase in cost of goods sold of \$0.98 per barrel of core product is primarily due to product and package mix and higher brewery operating costs, partially offset by lower ingredient costs.

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

**Advertising, promotional and selling.** Advertising, promotional and selling expenses, increased \$22.9 million, or 9.2%, to \$273.6 million for the year ended December 26, 2015, as compared to \$250.7 million for the year ended December 27, 2014. The increase was primarily a result of increased media advertising of \$14.6 million, increased costs for additional sales personnel and commissions of \$5.5 million and increased point of sale and local marketing of \$4.1 million.

Advertising, promotional and selling for core brands were 28.5% of net revenue, or \$64.53 per barrel, for the year ended December 26, 2015, as compared to 27.8% of net revenue, or \$61.25 per barrel, for the year ended December 27, 2014. The Company will invest in advertising and promotional campaigns that it believes are effective, but there is no guarantee that such investment will generate sales growth.

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

**General and administrative.** General and administrative expenses increased by \$5.6 million, or 8.5%, to \$71.6 million for the year ended December 26, 2015, as compared to \$66.0 million for the comparable period in 2014. The increase was primarily due to increases in salary and benefit expenses, consulting and facilities costs.



**Impairment of assets.** For the year ended December 26, 2015, the Company incurred impairment charges of \$0.3 million, based upon its review of the carrying values of its property, plant and equipment.

**Stock-based compensation expense.** For the year ended December 26, 2015, an aggregate of \$6.7 million in stock-based compensation expense is included in advertising, promotional and selling expenses and general and

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administrative expenses. Stock compensation decreased by \$0.2 million in 2015 compared to 2014, primarily due to performance not being achieved on certain awards granted during 2015.

**Provision for income taxes.** The Company's effective tax rate for the year ended December 26, 2015 of 36.5% decreased from the year ended December 27, 2014 rate of approximately 37.7%. This decrease was primarily the result of an increased federal manufacturing deduction and lower state tax rates.

***Year Ended December 27, 2014 (52 weeks) Compared to Year Ended December 28, 2013 (52 weeks)***

**Net revenue.** Net revenue increased by \$164.0 million, or 22.2%, to \$903.0 million for the year ended December 27, 2014, as compared to \$739.1 million for the year ended December 28, 2013, due primarily to increased shipments.

**Volume.** Total shipment volume of 4,103,000 barrels for the year ended December 27, 2014 includes shipments of core brands of 4,093,000 barrels and other shipments of 10,000 barrels. Shipment volume for core brands increased by 20.3% over comparable 2013 levels of 3,403,000 barrels, due primarily to increases in shipments of Angry Orchard, Samuel Adams, Twisted Tea and Traveler brand products.

Depletions, or sales by Distributors to retailers, of the Company's core products for the year ended December 27, 2014 increased by approximately 22% compared to the prior year, primarily due to increases in depletions of Angry Orchard, Samuel Adams, Twisted Tea and Traveler brand products.

**Net Revenue per barrel.** The net revenue per barrel for core brands increased by 1.6% to \$220.46 per barrel for the year ended December 27, 2014, as compared to \$216.94 per barrel for the year ended December 28, 2013, due primarily to price increases and changes in product and package mix.

Significant changes in the package mix could have a material effect on net revenue. The Company primarily packages its core brands in kegs, bottles and cans. Assuming the same level of production, a shift in the mix from bottles and cans to kegs would effectively decrease revenue per barrel, as the price per equivalent barrel is lower for kegs than for bottles and cans. The percentage of bottles and cans to total shipments increased by 1.1% to 77.0% of total shipments for the year ended December 27, 2014 as compared to the year ended December 28, 2013.

**Gross profit.** Gross profit for core products was \$113.55 per barrel for the year ended December 27, 2014, as compared to \$113.03 per barrel for the year ended December 28, 2013. Gross margin for core products was 51.5% for the year ended December 27, 2014, as compared to 52.1% for the year ended December 28, 2013. The increase in gross profit per barrel of \$0.52 is primarily due to an increase in net revenue per barrel, partially offset by an increase in cost of goods sold per barrel.

Cost of goods sold for core brands was \$106.91 per barrel for the year ended December 27, 2014, as compared to \$103.91 per barrel for the year ended December 28, 2013. The 2014 increase in cost of goods sold of \$3.00 per barrel of core product is due to increased ingredients costs, product mix effects and increases in brewery processing costs.

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

**Advertising, promotional and selling.** Advertising, promotional and selling expenses, increased \$42.8 million, or 20.6%, to \$250.7 million for the year ended December 27, 2014, as compared to \$207.9 million for the year ended December 28, 2013. The increase was primarily a result of increased media advertising of \$14.0 million, increased

freight to Distributors of \$12.3 million due to higher volumes, increased local marketing of

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\$10.4 million, increased costs for additional sales personnel and commissions of \$8.9 million and increased point of sale of \$3.7 million.

Advertising, promotional and selling for core brands were 27.8% of net revenue, or \$61.25 per barrel, for the year ended December 27, 2014, as compared to 28.2% of net revenue, or \$61.10 per barrel, for the year ended December 28, 2013. The Company will invest in advertising and promotional campaigns that it believes are effective, but there is no guarantee that such investment will generate sales growth.

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

**General and administrative.** General and administrative expenses increased by \$3.7 million, or 5.8%, to \$66.0 million for the year ended December 27, 2014, as compared to \$62.3 million for the comparable period in 2013. The increase was primarily due to increases in salary costs.

**Impairment of assets.** For the year ended December 27, 2014, the Company incurred impairment charges of \$1.8 million based upon its review of the carrying values of its property, plant and equipment, primarily due to a \$1.6 million change in the estimated fair value of machinery that is intended to be replaced in early 2015.

**Stock-based compensation expense.** For the year ended December 27, 2014, an aggregate of \$6.9 million in stock-based compensation expense is included in advertising, promotional and selling expenses and general and administrative expenses. Stock compensation decreased by \$0.5 million in 2014 compared to 2013, primarily due to decreased awards granted during 2014.

**Provision for income taxes.** The Company's effective tax rate for the year ended December 27, 2014 of 37.7% increased from the year ended December 28, 2013 rate of approximately 37.5%. This increase was primarily a result of a federal income tax audit settlement during 2013.

## **Liquidity and Capital Resources**

Cash increased to \$94.2 million as of December 26, 2015 from \$76.4 million as of December 27, 2014, reflecting cash provided by operating activities that was partially offset by purchases of property, plant and equipment and repurchase of Class A Common Stock.

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

Cash provided by operating activities in 2015 was \$168.7 million and primarily consisted of net income of \$98.4 million, non-cash items of \$42.1 million and a net decrease in operating assets and liabilities of \$28.2 million. Cash provided by operating activities in 2014 totaled \$141.2 million and primarily consisted of net income of \$90.7 million, non-cash items of \$42.2 million and a net decrease in operating assets and liabilities of \$8.3 million.

The Company used \$74.2 million in investing activities during 2015, as compared to \$151.8 million during 2014. Investing activities primarily consisted of discretionary equipment purchases to increase capacity of the Company-owned breweries.

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Cash used in financing activities was \$76.7 million during 2015, as compared to \$37.5 million provided by financing activities during 2014. The \$114.2 million difference in financing cash flow in 2015 from 2014 is primarily due to an increase in stock repurchases under the Company's Stock Repurchase Program partially offset by an increase in proceeds from the exercise of stock options and the related tax benefits.

During the year ended December 26, 2015, the Company repurchased approximately 616,700 shares of its Class A Common Stock for an aggregate purchase price of \$138.7 million. On February 10, 2016, the Board of Directors approved an increase of \$50.0 million to the previously approved \$525.0 million share buyback expenditure limit, for a new limit of \$575.0 million. As of December 26, 2015, the Company had repurchased a cumulative total of approximately 11.5 million shares of its Class A Common Stock for an aggregate purchase price of \$446.1 million.

From December 27, 2015 through February 12, 2016, the Company repurchased 184,000 additional shares of its Class A Common Stock for a total cost of \$33.0 million. As of February 12, 2016, the Company has repurchased a cumulative total of approximately 11.7 million shares of its Class A Common Stock for an aggregate purchase price of \$479.1 million. The Company has approximately \$95.9 million remaining on the \$575.0 million stock repurchase expenditure limit set by the Board of Directors.

The Company expects that its cash balance as of December 26, 2015 of \$94.2 million, along with future operating cash flow and the Company's unused line of credit of \$150.0 million, will be sufficient to fund future cash requirements. The Company's \$150.0 million credit facility has a term not scheduled to expire until March 31, 2019. As of the date of this filing, the Company was not in violation of any of its covenants to the lender under the credit facility and there were no amounts outstanding under the credit facility.

