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

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**FORM 10-Q**

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

For the quarterly period ended March 28, 2020

OR

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

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

Commission file number: 1-14092

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**THE BOSTON BEER COMPANY, INC.**

(Exact name of registrant as specified in its charter)

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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)

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

| Title of each class                    | Trading<br>Symbol(s) | Name of each exchange<br>on which registered |
|--|----------------------|--|
| Class A Common Stock. \$0.01 par value | SAM                  | New York Stock Exchange                      |

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

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

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

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

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

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

Number of shares outstanding of each of the issuer's classes of common stock, as of April 17, 2020:

|  |                    |
|--|--------------------|
| <b>Class A Common Stock, \$.01 par value</b> | <b>9,655,555</b>   |
| <b>Class B Common Stock, \$.01 par value</b> | <b>2,522,983</b>   |
| (Title of each class)                        | (Number of shares) |

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THE BOSTON BEER COMPANY, INC.  
FORM 10-Q

March 28, 2020

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**PART I. FINANCIAL INFORMATION**

**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

|  | March 28,<br>2020   | December 28,<br>2019 |
|--|---------------------|----------------------|
| <b>Assets</b>  |                     |                      |
| Current Assets:  |                     |                      |
| Cash and cash equivalents  | \$ 129,504          | \$ 36,670            |
| Accounts receivable  | 58,253              | 54,404               |
| Inventories  | 124,529             | 106,038              |
| Prepaid expenses and other current assets  | 14,894              | 12,077               |
| Income tax receivable  | 8,823               | 9,459                |
| Total current assets   | <u>336,003</u>      | <u>218,648</u>       |
| Property, plant and equipment, net   | 550,030             | 541,068              |
| Operating right-of-use assets  | 63,039              | 53,758               |
| Goodwill   | 112,529             | 112,529              |
| Intangible assets  | 104,209             | 104,272              |
| Other assets   | 27,754              | 23,782               |
| Total assets   | <u>\$ 1,193,564</u> | <u>\$ 1,054,057</u>  |
| <b>Liabilities and Stockholders' Equity</b>  |                     |                      |
| Current Liabilities:   |                     |                      |
| Accounts payable   | \$ 92,247           | \$ 76,374            |
| Accrued expenses and other current liabilities   | 89,078              | 99,107               |
| Current operating lease liabilities  | 5,459               | 5,168                |
| Total current liabilities  | <u>186,784</u>      | <u>180,649</u>       |
| Deferred income taxes, net   | 77,389              | 75,010               |
| Line of credit   | 100,000             | —                    |
| Non-current operating lease liabilities  | 63,248              | 53,940               |
| Other liabilities  | 7,907               | 8,822                |
| Total liabilities  | <u>435,328</u>      | <u>318,421</u>       |
| Commitments and Contingencies (See Note K)   |                     |                      |
| Stockholders' Equity:  |                     |                      |
| Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 9,559,200 and 9,370,526 issued and outstanding as of March 28, 2020 and December 28, 2019, respectively | 96                  | 94                   |
| Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 2,522,983 and 2,672,983 issued and outstanding as of March 28, 2020 and December 28, 2019, respectively  | 25                  | 27                   |
| Additional paid-in capital   | 576,208             | 571,784              |
| Accumulated other comprehensive loss, net of tax   | (1,727)             | (1,669)              |
| Retained earnings  | 183,634             | 165,400              |
| Total stockholders' equity   | <u>758,236</u>      | <u>735,636</u>       |
| Total liabilities and stockholders' equity   | <u>\$ 1,193,564</u> | <u>\$ 1,054,057</u>  |