## **Critical Accounting Policies**

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

### *Provision for Excess or Expired Inventory*

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market value. The Company enters into multi-year purchase commitments in order to secure adequate supply of ingredients and packaging, to brew and package its products. Inventory on hand and under purchase commitments totaled approximately \$193.8 million at December 26, 2015. The Company's provisions for excess or expired inventory are based on management's estimates of forecasted usage of inventories on hand and under contract. Forecasting usage involves significant judgments regarding future demand for the Company's various existing products and products under development as well as the potency and shelf-life of various ingredients. A significant change in the timing or level of demand for certain products as compared to forecasted amounts may result in recording additional provisions for excess or expired inventory in the future. Provisions for excess or expired inventory are recorded as a cost of goods sold and have historically been adequate to provide for losses on its raw materials. Provision for excess or expired inventory

included in cost of goods sold was \$4.0 million, \$6.1 million, and \$4.9 million in fiscal years 2015, 2014, and 2013.

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**Table of Contents***Valuation of Long-Lived Assets*

The Company's long-lived assets include property, plant and equipment which are depreciated over their estimated useful lives. The carrying value of property, plant and equipment, net of accumulated depreciation, at December 26, 2015 was \$409.9 million. For purposes of determining whether there are any impairment losses, management has historically examined the carrying value of the Company's identifiable long-lived assets, including their useful lives, when indicators of impairment are present. Evaluations of whether indicators of impairment exist involve judgments regarding the current and future business environment and the length of time the Company intends to use the asset. For all long-lived assets, if an impairment loss is identified based on the fair value of the asset, as compared to the carrying value of the asset, such loss would be charged to expense in the period the impairment is identified. Estimating the amount of impairment, if any, requires significant judgments including identification of potential impairments, market comparison to similar assets, estimated cash flows to be generated by the asset, discount rates, and the remaining useful life of the asset. Impairment of assets was \$0.3 million, \$1.8 million, and \$1.6 million in fiscal years 2015, 2014 and 2013.

*Revenue Recognition*

Net revenue includes product sales, less customer programs and incentives, reserves for stale beer returns and excise taxes. The Company recognizes revenue on product sales at the time when the product is shipped and the following conditions are met: persuasive evidence of an arrangement exists, title has passed to the customer according to the shipping terms, the price is fixed and determinable, and collection of the sales proceeds is reasonably assured. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met.

The Company is committed to maintaining the freshness of the product in the market. In certain circumstances and with the Company's approval, the Company accepts and destroys stale beer that is returned by Distributors. The Company credits approximately fifty percent of the Distributor's cost of the beer that has passed its expiration date for freshness when it is returned to the Company or destroyed. The Company reduces revenue and establishes an accrual based upon both historical returns and knowledge of specific return transactions. Estimating this reserve involves significant judgments and estimates, including comparability of historical return trends to future trends, lag time from date of sale to date of return, and product mix of returns. Historically, the cost of actual stale beer returns has been in line with established reserves, however, the cost could differ materially from the estimated accrual which would impact revenue. As of December 26, 2015 and December 27, 2014, the stale beer reserve was \$3.3 million and \$2.4 million, respectively.

*Customer Programs and Incentives*

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, *Revenue Recognition- Customer Payments and Incentives*, based on the nature of the expenditure. Amounts paid to customers totaled \$55.3 million, \$52.4 million and \$40.4 million in fiscal year 2015, 2014 and 2013, respectively.

Customer promotional discount programs are entered into with Distributors for certain periods of time. Amounts paid to Distributors in connection with these programs in fiscal years 2015, 2014 and 2013 were \$33.2 million, \$28.5 million and \$23.1 million, respectively. The reimbursements for discounts to Distributors are recorded as reductions to net revenue. The agreed-upon discount rates are applied to certain Distributors' sales to retailers, based



on volume metrics, in order to determine the total discounted amount. The computation of the discount allowance requires that management make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. Actual promotional discounts owed and paid have historically been in line with allowances recorded by the Company, however, the amounts could differ from the estimated allowance.

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Customer incentives and other payments are made primarily to Distributors based upon performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs in fiscal years 2015, 2014 and 2013 were \$22.1 million, \$23.9 million and \$17.3 million, respectively. In fiscal 2015, 2014 and 2013, the Company recorded certain of these costs in the total amount of \$16.6 million, \$18.7 million and \$13.4 million respectively as reductions to net revenue. Costs recognized in net revenues include, but are not limited to, promotional discounts, sales incentives and certain other promotional activities. Costs recognized in advertising, promotional and selling expenses include point of sale materials, samples and media advertising expenditures in local markets. These costs are recorded as incurred, generally when invoices are received; however certain estimates are required at period end. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

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

*Kegs and Pallets Inventory and Refundable Deposits*

The Company distributes its draft beer in kegs and packaged beer primarily in glass bottles and cans and such kegs, bottles and cans are shipped on pallets to Distributors. Deposits held by the Company at December 26, 2015 totaled approximately \$18.9 million. Most all kegs and pallets are owned by the Company. Upon shipment of beer to Distributors, the Company collects a refundable deposit on the kegs and pallets. The Company has experienced some loss of kegs and pallets and anticipates that some loss will occur in future periods. The Company believes that the loss of kegs and pallets, after considering the forfeiture of related deposits, has not been material to the financial statements. The Company uses internal records, records maintained by Distributors, records maintained by other third party vendors and historical information to estimate the physical count of kegs and pallets held by Distributors. These estimates affect the amount recorded as property, plant and equipment and current liabilities as of the date of the financial statements. The actual liability for refundable deposits could differ from these estimates.

*Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*. Stock-based compensation was \$6.7 million, \$6.9 million, and \$7.3 million in fiscal years 2015, 2014, and 2013, respectively. Various option-pricing models are used to calculate the fair value of options. All option-pricing models require the input of subjective assumptions. These assumptions include the estimated volatility of the Company's common stock price over the expected term, the expected dividend rate, the estimated post-vesting forfeiture rate, the risk-free interest rate and expected exercise behavior.

In addition, an estimated pre-vesting forfeiture rate is applied in the recognition of the compensation charge. Periodically, the Company grants performance-based stock options, related to which it only recognizes compensation expense if it is probable that performance targets will be met. Consequently, at the end of each reporting period, the Company estimates whether it is probable that performance targets will be met. Changes in the subjective assumptions and estimates can materially affect the amount of stock-based compensation expense recognized in the consolidated statements of comprehensive income.

*Income Taxes*

Income tax expense was \$56.6 million, \$54.9 million and \$42.1 million in fiscal years 2015, 2014, and 2013, respectively. The Company provides for deferred taxes using an asset and liability approach that requires the

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recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. This results in differences between the book and tax basis of the Company's assets, liabilities and carry-forwards such as tax credits. In estimating future tax consequences, all expected future events, other than enactment of changes in the tax laws or rates, are generally considered. Valuation allowances are provided to the extent deemed necessary when realization of deferred tax assets appears unlikely.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different state tax jurisdictions. The Company is periodically reviewed by tax authorities regarding the amount of taxes due. These reviews include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. The Company records estimated reserves for exposures associated with positions that it takes on its income tax returns. Historically, the valuation allowances and reserves for uncertain tax positions have been adequate to cover the related tax exposures.

**Business Environment**

The alcoholic beverage industry is highly regulated at the federal, state and local levels. The Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Justice Department's Bureau of Alcohol, Tobacco, Firearms and Explosives enforce laws under the Federal Alcohol Administration Act. The TTB is responsible for administering and enforcing excise tax laws that directly affect the Company's results of operations. State and regulatory authorities have the ability to suspend or revoke the Company's licenses and permits or impose substantial fines for violations. The Company has established strict policies, procedures and guidelines in efforts to ensure compliance with all applicable state and federal laws. However, the loss or revocation of any existing license or permit could have a material adverse effect on the Company's business, results of operations, cash flows and financial position.

The Better Beer category is highly competitive due to the large number of regional craft and specialty brewers and the brewers of imported beers who distribute similar products that have similar pricing and target drinkers. The Company believes that its pricing is appropriate given the quality and reputation of its core brands, while realizing that economic pricing pressures may affect future pricing levels. Certain major domestic brewers have also developed brands to compete within the Better Beer, FMB and hard cider categories and have acquired interests in craft beers and hard cider makers, or importation rights to foreign brands. Import brewers and major domestic brewers are able to compete more aggressively than the Company, as they have substantially greater resources, marketing strength and distribution networks than the Company. The Company anticipates craft beer competition increasing as craft brewers have benefited from eleven years of healthy growth and are looking to maintain these trends. The Company also increasingly competes with wine and spirits companies, some of which have significantly greater resources than the Company. This competitive environment may affect the Company's overall performance within the Better Beer category. As the market matures and the Better Beer category continues to consolidate, the Company believes that companies that are well-positioned in terms of brand equity, marketing and distribution will have greater success than those who do not. With approximately 350 Distributors nationwide and the Company's sales force of approximately 420 people, a commitment to maintaining brand equity and the quality of its beer, the Company believes it is well positioned to compete in the Better Beer market.