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

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

|  | <b>Thirteen weeks ended</b> |                           |
|--|-----------------------------|---------------------------|
|  | <b>March 28,<br/>2020</b>   | <b>March 30,<br/>2019</b> |
| Revenue  | \$352,225                   | \$267,559                 |
| Less excise taxes  | 21,660                      | 15,908                    |
| Net revenue  | 330,565                     | 251,651                   |
| Cost of goods sold                                       | 182,592                     | 127,111                   |
| Gross profit   | 147,973                     | 124,540                   |
| Operating expenses:                                      |                             |                           |
| Advertising, promotional and selling expenses            | 97,891                      | 71,723                    |
| General and administrative expenses                      | 27,029                      | 23,374                    |
| Impairment of assets                                     | 1,521                       | —                         |
| Total operating expenses                                 | 126,441                     | 95,097                    |
| Operating income   | 21,532                      | 29,443                    |
| Other (expense) income, net:                             |                             |                           |
| Interest income, net                                     | 63                          | 637                       |
| Other (expense) income, net                              | (360)                       | (252)                     |
| Total other (expense) income, net                        | (297)                       | 385                       |
| Income before income tax provision                       | 21,235                      | 29,828                    |
| Income tax provision                                     | 3,001                       | 6,134                     |
| Net income   | \$ 18,234                   | \$ 23,694                 |
| Net income per common share - basic                      | \$ 1.50                     | \$ 2.04                   |
| Net income per common share - diluted                    | \$ 1.49                     | \$ 2.02                   |
| Weighted-average number of common shares - Class A basic | 9,425                       | 8,606                     |
| Weighted-average number of common shares - Class B basic | 2,645                       | 2,918                     |
| Weighted-average number of common shares - diluted       | 12,186                      | 11,636                    |
| Net income   | \$ 18,234                   | \$ 23,694                 |
| Other comprehensive income:                              |                             |                           |
| Foreign currency translation adjustment                  | (58)                        | 37                        |
| Comprehensive income                                     | \$ 18,176                   | \$ 23,731                 |

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

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the thirteen weeks ended March 28, 2020 and March 30, 2019**  
(in thousands)  
(unaudited)

|  | Class A<br>Common<br>Shares | Class A<br>Common<br>Stock, Par | Class B<br>Common<br>Shares | Class B<br>Common<br>Stock, Par | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss, net of tax | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|--|-----------------------------|---------------------------------|-----------------------------|---------------------------------|----------------------------------|---|----------------------|----------------------------------|
| Balance at December 28, 2019                             | 9,371                       | \$ 94                           | 2,673                       | \$ 27                           | \$571,784                        | \$ (1,669)  | \$165,400            | \$ 735,636                       |
| Net income   |                             |                                 |                             |                                 |                                  |   | 18,234               | 18,234                           |
| Stock options exercised and restricted shares activities | 38                          | —                               |                             |                                 | 1,858                            |   |                      | 1,858                            |
| Stock-based compensation expense                         |                             |                                 |                             |                                 | 2,566                            |   |                      | 2,566                            |
| Conversion from Class B to Class A                       | 150                         | 2                               | (150)                       | (2)                             |                                  |   |                      | —                                |
| Currency translation adjustment                          |                             |                                 |                             |                                 |                                  | (58)  |                      | (58)                             |
| Balance at March 28, 2020                                | <u>9,559</u>                | <u>\$ 96</u>                    | <u>2,523</u>                | <u>\$ 25</u>                    | <u>\$576,208</u>                 | <u>\$ (1,727)</u>   | <u>\$183,634</u>     | <u>\$ 758,236</u>                |
|  | Class A<br>Common<br>Shares | Class A<br>Common<br>Stock, Par | Class B<br>Common<br>Shares | Class B<br>Common<br>Stock, Par | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss, net of tax | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
| Balance at December 29, 2018                             | 8,580                       | \$ 86                           | 2,918                       | \$ 29                           | \$405,711                        | \$ (1,197)  | \$ 55,688            | \$ 460,317                       |
| Net income   |                             |                                 |                             |                                 |                                  |   | 23,694               | 23,694                           |
| Stock options exercised and restricted shares activities | 54                          | —                               |                             |                                 | 3,704                            |   |                      | 3,704                            |
| Stock-based compensation expense                         |                             |                                 |                             |                                 | 2,066                            |   |                      | 2,066                            |
| Currency translation adjustment                          |                             |                                 |                             |                                 |                                  | 37  |                      | 37                               |
| Balance at March 30, 2019                                | <u>8,634</u>                | <u>\$ 86</u>                    | <u>2,918</u>                | <u>\$ 29</u>                    | <u>\$411,481</u>                 | <u>\$ (1,160)</u>   | <u>\$ 79,382</u>     | <u>\$ 489,818</u>                |

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

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

|  | <b>Thirteen weeks ended</b> |                           |
|--|-----------------------------|---------------------------|
|  | <b>March 28,<br/>2020</b>   | <b>March 30,<br/>2019</b> |
| <b>Cash flows provided by operating activities:</b>  |                             |                           |
| Net income   | \$ 18,234                   | \$ 23,694                 |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                             |                           |
| Depreciation and amortization  | 15,945                      | 12,863                    |
| Impairment of assets   | 1,521                       | —                         |
| Loss on disposal of property, plant and equipment  | —                           | 271                       |
| Change in ROU assets   | 1,807                       | 859                       |
| Credit loss expense  | 552                         | —                         |
| Stock-based compensation expense   | 2,566                       | 2,066                     |
| Deferred income taxes  | 2,379                       | 1,029                     |
| Changes in operating assets and liabilities:   |                             |                           |
| Accounts receivable  | (4,436)                     | (20,452)                  |
| Inventories  | (23,856)                    | (15,353)                  |
| Prepaid expenses, income tax receivable and other assets                                     | (884)                       | 1,336                     |
| Accounts payable   | 14,264                      | 14,400                    |
| Accrued expenses and other current liabilities   | (7,579)                     | (6,465)                   |
| Change in operating lease liability  | (1,489)                     | (624)                     |
| Other liabilities  | (100)                       | 19                        |
| Net cash provided by operating activities  | <u>18,924</u>               | <u>13,643</u>             |
| <b>Cash flows used in investing activities:</b>  |                             |                           |
| Purchases of property, plant and equipment   | (27,394)                    | (22,080)                  |
| Proceeds from disposal of property, plant and equipment                                      | 35                          | 1                         |
| Other investing activities   | 96                          | 28                        |
| Net cash used in investing activities  | <u>(27,263)</u>             | <u>(22,051)</u>           |
| <b>Cash flows provided by financing activities:</b>  |                             |                           |
| Proceeds from exercise of stock options and sale of investment shares                        | 2,941                       | 2,968                     |
| Net cash paid on note payable and finance leases   | (209)                       | (72)                      |
| Payment of tax withholdings on stock-based payment awards and investment shares              | (1,559)                     | —                         |
| Cash borrowed on line of credit  | 100,000                     | —                         |
| Net cash provided by financing activities  | <u>101,173</u>              | <u>2,896</u>              |
| Change in cash and cash equivalents  | 92,834                      | (5,512)                   |
| Cash and cash equivalents at beginning of year   | 36,670                      | 108,399                   |
| Cash and cash equivalents at end of period   | <u>\$ 129,504</u>           | <u>\$ 102,887</u>         |
| <b>Supplemental disclosure of cash flow information:</b>                                     |                             |                           |
| Income taxes paid  | <u>\$ 5</u>                 | <u>\$ 207</u>             |
| Cash paid for amounts included in measurement of lease liabilities                           |                             |                           |
| Operating cash flows from operating leases   | <u>\$ 2,097</u>             | <u>\$ 885</u>             |
| Operating cash flows from finance leases   | <u>\$ 22</u>                | <u>\$ 8</u>               |
| Financing cash flows from finance leases   | <u>\$ 141</u>               | <u>\$ 7</u>               |
| Right-of-use assets obtained in exchange for operating lease obligations                     | <u>\$ 11,088</u>            | <u>\$ 27,034</u>          |
| Right-of-use assets obtained in exchange for finance lease obligations                       | <u>\$ —</u>                 | <u>\$ 3</u>               |
| Change in purchase of property, plant and equipment in accounts payable and accrued expenses | <u>\$ (1,029)</u>           | <u>\$ 118</u>             |

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

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

**A. Organization and Basis of Presentation**

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

The accompanying unaudited consolidated balance sheet as of March 28, 2020, and the consolidated statements of comprehensive income, stockholders’ equity, and cash flows for the interim periods ended March 28, 2020 and March 30, 2019 have been prepared by the Company in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnotes normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. All intercompany accounts and transactions have been eliminated. These consolidated financial statements should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2019.