The demand for the Company's products is also subject to changes in drinkers' tastes.

**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.

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During 2015, the Company entered into several hops future contracts in the normal course of business. The total value of the contracts entered into as of December 26, 2015, which are denominated in Euros and U.S. Dollars, was \$50.0 million. The Company has no forward exchange contracts in place as of December 26, 2015 and currently intends to purchase future hops using the exchange rate at the time of purchase. These contracts were deemed necessary in order to bring hop inventory levels and purchase commitments into balance with the Company's current brewing volume and hop usage forecasts. In addition, these contracts enable the Company to secure its position for future supply with hop vendors in the face of some competitive buying activity.

The Company's accounting policy for hop inventory and purchase commitments is to recognize a loss by establishing a reserve for aged hops and to the extent inventory levels and commitments exceed forecasted needs. The computation of the excess inventory requires management to make certain assumptions regarding future sales growth, product mix, cancellation costs and supply, among others. Actual results may differ materially from management's estimates. The Company continues to manage inventory levels and purchase commitments in an effort to maximize utilization 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.

**Contractual Obligations**

The following table presents contractual obligations as of December 26, 2015:

	<b>Total</b>	<b>2016</b>	<b>Payments Due by Period</b>		
			<b>2017-2018</b>	<b>2019-2020</b>	<b>Thereafter</b>
			<b>(in thousands)</b>		
Hops, barley and wheat	\$ 63,685	\$ 26,763	\$ 23,195	\$ 13,727	\$
Apples and other ingredients	48,719	48,719			
Advertising	29,113	28,826	287		
Equipment and machinery	22,704	22,704			
Glass bottles	21,412	21,412			
Operating leases	17,523	2,664	5,618	4,955	4,286
Other	4,302	3,940	362		
<b>Total contractual obligations</b>	<b>\$ 207,458</b>	<b>\$ 155,028</b>	<b>\$ 29,462</b>	<b>\$ 18,682</b>	<b>\$ 4,286</b>

The Company had outstanding total non-cancelable contractual obligations of \$207.5 million at December 26, 2015. These obligations are made up of hops, barley and wheat of \$63.7 million, apples and other ingredients of \$48.7 million, advertising contracts of \$29.1 million, equipment and machinery of \$22.7 million, glass bottles of \$21.4 million, operating leases of \$17.5 million, and other commitments of \$4.3 million.

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts extend through crop year 2020 and specify both the quantities and prices, denominated in Euros and U.S. Dollars, to which the Company is committed. Hops purchase commitments outstanding at December 26, 2015 totaled \$50.0 million, based on the exchange rates on that date.

Currently, the Company has entered into contracts for barley and wheat with two major suppliers. The contracts include crop years 2014 and 2015 and cover the Company's barley, wheat, and malt requirements for part of 2016. These purchase commitments outstanding at December 26, 2015 totaled \$13.7 million. On January 6, 2016 the

Company entered into additional malt commitments for an incremental \$4.1 million.

The Company sources glass bottles pursuant to a Glass Bottle Supply Agreement with Anchor Glass Container Corporation ( Anchor ), under which Anchor is the supplier of certain glass bottles for the Company's Cincinnati Brewery and its Pennsylvania Brewery. This agreement also establishes the terms on which Anchor may supply glass bottles to other breweries where the Company brews its beers. Under the agreement with

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Anchor, the Company has minimum and maximum purchase commitments that are based on Company-provided production estimates which, under normal business conditions, are expected to be fulfilled. Minimum purchase commitments under this agreement, assuming the supplier is unable to replace lost production capacity cancelled by the Company, as of December 26, 2015 totaled \$21.4 million.

The Company has various operating lease agreements in place for facilities and equipment as of December 26, 2015. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2021.

For the fiscal year ended December 26, 2015, the Company brewed most all of its volume at Company-owned breweries. In the normal course of its business, the Company has historically entered into various production arrangements with other brewing companies. Pursuant to these arrangements, the Company purchases the liquid produced by those brewing companies, including the raw materials that are used in the liquid, at the time such liquid goes into fermentation. The Company is required to repurchase all unused raw materials purchased by the brewing company specifically for the Company's beers at the brewing company's cost upon termination of the production arrangement. The Company is also obligated to meet annual volume requirements in conjunction with certain production arrangements, which are not material to the Company's operations.

The Company's arrangements with other brewing companies require it to periodically purchase equipment in support of brewery operations. As of December 26, 2015, there were no significant equipment purchase requirements outstanding under existing contracts. Changes to the Company's brewing strategy or existing production arrangements, new production relationships or the introduction of new products in the future may require the Company to purchase equipment to support the contract breweries' operations.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. ASU 2014-09 is to be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. The Company will elect to apply the impact (if any) of applying ASU 2014-09 to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (ASU 2015-14). ASU 2015-14 defers the effective date of ASU 2014-09 for one year, making it effective for the year beginning January 1, 2018, with early adoption permitted as of January 1, 2017. The Company is currently evaluating the impact ASU 2014-09 and has preliminarily concluded that it will not significantly affect how revenue for contracts with customers is recognized.

In April 2015, the FASB issued ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. ASU 2015-04 gives an employer whose fiscal year-end does not coincide with a calendar month-end (e.g., an entity that has a 52- or 53-week fiscal year) the ability, as a practical expedient, to measure defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. ASU 2015-04 will be effective prospectively for the year beginning December 27, 2015. The Company is currently evaluating the impact of ASU 2015-04 and has preliminarily concluded that it will not significantly affect the measurement of defined benefit retirement obligations and related plan assets.





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In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. ASU 2015-11 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within scope of the standard at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. ASU 2015-11 will be effective prospectively for the year beginning January 1, 2017. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to present deferred tax assets and deferred tax liabilities as noncurrent in the consolidated balance sheet. ASU 2015-17 permits entities to apply the amendments either prospectively or retrospectively. ASU 2015-17 will be effective for the year beginning January 1, 2017. The Company is currently evaluating the impact ASU 2015-17. As of December 26, 2015 and December 27, 2014, the Company had \$7.0 million and \$8.7 million, respectively, of current deferred tax assets on the consolidated balance sheet that would be classified as noncurrent under the new guidance.

See Note B of the Notes to Consolidated Financial Statements.

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

The Company has not entered into any material off-balance sheet arrangements as of December 26, 2015.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

In the ordinary course of business, the Company is exposed to the impact of fluctuations in foreign exchange rates. The Company does not enter into derivatives or other market risk sensitive instruments for the purpose of speculation or for trading purposes. Market risk sensitive instruments include derivative financial instruments, other financial instruments and derivative commodity instruments, such as futures, forwards, swaps and options, that are exposed to rate or price changes.

The Company enters into hops purchase contracts, as described above under *Hops Purchase Commitments*, and makes purchases of other ingredients, equipment and machinery denominated in foreign currencies. The cost of these commitments change as foreign exchange rates fluctuate. Currently, it is not the Company's policy to hedge against foreign currency fluctuations.

The interest rate for borrowings under the Company's credit facility is based on either (i) the Alternative Prime Rate (3.50% at December 26, 2015) or (ii) the applicable LIBOR rate (0.36% at December 26, 2015) plus 0.45%, and therefore, subjects the Company to fluctuations in such rates. As of December 26, 2015, the Company had no amounts outstanding under its current line of credit.

### **Sensitivity Analysis**

The Company applies a sensitivity analysis to reflect the impact of a 10% hypothetical adverse change in the foreign currency rates. A potential adverse fluctuation in foreign currency exchange rates could negatively impact future cash flows by approximately \$5.3 million as of December 26, 2015.

There are many economic factors that can affect volatility in foreign exchange rates. As such factors cannot be predicted, the actual impact on earnings due to an adverse change in the respective rates could vary substantially from

the amounts calculated above.

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

The Boston Beer Company, Inc.

Boston, Massachusetts

We have audited the accompanying consolidated balance sheet of The Boston Beer Company, Inc. and subsidiaries (the Company) as of December 26, 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Boston Beer Company, Inc. and subsidiaries as of December 26, 2015, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 26, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 18, 2016

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of The Boston Beer Company, Inc.

We have audited the accompanying consolidated balance sheet of The Boston Beer Company, Inc. and subsidiaries as of December 27, 2014 and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 27, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Boston Beer Company, Inc. and subsidiaries at December 27, 2014, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 27, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 24, 2015

**Table of Contents****THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 94,193	\$ 76,402
Accounts receivable, net of allowance for doubtful accounts of \$244 and \$144 as of December 26, 2015 and December 27, 2014, respectively	38,984	36,860
Inventories	56,462	51,307
Prepaid expenses and other current assets	12,053	12,887
Income tax receivable	14,928	21,321
Deferred income taxes	6,983	8,685
<b>Total current assets</b>	<b>223,603</b>	<b>207,462</b>
Property, plant and equipment, net	409,926	381,569
Other assets	8,188	12,447
Goodwill	3,683	3,683
<b>Total assets</b>	<b>\$ 645,400</b>	<b>\$ 605,161</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 42,718	\$ 35,576
Current portion of debt and capital lease obligations	58	55
Accrued expenses and other current liabilities	68,384	74,539
<b>Total current liabilities</b>	<b>111,160</b>	<b>110,170</b>
Deferred income taxes	56,001	50,717
Debt and capital lease obligations, less current portion	471	528
Other liabilities	16,547	7,606
<b>Total liabilities</b>	<b>184,179</b>	<b>169,021</b>
Commitments and Contingencies (See Note J)		
Stockholders Equity:		
Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 9,389,005 and 9,452,375 issued and outstanding as of December 26, 2015 and December 27, 2014, respectively	94	95
Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 3,367,355 and 3,617,355 issued and outstanding as of December 26, 2015 and December 27, 2014, respectively	34	36

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Additional paid-in capital	290,096	224,909
Accumulated other comprehensive loss, net of tax	(951)	(1,133)
Retained earnings	171,948	212,233
<b>Total stockholders' equity</b>	<b>461,221</b>	<b>436,140</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 645,400</b>	<b>\$ 605,161</b>

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

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

(in thousands, except per share data)

	<b>December 26, 2015</b>	<b>Year Ended December 27, 2014</b>	<b>December 28, 2013</b>
Revenue	\$ 1,024,040	\$ 966,478	\$ 793,705
Less excise taxes	64,106	63,471	54,652
Net revenue	959,934	903,007	739,053
Cost of goods sold	458,317	437,996	354,131
Gross profit	501,617	465,011	384,922
Operating expenses:			
Advertising, promotional and selling expenses	273,629	250,696	207,930
General and administrative expenses	71,556	65,971	62,332
Impairment of assets	258	1,777	1,567
Total operating expenses	345,443	318,444	271,829
Operating income	156,174	146,567	113,093
Other income (expense), net:			
Interest income	56	21	31
Other expense, net	(1,220)	(994)	(583)
Total other income (expense), net	(1,164)	(973)	(552)
Income before provision for income tax	155,010	145,594	112,541
Provision for income taxes	56,596	54,851	42,149
Net income	\$ 98,414	\$ 90,743	\$ 70,392
Net income per common share basic	\$ 7.46	\$ 6.96	\$ 5.47
Net income per common share diluted	\$ 7.25	\$ 6.69	\$ 5.18
Weighted-average number of common shares Class A basic	9,619	9,202	8,741
Weighted-average number of common shares Class B basic	3,504	3,766	4,025
Weighted-average number of common shares diluted	13,520	13,484	13,504
Net income	\$ 98,414	\$ 90,743	\$ 70,392



Other comprehensive income (loss), net of tax:			
Currency translation adjustment	(22)		
Defined benefit plans liability adjustment	204	(716)	466
Total other comprehensive income (loss), net of tax:	182	(716)	466
Comprehensive income	\$ 98,596	\$ 90,027	\$ 70,858

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

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## THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Years Ended December 26, 2015, December 27, 2014 and December 28, 2013

(in thousands)

	Class A Common Shares	Class A Common Stock, Par	Class B Common Shares	Class B Common Stock, Par	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income, net of tax	Retained Earnings	Total Stockholders Equity
Balance at December 29, 2012	8,704	\$ 87	4,107	\$ 41	\$ 157,305	\$ (883)	\$ 88,541	\$ 245,091
Net income							70,392	70,392
Stock options exercised and restricted shares activities, including tax benefit of \$5,282	132	1			8,402			8,403
Stock-based compensation expense					7,318			7,318
Repurchase of Class A Common Stock	(196)	(1)					(29,584)	(29,585)
Conversion from Class B to Class A	145	1	(145)	(1)				
Defined benefit plans liability adjustment, net of tax of (\$296)						466		466
Balance at December 28, 2013	8,785	88	3,962	40	173,025	(417)	129,349	302,085
Net income							90,743	90,743
Stock options exercised and restricted shares activities, including tax benefit of \$17,353	351	3			45,027			45,030
Stock-based compensation expense					6,857			6,857
	(29)						(7,859)	(7,859)

Repurchase of Class A Common Stock									
Conversion from Class B to Class A	345	4	(345)	(4)					
Defined benefit plans liability adjustment, net of tax of \$455							(716)		(716)
Balance at December 27, 2014	9,452	95	3,617	36	224,909	(1,133)	212,233	436,140	
Net income							98,414	98,414	
Stock options exercised and restricted shares activities, including tax benefit of \$15,350	303	3			58,522			58,525	
Stock-based compensation expense					6,665			6,665	
Repurchase of Class A Common Stock	(616)	(6)					(138,699)	(138,705)	
Conversion from Class B to Class A	250	2	(250)	(2)					
Defined benefit plans liability adjustment, net of tax of (\$142)							204	204	
Currency translation adjustment							(22)	(22)	
Balance at December 26, 2015	9,389	\$ 94	3,367	\$ 34	\$ 290,096	\$ (951)	\$ 171,948	\$ 461,221	

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

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

(in thousands)

	<b>December 26, 2015</b>	<b>Year Ended December 27, 2014</b>	<b>December 28, 2013</b>
<b>Cash flows provided by operating activities:</b>			
Net income	\$ 98,414	\$ 90,743	\$ 70,392
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,885	35,138	25,903
Impairment of assets	258	1,777	1,567
Loss on disposal of property, plant and equipment	515	434	462
Bad debt expense (recovery)	165	(16)	19
Stock-based compensation expense	6,665	6,857	7,318
Excess tax benefit from stock-based compensation arrangements	(15,350)	(17,353)	(5,282)
Deferred income taxes	6,986	15,350	11,630
Changes in operating assets and liabilities:			
Accounts receivable	(2,289)	5,157	(10,542)
Inventories	(5,155)	5,090	(12,036)
Prepaid expenses, income tax receivable and other assets	11,858	(9,447)	(7,616)
Accounts payable	5,985	884	3,173
Accrued expenses and taxes and other current liabilities	9,014	4,578	14,633
Other liabilities	8,732	2,019	361
Net cash provided by operating activities	168,683	141,211	99,982
<b>Cash flows used in investing activities:</b>			
Purchases of property, plant and equipment	(74,187)	(151,784)	(100,655)
Cash paid for intangible assets and acquisition of brewery assets	(100)	(100)	(2,753)
Change in restricted cash	57	53	62
Proceeds from disposal of property, plant and equipment			18
Net cash used in investing activities	(74,230)	(151,831)	(103,328)
<b>Cash flows (used in) provided by financing activities:</b>			
Repurchase of Class A Common Stock	(135,705)	(7,859)	(29,585)
Proceeds from exercise of stock options	42,339	27,272	2,541
Cash paid on note payable and capital lease	(54)	(53)	(787)
Excess tax benefit from stock-based compensation arrangements	15,350	17,353	5,282

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Net proceeds from sale of investment shares	1,408	785	956
Net cash (used in) provided by financing activities	(76,662)	37,498	(21,593)
Change in cash and cash equivalents	17,791	26,878	(24,939)
Cash and cash equivalents at beginning of year	76,402	49,524	74,463
Cash and cash equivalents at end of period	\$ 94,193	\$ 76,402	\$ 49,524
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	\$ 45,078	\$ 42,324	\$ 29,442
Income taxes refunded	\$ 17,252	\$	\$
Acquisition of property and equipment under capital lease	\$	\$	\$ 252
Increase in accounts payable for repurchase of Class A Common Stock	\$ 3,000	\$	\$
(Decrease) Increase in accounts payable for purchase of property, plant and equipment	\$ (1,843)	\$ 268	\$
Allocation of purchase consideration to brewery acquisition to the following assets:			
Property, plant and equipment	\$	\$	\$ 110
Tradename	\$	\$	\$ 1,608
Goodwill	\$	\$	\$ 1,145

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

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**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 26, 2015**

**A. Organization and Basis of Presentation**

The Boston Beer Company, Inc. and certain subsidiaries (the Company) are engaged in the business of selling alcohol beverages throughout the United States and in selected international markets, under the trade names The Boston Beer Company, Twisted Tea Brewing Company, and Angry Orchard Cider Company. The Company's Samuel Adams® beers are produced and sold under the trade name The Boston Beer Company. A&S Brewing Collaborative LLC, d/b/a Alchemy & Science (A&S), a wholly-owned subsidiary of the Company, sells beer under various trade names that is produced under its own license and the Company's licenses. In 2015, sales from A&S brands are less than 7% of net revenues.