In the opinion of the Company’s management, the Company’s unaudited consolidated balance sheet as of March 28, 2020 and the results of its consolidated operations, stockholders’ equity, and cash flows for the interim periods ended March 28, 2020 and March 30, 2019, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

**B. COVID-19 Pandemic**

In early March 2020, the Company began seeing the impact of the COVID-19 pandemic on its business. The impact was primarily shown in significantly reduced keg demand from the on-premise channel as well as increased labor and safety related costs at the Company’s breweries. In the first quarter of 2020, the Company recorded COVID-19 pre-tax related reductions in net revenue and increases in other costs that total \$10.0 million. This amount consists of a \$5.8 million reduction in net revenue for estimated keg returns from distributors and retailers and \$4.2 million of other COVID-19 related direct costs, of which \$3.6 million are recorded in cost of goods sold and \$0.6 million are recorded in operating expenses. While the duration of the disruption and related impact on the Company’s consolidated financial statements is currently uncertain, the Company expects this matter will continue to negatively impact its results of operations.

**C. Dogfish Head Brewery Transaction**

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



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The fair value of the Transaction is estimated at approximately \$317.7 million. The following table summarizes the acquisition date fair value of the tangible assets, intangible assets, liabilities assumed, and related goodwill acquired from Dogfish Head, as well as the allocation of purchase price paid:

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

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

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

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

The results of operations from Dogfish Head have been included in the Company's consolidated statements of comprehensive income since the July 3, 2019 Transaction closing date.

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

The following unaudited pro forma information has been prepared, as if the Transaction and the related debt financing had occurred as of December 30, 2018, the first day of the Company's 2019 fiscal year. The pro forma amounts reflect the combined historical operational results for Boston Beer and Dogfish Head, after giving effect to adjustments related to the impact of purchase accounting, transaction costs and financing. The unaudited pro forma financial information is not indicative of the operational results that would have been obtained had the Transaction occurred as of that date, nor is it necessarily indicative of the Company's future operational results. The following adjustments have been made:

- (i) Depreciation and amortization expenses were updated to reflect the fair value adjustments to Dogfish Head property, plant and equipment and intangible assets beginning December 30, 2018.
- (ii) Transaction costs incurred to date have been re-assigned to the first period of the comparative fiscal year.
- (iii) Interest expense has been included at a rate of approximately 3% which is consistent with the borrowing rate on the Company's current line of credit.
- (iv) The tax effects of the pro forma adjustments at an estimated statutory rate of 23.6%.
- (v) Earnings per share amounts are calculated using the Company's historical weighted average shares outstanding plus the 429,291 shares issued in the merger.

|                            | <b>Thirteen weeks ended</b> |                           |
|----------------------------|-----------------------------|---------------------------|
|                            | <b>March 28,<br/>2020</b>   | <b>March 30,<br/>2019</b> |
|                            | <b>(in thousands)</b>       |                           |
| Net revenue                | \$330,565                   | \$276,739                 |
| Net income                 | \$ 18,234                   | \$ 24,664                 |
| Basic earnings per share   | \$ 1.50                     | \$ 2.04                   |
| Diluted earnings per share | \$ 1.49                     | \$ 2.02                   |

### **D. Goodwill and Intangible Assets**

There were no changes in the carrying value of goodwill during the thirteen weeks ended March 28, 2020 and March 30, 2019.