**B. Summary of Significant Accounting Policies**

***Fiscal Year***

The Company's fiscal year is a fifty-two or fifty-three week period ending on the last Saturday in December. The fiscal periods of 2015, 2014 and 2013 consist of fifty-two weeks.

***Principles of Consolidation***

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

***Segment Reporting***

The Company consists of two operating segments that each produce and sell alcohol beverages. The first is the Boston Beer Company operating segment comprised of the Company's Samuel Adams®, Twisted Tea® and Angry Orchard® brands. The second is the A&S Brewing Collaborative operating segment which is comprised of The Traveler Beer Company, Coney Island Brewing Company, Angel City Brewing Company and Concrete Beach Brewing Company. Both segments have similar economic characteristics. They also sell predominantly low alcohol beverages, which are sold to the same types of customers in similar size quantities, at similar price points and through substantially the same channels of distribution. These beverages are manufactured using similar production processes, have comparable alcohol content and generally fall under the same regulatory environment. Since the operating segments are similar in the areas outlined above, they are aggregated for financial statements purposes.

***Use of Estimates***

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

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

Cash and cash equivalents at December 26, 2015 and December 27, 2014 included cash on-hand and money market instruments that are highly liquid investments. Cash and cash equivalents are carried at cost, which approximates fair value.

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The Company has restricted cash associated with a term note agreement with Bank of America that was required by the Commonwealth of Pennsylvania to fund economic development at the Company's Pennsylvania Brewery. The restricted cash subject to this agreement amounted to \$456,000 and \$513,000 at December 26, 2015 and December 27, 2014, respectively and is included in other assets on the Company's Consolidated Balance Sheets.

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

The Company's accounts receivable primarily consist of trade receivables. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and the aging of the accounts receivable balances combined with management's estimate of future potential recoverability. Receivables are written off against the allowance after all attempts to collect a receivable have failed. The Company believes its allowance for doubtful accounts as of December 26, 2015 and December 27, 2014 are adequate, but actual write-offs could exceed the recorded allowance.

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The Company places its cash equivalents with high credit quality financial institutions. As of December 26, 2015, the Company's cash and cash equivalents were invested in investment-grade, highly-liquid U.S. government agency corporate money market accounts.

The Company sells primarily to a network of independent wholesalers in the United States and to a network of wholesalers, importers or other agencies (collectively referred to as Distributors). In 2015, sales to foreign Distributors were approximately 4% of total sales. Receivables arising from these sales are not collateralized; however, credit risk is minimized as a result of the large and diverse nature of the Company's customer base. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. There were no individual customer accounts receivable balances outstanding at December 26, 2015 and December 27, 2014 that were in excess of 10% of the gross accounts receivable balance on those dates. No individual customers represented more than 10% of the Company's revenues during fiscal years 2015, 2014 and 2013.

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

The Company's primary financial instruments consisted of cash equivalents, accounts receivable, accounts payable and accrued expenses at December 26, 2015 and December 27, 2014. The Company determines the fair value of its financial assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). The Company believes that the carrying amount of its cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term nature of these assets and liabilities. The Company is not exposed to significant interest, currency or credit risks arising from these financial assets and liabilities.

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

Inventories consist of raw materials, work in process and finished goods. Raw materials, which principally consist of hops, malt, apple juice, other brewing materials and packaging, are stated at the lower of cost (first-in, first-out basis) or market value. The cost elements of work in process and finished goods inventory consist of raw materials, direct labor and manufacturing overhead. Packaging design costs are expensed as incurred.



The provisions for excess or expired inventory are based on management's estimates of forecasted usage of inventories on hand and under contract. A significant change in the timing or level of demand for certain products as compared to forecasted amounts may result in recording additional provisions for excess or expired inventory in the future. Provisions for excess inventory are included in cost of goods sold and have historically been adequate to provide for losses on its inventory.

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The computation of the excess inventory requires management to make certain assumptions regarding future sales growth, product mix, new products, cancellation costs, and supply, among others. The Company manages inventory levels and purchase commitments in an effort to maximize utilization of inventory on hand and under commitments. The Company's accounting policy for inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed management's expected future usage. Provision for excess or expired inventory included in cost of goods sold was \$4.0 million, \$6.1 million, and \$4.9 million in fiscal years 2015, 2014, and 2013.

***Property, Plant and Equipment***

Property, plant, and equipment are stated at cost. Expenditures for repairs and maintenance are expensed as incurred. Major renewals and betterments that extend the life of the property are capitalized. Some of the Company's equipment is used by other brewing companies to produce the Company's products under brewing service arrangements (Note J). Depreciation is computed using the straight-line method based upon the estimated useful lives of the underlying assets as follows:

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

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

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

The Company has experienced some loss of kegs and pallets and anticipates that some loss will occur in future periods due to the significant volume of kegs and pallets handled by each Distributor and retailer, the homogeneous nature of kegs and pallets owned by most brewers and the relatively small deposit collected for each keg when compared with its market value. The Company believes that this is an industry-wide issue and that the Company's loss experience is not atypical. The Company believes that the loss of kegs and pallets, after considering the forfeiture of related deposits, has not been material to the financial statements. The Company uses internal records, records maintained by Distributors, records maintained by other third party vendors and historical information to estimate the physical count of kegs and pallets held by Distributors. These estimates affect the amount recorded as property, plant and equipment and current liabilities as of the date of the financial statements. The actual liability for refundable deposits could differ from these estimates. For the year ended December 26, 2015, the Company decreased its liability for refundable deposits, gross property, plant and equipment and related accumulated depreciation by \$0.9 million, \$1.2 million and \$1.2 million, respectively. For the year ended December 27, 2014, the Company decreased its liability for refundable deposits, gross property, plant and equipment and related accumulated depreciation by \$1.0 million, \$1.8 million and

\$1.8 million,

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respectively. As of December 26, 2015 and December 27, 2014, the Company's balance sheet includes \$17.1 million and \$18.2 million, respectively, in refundable deposits on kegs and pallets and \$18.9 million and \$25.9 million, respectively, in kegs, net of accumulated depreciation.

***Goodwill***

The Company does not amortize goodwill, but evaluates the recoverability of goodwill by comparing the carrying value and the fair value of its reporting units at the end of the third quarter of each fiscal year, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. The Company has concluded that its goodwill was not impaired as of December 26, 2015 and December 27, 2014. As of December 26, 2015 and December 27, 2014, the goodwill of the Boston Beer Company reporting unit amounted to \$1.4 million. As of December 26, 2015 and December 27, 2014 the goodwill of the A&S Brewing Collaborative reporting unit amounted to \$2.3 million.

***Long-lived Assets***

Long-lived assets are recorded at cost and depreciated over their estimated useful lives. For purposes of determining whether there are any impairment losses, as further discussed below, management has historically examined the carrying value of the Company's identifiable long-lived assets, including their useful lives, when indicators of impairment are present. For all long-lived assets, if an impairment loss is identified based on the fair value of the asset, as compared to the carrying value of the asset, such a loss would be charged to expense in the period the impairment is identified. Furthermore, if the review of the carrying values of the long-lived assets indicates impairment of such assets, the Company may determine that shorter estimated useful lives are more appropriate. In that event, the Company will be required to record additional depreciation in future periods, which will reduce earnings.

Factors generally considered important which could trigger an impairment review on the carrying value of long-lived assets include the following: (1) significant underperformance relative to historical or projected future operating results; (2) significant changes in the manner of use of acquired assets or the strategy for the Company's overall business; (3) underutilization of assets; and (4) discontinuance of products by the Company or its customers. The Company believes that the carrying value of its long-lived assets was realizable as of December 26, 2015 and December 27, 2014.

***Income Taxes***

The Company provides for deferred taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. This results in differences between the book and tax bases of the Company's assets and liabilities and carryforwards, such as tax credits. In estimating future tax consequences, all expected future events, other than enactment of changes in the tax laws or rates, are generally considered. Valuation allowances are provided when recovery of deferred tax assets does not meet the more likely than not standards as defined in ASC Topic 740, *Income Taxes*.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different state tax jurisdictions. The Company is periodically reviewed by tax authorities regarding the amount of taxes due. These reviews include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. The Company records estimated reserves for exposures associated with positions that it takes on its income tax returns that do not meet the more likely than not standards as

defined in ACS Topic 740, *Income Taxes*.

***Excise Taxes***

The Company is responsible for compliance with the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (the TTB ) regulations which includes making timely and accurate excise tax payments.

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The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws.

***Revenue Recognition***

Net revenue includes product sales, less the distributor promotional discount allowance, certain Distributor incentives, as discussed below in Customer Programs and Incentives, the stale beer accrual and excise taxes. The Company recognizes revenue on product sales at the time when the product is shipped and the following conditions are met: persuasive evidence of an arrangement exists, title has passed to the customer according to the shipping terms, the price is fixed and determinable, and collection of the sales proceeds is reasonably assured. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met. As of December 26, 2015 and December 27, 2014, the Company has deferred \$3.9 million and \$6.0 million, in revenue related to product shipped prior to these dates. These amounts are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

In certain circumstances and with the Company's approval, the Company accepts and destroys stale beer that is returned by Distributors. The Company generally credits approximately fifty percent of the distributor's cost of the beer that has passed its expiration date for freshness when it is returned to the Company or destroyed. The Company reduces revenue and establishes an accrual based upon both historical returns, which is applied to an estimated lag time for receipt of product, and knowledge of specific return transactions. Stale beer expense is reflected in the accompanying financial statements as a reduction of revenue; however, the actual stale beer expense incurred by the Company could differ from the estimated accrual.

***Cost of Goods Sold***

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

***Shipping Costs***

Costs incurred for the shipping of products to customers are included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income. The Company incurred shipping costs of \$62.2 million, \$62.6 million, and \$50.3 million in fiscal years 2015, 2014, and 2013, respectively.

***Advertising and Sales Promotions***

The following expenses are included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income: media advertising costs, sales and marketing expenses, salary and benefit expenses and meals, travel and entertainment expenses for the sales and sales support workforce, promotional activity expenses, freight charges related to shipments of finished goods from manufacturing locations to distributor locations and point-of-sale items. Total advertising and sales promotional expenditures of \$120.1 million, \$100.5 million, and \$81.0 million were included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income for fiscal years 2015, 2014, and 2013, respectively.

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

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**Table of Contents*****Customer Programs and Incentives***

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, *Revenue Recognition – Customer Payments and Incentives*, based on the nature of the expenditure. Amounts paid to customers totaled \$55.3 million, \$52.4 million, and \$40.4 million in fiscal year 2015, 2014, and 2013, respectively.

Customer promotional discount programs are entered into with Distributors for certain periods of time. Amounts paid to Distributors in connection with these programs in fiscal years 2015, 2014, and 2013 were \$33.2 million, \$28.5 million, and \$23.1 million, respectively. The reimbursements for discounts to Distributors are recorded as reductions to net revenue. Agreed-upon discount rates are applied to certain Distributors' sales to retailers, based on volume metrics, in order to determine the total discounted amount. The computation of the discount allowance requires that management make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. Actual promotional discounts owed and paid have historically been in line with allowances recorded by the Company, however, the amounts could differ from the estimated allowance.

Customer incentives and other payments are made primarily to Distributors based upon performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs in fiscal years 2015, 2014, and 2013 were \$22.1 million, \$23.9 million, and \$17.3 million, respectively. In 2015, 2014, and 2013, the Company recorded certain of these costs in the total amount of \$16.6 million, \$18.7 million, and \$13.4 million respectively as reductions to net revenue. Costs recognized as reduction to net revenues include, but are not limited to, promotional discounts, sales incentives and certain other promotional activities. Costs recognized in advertising, promotional and selling expenses include point of sale materials, samples and media advertising expenditures in local markets.

***General and Administrative Expenses***

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

***Stock-Based Compensation***

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

As permitted by ASC 718, the Company elected to use a lattice model, such as the binomial option-pricing model, to estimate the fair values of stock options, with the exception of the 2008 and 2016 stock option grants to the Company's



Chief Executive Officer, which is considered to be a market-based award and was valued utilizing the Monte Carlo Simulation pricing model, which calculates multiple potential outcomes for an award and establishes fair value based on the most likely outcome. See Note M for further discussion of the application of the option-pricing models.

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**Table of Contents*****Net Income Per Share***

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

***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. ASU 2014-09 is to be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. The Company will elect to apply the impact (if any) of applying ASU 2014-09 to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ( ASU 2015-14 ). ASU 2015-14 defers the effective date of ASU 2014-09 for one year, making it effective for the year beginning December 31, 2017, with early adoption permitted as of January 1, 2017. The Company is currently evaluating the impact ASU 2014-09 and has preliminarily concluded that it will not significantly affect how revenue for contracts with customers is recognized.

In April 2015, the FASB issued ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. ASU 2015-04 gives an employer whose fiscal year-end does not coincide with a calendar month-end (e.g., an entity that has a 52- or 53-week fiscal year) the ability, as a practical expedient, to measure defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. ASU 2015-04 will be effective prospectively for the year beginning December 27, 2015. The Company is currently evaluating the impact of ASU 2015-04 and has preliminarily concluded that it will not significantly affect the measurement of defined benefit retirement obligations and related plan assets.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. ASU 2015-11 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within scope of the standard at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. ASU 2015-11 will be effective prospectively for the year beginning January 1, 2017. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to present deferred tax assets and deferred tax liabilities as noncurrent in the consolidated balance sheet. ASU 2015-17 permits entities to apply the amendments either prospectively or retrospectively. ASU 2015-17 will be effective for the year beginning January 1, 2017. The Company is currently evaluating the impact ASU 2015-17. As of December 26, 2015 and December 27, 2014, the Company had \$7.0 million and \$8.7 million, respectively, of current deferred tax assets on the consolidated balance sheet that would be classified as noncurrent under the new guidance.

**C. Inventories**

Inventories consist of raw materials, work in process and finished goods. Raw materials, which principally consist of hops, apple juice, other brewing materials and packaging, are stated at the lower of cost, determined on

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the first-in, first-out basis, or market. The Company's goal is to maintain on-hand a supply of approximately two years for essential hop varieties, in order to limit the risk of an unexpected reduction in supply. Inventories are generally classified as current assets. The Company classifies hops inventory in excess of two years of forecasted usage in other long term assets. The cost elements of work in process and finished goods inventory consist of raw materials, direct labor and manufacturing overhead. Inventories consisted of the following:

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
	<b>(in thousands)</b>	
Raw Materials	\$ 42,123	\$ 39,535
Work in process	8,876	7,391
Finished Goods	8,261	10,793
	59,260	57,719
Less portion in other long term assets	(2,798)	(6,412)
	\$ 56,462	\$ 51,307

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

Prepaid expenses and other current assets consisted of the following:

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
	<b>(in thousands)</b>	
Prepaid malt and barley	\$ 3,184	\$ 4,368
Excise and other tax receivables	2,093	4,572
Supplier rebates	1,929	1,641
Lease incentive receivable	1,584	
Prepaid insurance	1,047	1,009
Other	2,216	1,297
	\$ 12,053	\$ 12,887

**E. Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
	<b>(in thousands)</b>	
Machinery and plant equipment	\$ 387,180	\$ 358,781

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Kegs	71,391	72,124
Land	25,135	23,992
Building and building improvements	101,836	77,130
Office equipment and furniture	19,635	14,063
Leasehold improvements	12,037	7,889
	617,214	553,979
Less accumulated depreciation	207,288	172,410
	\$ 409,926	\$ 381,569

The Company recorded depreciation and amortization expense related to these assets of \$43.4 million, \$34.8 million, and \$25.7 million in fiscal years 2015, 2014, and 2013, respectively.

**Table of Contents****Impairment of Assets**

The Company evaluates its assets for impairment when events indicate that an asset or asset group may have suffered impairment. During 2015, 2014, and 2013, the Company recorded impairment charges of \$0.3 million, \$1.8 million, and \$1.6 million, respectively.

**F. Goodwill**

Goodwill represents the excess of the purchase price of the Company-owned breweries over the fair value of the net assets acquired upon the completion of the acquisitions.

The following table summarizes the Company's changes to the carrying amount of goodwill for the fifty-two weeks ended December 26, 2015 (in thousands):

	<b>Balance at December 27, 2014</b>	<b>Additions</b>	<b>Balance at December 26, 2015</b>
Goodwill	\$ 3,683	\$	\$ 3,683

**G. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following:

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
	(in thousands)	
Accrued deposits	\$ 18,865	\$ 19,665
Employee wages, benefits and reimbursements	12,367	14,528
Advertising, promotional and selling expenses	11,249	8,353
Accrued freight	5,681	4,265
Accrued excise taxes	3,976	4,980
Deferred revenue	3,949	6,034
Accrued stale beer	3,254	2,422
Accrued sales and use tax	2,656	4,187
Accrued ingredients		4,047
Other accrued liabilities	6,387	6,058
	\$ 68,384	\$ 74,539

**H. Debt and Capital Lease Obligations***Line of Credit*

The Company has a credit facility in place that provides for a \$150.0 million revolving line of credit which has a term not scheduled to expire until March 31, 2019. The Company may elect an interest rate for borrowings under the credit

facility based on either (i) the Alternative Prime Rate (3.50% at December 26, 2015) or (ii) the applicable LIBOR rate (0.36% at December 26, 2015) plus 0.45%. The Company incurs an annual commitment fee of 0.15% on the unused portion of the facility and is obligated to meet certain financial covenants, which are measured using earnings before interest, tax, depreciation and amortization ( EBITDA ) based ratios. The Company's EBITDA to interest expense ratio was 9,810 as of December 26, 2015, compared to a minimum allowable ratio of 2.00 and the Company's total funded debt to EBITDA ratio was 0.00 as of December 26, 2015, compared to a maximum allowable ratio of 2.50. The Company was in compliance with all financial covenants as of December 26, 2015 and December 27, 2014. There were no borrowings outstanding under the credit facility as of December 26, 2015 and December 27, 2014.