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The Company's intangible assets as of March 28, 2020 and December 28, 2019 were as follows:

|                         | Estimated Useful Life (Years) | As of March 28, 2020 |                          |                  | As of December 28, 2019 |                          |                  |
|-------------------------|-------------------------------|----------------------|--------------------------|------------------|-------------------------|--------------------------|------------------|
|                         |                               | Gross Carrying Value | Accumulated Amortization | Net Book Value   | Gross Carrying Value    | Accumulated Amortization | Net Book Value   |
| Customer Relationships  | 15                            | \$ 3,800             | \$ (190)                 | \$ 3,610         | \$ 3,800                | \$ (127)                 | \$ 3,673         |
| Trade Names             | Indefinite                    | 100,599              | —                        | 100,599          | 100,599                 | —                        | 100,599          |
| Total intangible assets |                               | <u>\$ 104,399</u>    | <u>\$ (190)</u>          | <u>\$104,209</u> | <u>\$ 104,399</u>       | <u>\$ (127)</u>          | <u>\$104,272</u> |

As disclosed within Note C, the Company acquired intangible assets as part of the Dogfish Head Transaction that consists of \$98.5 million for the value of the Dogfish Head brand name and \$3.8 million for the value of customer relationships. The customer relationship intangible will be amortized on a straight-line basis over the 15 year useful life. Amortization expense in the thirteen weeks ended March 28, 2020 was approximately \$63,000. The Company expects to record amortization expense as follows over the remaining current year and the five subsequent years:

| Fiscal Year       | Amount<br>(in thousands) |
|-------------------|--------------------------|
| Remainder of 2020 | \$ 190                   |
| 2021              | 253                      |
| 2022              | 253                      |
| 2023              | 253                      |
| 2024              | 253                      |
| 2025              | 253                      |

### E. Recent Accounting Pronouncements

#### *Accounting Pronouncements Recently Adopted*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard in the first quarter of fiscal 2020 and there was no material impact.

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

#### *Accounting Pronouncements Not Yet Effective*

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The standard includes multiple key provisions, including removal of certain exceptions to ASC 740, Income Taxes, and simplification in several other areas such as accounting for a franchise tax (or similar tax) that is partially based on income. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard but does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

## **E. Revenue Recognition**

During the thirteen weeks ended March 28, 2020 and March 30, 2019 approximately 96% of the Company's revenue was from shipments of its products to domestic distributors, 3% from shipments to international distributors, primarily located in Canada and 1% was from retail beer, cider, and merchandise sales at the Company's retail locations.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of consideration expected to be received in exchange for transferring products. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met. As of March 28, 2020 and December 28, 2019, the Company has deferred \$13.9 million and \$7.0 million, respectively in revenue related to product shipped prior to these dates. These amounts are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Customer promotional discount programs are entered into by the Company with distributors for certain periods of time. The reimbursements for discounts to distributors are recorded as reductions to net revenue and were \$8.2 million and \$6.2 million for the thirteen weeks ended March 28, 2020 and March 30, 2019, respectively. The agreed-upon discount rates are applied to certain distributors' sales to retailers, based on volume metrics, in order to determine the total discounted amount. The computation of the discount allowance requires that management make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. Actual promotional discounts owed and paid have historically been in line with allowances recorded by the Company, however, the amounts could differ from the estimated allowance.

Customer programs and incentives are a common practice in the alcohol beverage industry. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses, based on the nature of the expenditure. Customer incentives and other payments made to distributors are primarily based upon performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs that were recorded as reductions to revenue for the thirteen weeks ended March 28, 2020 and March 30, 2019 were \$4.2 million and \$3.1 million, respectively. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

The Further Consolidated Appropriations Act, 2020 extends reductions in federal excise taxes as a result of the Tax Cuts and Jobs Act of 2017 through December 31, 2020. The Company benefited from a reduction in federal excise taxes of \$2.6 million and \$1.7 million for the thirteen weeks ended March 28, 2020 and March 30, 2019, respectively.

Shipment volume for the quarter was significantly higher than depletions volume and resulted in significantly higher distributor inventory as of March 28, 2020 when compared to March 30, 2019. The Company believes distributor inventory as of March 28, 2020 averaged approximately 6 weeks on hand and was at an appropriate level based on the supply chain capacity constraints and inventory requirements to support the forecasted growth of Truly and Twisted Tea brands over the summer. The Company expects wholesaler inventory levels in terms of weeks on hand to return to more normal levels of approximately 4 weeks on hand later in the year.