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

**I. Income Taxes**

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

	2015	2014	2013
	(in thousands)		
<b>Current:</b>			
Federal	\$ 42,391	\$ 30,595	\$ 24,090
State	7,403	8,262	6,723
Total current	49,794	38,857	30,813
<b>Deferred:</b>			
Federal	6,279	15,407	11,116
State	523	587	220
Total deferred	6,802	15,994	11,336
Total provision for income taxes	\$ 56,596	\$ 54,851	\$ 42,149

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

	2015	2014	2013
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.4	4.0	4.1
Deduction relating to U.S. production activities	(2.7)	(2.1)	(2.2)
Change in uncertain tax positions			(0.9)
Other	0.8	0.8	1.5
	36.5%	37.7%	37.5%





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

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
	(in thousands)	
<b>Deferred tax assets:</b>		
Accrued expenses	\$ 7,435	\$ 5,087
Stock-based compensation expense	9,493	9,342
Inventory	2,398	4,534
Other	4,154	2,886
Total deferred tax assets	23,480	21,849
Valuation allowance	(1,036)	(1,049)
Total deferred tax assets net of valuation allowance	22,444	20,800
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(69,226)	(61,057)
Prepaid expenses	(1,475)	(1,080)
Goodwill	(761)	(695)
Total deferred tax liabilities	(71,462)	(62,832)
Net deferred tax liabilities	\$ (49,018)	\$ (42,032)

The Company's practice is to classify interest and penalties related to income tax matters in income tax expense. Interest and penalties included in the provision for income taxes amounted to \$0.1 million, \$0.0 million, and \$0.0 million for fiscal years 2015, 2014, and 2013, respectively. Accrued interest and penalties amounted to \$0.4 million and \$0.3 million at December 26, 2015 and December 27, 2014, respectively.

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

	<b>2015</b>	<b>2014</b>
	(in thousands)	
Balance at beginning of year	\$ 368	\$ 619
Increases related to current year tax positions	44	40
Increases related to prior year tax positions	117	
Decreases related to settlements		(270)
Decreases related to lapse of statute of limitations	(43)	(21)
Balance at end of year	\$ 486	\$ 368

Included in the balance of unrecognized tax benefits at December 26, 2015 and December 27, 2014 are potential net benefits of \$0.4 million and \$0.3 million, respectively, that would favorably impact the effective tax rate if

recognized. Unrecognized tax benefits are included in accrued expenses in the accompanying consolidated balance sheets and adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amount recorded.

As of December 26, 2015, the Company's 2013 and 2014 federal income tax returns remain subject to examination by the Internal Revenue Service ( IRS ). The Company's state income tax returns remain subject to examination for three or four years depending on the state's statute of limitations. The Company is being audited by two states as of December 26, 2015. In addition, the Company is generally obligated to report changes in taxable income arising from federal income tax audits.

It is reasonably possible that the Company's unrecognized tax benefits may increase or decrease in 2016 if there is a completion of certain income tax audits; however, the Company cannot estimate the range of such possible

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changes. The Company does not expect that any potential changes would have a material impact on the Company's financial position, results of operations or cash flows.

The Company's short term income tax receivable of \$14.3 million in the accompanying consolidated balance sheets is primarily due to the *Protecting Americans from Tax Hikes Act of 2015*, being enacted after 2015 corporate estimated tax payments were due on December 15, 2015. These tax extenders allow the Company to claim accelerated tax depreciation on qualified property, plant, and equipment additions, and the research & development tax credit on the 2015 federal corporate income tax return. As of this filing date, the Company has applied with the IRS for a \$12.0 million quick refund of overpayment of estimate tax, which the Company expects to receive during the first quarter 2016.

**J. Commitments and Contingencies*****Contractual Obligations***

The Company had outstanding total non-cancelable contractual obligations of \$207.5 million at December 26, 2015. These obligations are made up of hops, barley and wheat totaling \$63.7 million, apples and other ingredients of \$48.7 million, advertising contracts of \$29.1 million, equipment and machinery of \$22.7 million, glass bottles of \$21.4 million, operating leases of \$17.5 million, and other commitments of \$4.3 million. As of December 26, 2015, projected cash outflows under contractual obligations for the remaining years under the contracts are as follows:

	Total	Payments Due by Period			Thereafter
		2016	2017-2018	2019-2020	
		(in thousands)			
Hops, barley and wheat	\$ 63,685	\$ 26,763	\$ 23,195	\$ 13,727	\$
Apples and other ingredients	48,719	48,719			
Advertising	29,113	28,826	287		
Equipment and machinery	22,704	22,704			
Glass bottles	21,412	21,412			
Operating leases	17,523	2,664	5,618	4,955	4,286
Other	4,302	3,940	362		
Total contractual obligations	\$ 207,458	\$ 155,028	\$ 29,462	\$ 18,682	\$ 4,286

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts extend through crop year 2020 and specify both the quantities and prices, denominated in Euros and U.S. Dollars, to which the Company is committed. Hops purchase commitments outstanding at December 26, 2015 totaled \$50.0 million, based on the exchange rates on that date. The Company does not use forward currency exchange contracts and intends to purchase future hops using the exchange rate at the time of purchase.

Currently, the Company has entered into contracts for barley and wheat with two major suppliers. The contracts include crop years 2014 and 2015 and cover the Company's barley, wheat, and malt requirements for part of 2016. These purchase commitments outstanding at December 26, 2015 totaled \$13.7 million.

The Company sources some of its glass bottles needs pursuant to a Glass Bottle Supply Agreement with Anchor Glass Container Corporation (Anchor), under which Anchor is the supplier of certain glass bottles for the Company's

Cincinnati Brewery and its Pennsylvania Brewery. This agreement also establishes the terms on which Anchor may supply glass bottles to other breweries where the Company brews its beers. Under the agreement with Anchor, the Company has minimum and maximum purchase commitments that are based on Company-provided production estimates which, under normal business conditions, are expected to be fulfilled. Minimum purchase commitments under this agreement, assuming the supplier is unable to replace lost production capacity cancelled by the Company, as of December 26, 2015 totaled \$21.4 million.

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The Company has various operating lease agreements in place for facilities and equipment as of December 26, 2015. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2021. Aggregate rent expense was \$3.4 million, \$3.2 million, and \$2.7 million in fiscal years 2015, 2014, and 2013, respectively.

For the fiscal year ended December 26, 2015, the Company brewed over 95% of its core brands volume at Company-owned breweries. In the normal course of its business, the Company has historically entered into various production arrangements with other brewing companies. Pursuant to these arrangements, the Company purchases the liquid produced by those brewing companies, including the raw materials that are used in the liquid, at the time such liquid goes into fermentation. The Company is required to repurchase all unused raw materials purchased by the brewing company specifically for the Company's beers at the brewing company's cost upon termination of the production arrangement. The Company is also obligated to meet annual volume requirements in conjunction with certain production arrangements, which are not material to the Company's operations.

The Company's arrangements with other brewing companies require it to periodically purchase equipment in support of brewery operations. As of December 26, 2015, there were no significant equipment purchase requirements outstanding under existing contracts. Changes to the Company's brewing strategy or existing production arrangements, new production relationships or the introduction of new products in the future may require the Company to purchase equipment to support the contract breweries' operations.

### ***Litigation***

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

### **K. Fair Value Measures**

The Company defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

**Level 1** Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2** Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.



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All financial assets or liabilities that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The assets or liabilities measured at fair value on a recurring basis are summarized in the table below (in thousands):

	As of December 26, 2015			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ 88,108	\$	\$	\$ 88,108

	As of December 27, 2014			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ 68,846	\$	\$	\$ 68,846

The Company's cash equivalents listed above represent money market mutual fund securities and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company does not adjust the quoted market price for such financial instruments.

Cash, certificates of deposit, receivables and payables are carried at their cost, which approximates fair value, because of their short-term nature. Financial instruments not recorded at fair value in the consolidated financial statements are summarized in the table below (in thousands):

	As of December 26, 2015			Total
	Level 1	Level 2	Level 3	
Note payable	\$	\$ 458	\$	\$ 458

	As of December 27, 2014			Total
	Level 1	Level 2	Level 3	
Note payable	\$	\$ 513	\$	\$ 513

**L. Brewery Acquisitions**

On August 26, 2013, A&S acquired substantially all of the assets of the Coney Island business ( Coney Island ) and certain other assets from Shmaltz Brewing Company for an aggregate purchase price of \$2.9 million. Costs related to the acquisition of Coney Island were not significant and were expensed as incurred.

The allocation of the purchase price is based on management's judgment after evaluating several factors, including valuation assessments of tangible and intangible assets. The allocation of the purchase price is as follows (in thousands):



Property, plant and equipment	\$ 110
Trade name	1,648
Goodwill	1,145

Total assets acquired and cash paid \$ 2,903

The Company has assigned an indefinite life to the acquired trade name and the related value is included in other assets in the accompanying consolidated balance sheets. Goodwill resulting from this acquisition is expected to be amortizable for tax purposes. The operating results of Coney Island since the acquisition date are included in the Company's consolidated financial statements.

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**Table of Contents****M. Common Stock and Share-Based Compensation*****Class A Common Stock***

The Class A Common Stock has no voting rights, except (1) as required by law, (2) for the election of Class A Directors, and (3) that the approval of the holders of the Class A Common Stock is required for (a) certain future authorizations or issuances of additional securities which have rights senior to Class A Common Stock, (b) certain alterations of rights or terms of the Class A or Class B Common Stock as set forth in the Articles of Organization of the Company, (c) other amendments of the Articles of Organization of the Company, (d) certain mergers or consolidations with, or acquisitions of, other entities, and (e) sales or dispositions of any significant portion of the Company's assets.

***Class B Common Stock***

The Class B Common Stock has full voting rights, including the right to (1) elect a majority of the members of the Company's Board of Directors and (2) approve all (a) amendments to the Company's Articles of Organization, (b) mergers or consolidations with, or acquisitions of, other entities, (c) sales or dispositions of any significant portion of the Company's assets, and (d) equity-based and other executive compensation and other significant corporate matters. The Company's Class B Common Stock is not listed for trading. Each share of Class B Common Stock is freely convertible into one share of Class A Common Stock, upon request of any Class B holder, and participates equally in earnings.

All distributions with respect to the Company's capital stock are restricted by the Company's credit agreement, with the exception of distributions of capital stock from subsidiaries to The Boston Beer Company, Inc. and Boston Beer Corporation, repurchase from former employees of non-vested investment shares of Class A Common Stock issued under the Company's equity incentive plan, redemption of certain shares of Class A Common Stock as approved by the Board of Directors and payment of cash dividends to its holders of common stock.

***Employee Stock Compensation Plan***

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

Stock options and related vesting requirements and terms are granted at the Board of Directors' discretion, but generally vest ratably over five-year periods and, with respect to certain options granted to members of senior management, based on the Company's performance. Generally, the maximum contractual term of stock options is ten years, although the Board of Directors may grant options that exceed the ten-year term. During fiscal 2015, 2014, and 2013, the Company granted options to purchase 18,723, 7,090, and 40,925 shares, respectively, of its Class A Common Stock to employees at market price on the grant dates. Of the 2015 option grants, 14,742 shares relate to performance-based option grants and 3,981 relate to special long-term service-based retention stock options. Of the

2014 option grants, all shares relate to performance-based option grants. Of the 2013 option grants, 10,925 shares relate to performance-based option grants, 15,000 shares relate to a long-term performance-based option, and 15,000 shares relate to special long-term service-based retention stock options. The number of shares that will vest under the performance-based options depends on the level of performance targets attained on various dates.

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On January 1, 2016, the Company granted options to purchase an aggregate of 663,136 shares of the Company's Class A Common Stock with a weighted average fair value of \$46.80 per share, of which 574,507 shares relate to a special long-term service-based retention stock option issued to the Chief Executive Officer, 70,502 shares relate to other special long-term service-based retention stock options and 18,127 shares relate to performance-based stock options.

Restricted stock awards are also granted at the Board of Directors' discretion. During fiscal 2015, 2014, and 2013, the Company granted 6,092, 16,432, and 11,987 shares, respectively, of restricted stock awards to certain senior managers and key employees, most of which are service-based and generally vest ratably over service periods of five years.

The Equity Plan also has an investment share program which permits employees who have been with the Company for at least one year to purchase shares of Class A Common Stock at a discount from current market value of 0% to 40%, based on the employee's tenure with the Company. Investment shares vest ratably over service periods of five years. Participants may pay for these shares either up front or through payroll deductions over an eleven-month period during the year of purchase. During fiscal 2015, 2014, and 2013, employees elected to purchase an aggregate of 8,301, 8,516, and 12,894 investment shares, respectively.

On January 1, 2016, the Company granted 8,921 shares of restricted stock awards to certain senior managers and key employees of which all shares vest ratably over service periods of five years. On January 1, 2016, employees elected to purchase 9,133 shares under the investment share program.

On December 9, 2015, the Equity Plan was amended whereby the number of shares of Class A Common Stock reserved for issuance under the plan was increased from 6.0 million to 6.7 million. As of December 26, 2015, 1.4 million shares remained available for grant. Shares reserved for issuance under cancelled employee stock options and forfeited restricted stock are returned to the reserve under the Equity Plan for future grants or purchases. The Company also purchases unvested investment shares from employees who have left the Company at the lesser of (i) the price paid for the shares when the employee acquired the shares or (ii) the fair market value of the shares as of the date next preceding the date on which the shares are called for redemption by the Company. These shares are also returned to the reserve under the Equity Plan for future grants or purchases.

***Non-Employee Director Options***

The Company has a stock option plan for non-employee directors of the Company (the Non-Employee Director Plan), pursuant to which each non-employee director of the Company is granted an option to purchase shares of the Company's Class A Common Stock upon election or re-election to the Board of Directors. Stock options issued to non-employee directors vest upon grant and have a maximum contractual term of ten years. During fiscal 2015, 2014, and 2013 the Company granted options to purchase an aggregate of 5,640, 6,696, and 9,864 shares of the Company's Class A Common Stock to non-employee directors, respectively.

The Company has reserved 550,000 shares of Class A Common Stock for issuance pursuant to the Non-Employee Director Plan, of which 102,933 shares were available for grant as of December 26, 2015. Cancelled non-employee directors' stock options are returned to the reserve under the Non-Employee Director Plan for future grants.

**Table of Contents****Option Activity**

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at December 27, 2014	1,380,444	\$ 55.37		
Granted	24,363	283.22		
Forfeited				
Expired				
Exercised	(277,645)	151.28		
Outstanding at December 26, 2015	1,127,162	\$ 63.99	3.43	\$ 161,603
Exercisable at December 26, 2015	380,543	\$ 62.29	3.17	\$ 54,885
Vested and expected to vest at December 26, 2015	1,089,831	\$ 63.96	3.43	\$ 156,268

Of the total options outstanding at December 26, 2015, 117,352 shares were performance-based options.

**Stock Option Grants to Chief Executive Officer**

On January 1, 2008, the Company granted the Chief Executive Officer an option to purchase 753,864 shares of its Class A Common Stock, which vests over a five-year period, commencing on January 1, 2014, at the rate of 20% per year. The exercise price is determined by multiplying \$42.00 by the aggregate change in the DJ Wilshire 5000 Index from and after January 1, 2008 through the close of business on the trading date next preceding each date on which the option is exercised. The exercise price will not be less than \$37.65 per share and the excess of the fair value of the Company's Class A Common Stock cannot exceed \$70 per share over the exercise price. At December 26, 2015 and December 27, 2014, 452,319 shares and 603,092 shares of the stock option remained outstanding, respectively. If the outstanding shares at December 26, 2015 were exercised on that date, the exercise price would have been \$135.40 per share. If the outstanding shares at December 27, 2014 were exercised on that date, the exercise price would have been \$225.74 per share. Reflected in the table above is the minimum exercise price of \$37.65. The Company is accounting for this award as a market-based award which was valued utilizing the Monte Carlo Simulation pricing model, which calculates multiple potential outcomes for an award and establishes fair value based on the most likely outcome. Under the Monte Carlo Simulation pricing model, the Company calculated the weighted average fair value per share to be \$8.41, and recorded stock-based compensation expense of \$0.5, \$0.7, and \$1.0, million related to this option in the fiscal 2015, 2014, and 2013, respectively.

On January 1, 2016, the Company granted the Chief Executive Officer an option to purchase 574,507 shares of its Class A Common Stock, which vests over a five-year period, commencing on January 1, 2019, at the rate of 20% per year. The exercise price is determined by multiplying \$201.91 by the a