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### G. Inventories

Inventories consist of raw materials, work in process and finished goods. Raw materials, which principally consist of hops, flavorings, apple juice, other brewing materials and packaging, are stated at the lower of cost, determined on the first-in, first-out basis, or net realizable value. The Company's goal is to maintain on hand a supply of at least one year 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 consist of the following:

|                                | March 28,<br>2020 | December 28,<br>2019 |
|--------------------------------|-------------------|----------------------|
|                                | (in thousands)    |                      |
| <b>Current inventory:</b>      |                   |                      |
| Raw materials                  | \$ 73,267         | \$ 61,522            |
| Work in process                | 14,775            | 12,631               |
| Finished goods                 | 36,487            | 31,885               |
| <b>Total current inventory</b> | <b>124,529</b>    | <b>106,038</b>       |
| Long term inventory            | 15,413            | 10,048               |
| <b>Total inventory</b>         | <b>\$ 139,942</b> | <b>\$ 116,086</b>    |

### H. Leases

The Company has various lease agreements in place for facilities and equipment. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2034. As the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate based on information available at commencement to determine the present value of the lease payments. ROU assets and lease liabilities commencing after December 30, 2018 are recognized at commencement date based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less ("short-term leases") are not recorded on the balance sheet and are recognized on a straight-line basis over the lease term. As of March 28, 2020, and December 28, 2019 total ROU assets and lease liabilities were as follows:

|                             | Classification                                 | Leases            |                      |
|-----------------------------|--|-------------------|----------------------|
|                             |  | March 28,<br>2020 | December 28,<br>2019 |
|                             |  | (in thousands)    |                      |
| <b>Right-of-use assets</b>  |  |                   |                      |
| Operating lease assets      | Operating right-of-use assets                  | \$ 63,039         | \$ 53,758            |
| Finance lease assets        | Property, plant and equipment, net             | 2,398             | 2,531                |
| <b>Lease Liabilities</b>    |  |                   |                      |
| <b>Current</b>              |  |                   |                      |
| Operating lease liabilities | Current operating lease liabilities            | 5,459             | 5,168                |
| Finance lease liabilities   | Accrued expenses and other current liabilities | 551               | 546                  |
| <b>Non-current</b>          |  |                   |                      |
| Operating lease liabilities | Non-current operating lease liabilities        | 63,248            | 53,940               |
| Finance lease liabilities   | Other liabilities                              | 1,896             | 2,042                |

The gross value and accumulated depreciation of ROU assets related to finance leases as of March 28, 2020 and December 28, 2019 were as follows:

|                          | Finance Leases    |                      |
|--------------------------|-------------------|----------------------|
|                          | March 28,<br>2020 | December 28,<br>2019 |
|                          | (in thousands)    |                      |
| Gross value              | \$ 2,837          | \$ 2,837             |
| Accumulated amortization | (439)             | (306)                |
| <b>Carrying value</b>    | <b>\$ 2,398</b>   | <b>\$ 2,531</b>      |

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Components of lease cost for the thirteen weeks ended March 28, 2020 and March 30, 2019 were as follows:

|  | Lease Cost        |                   |
|--|-------------------|-------------------|
|  | March 28,<br>2020 | March 30,<br>2019 |
|  | (in thousands)    |                   |
| Operating lease cost                           | \$ 2,415          | \$ 1,128          |
| Variable lease costs not included in liability | 485               | 199               |
| Finance lease cost:                            |                   |                   |
| Amortization of right-of-use asset             | 133               | —                 |
| Interest on lease liabilities                  | 22                | —                 |
| Total finance lease cost                       | <u>\$ 155</u>     | <u>\$ —</u>       |

Maturities of lease liabilities as of March 28, 2020 were as follows:

|  | Operating<br>Leases | Capital<br>Leases | Weighted-Average Remaining Term in Years |                |
|--|---------------------|-------------------|--|----------------|
|  | (in thousands)      |                   | Operating Leases                         | Capital Leases |
| 2020   | \$ 3,962            | \$ 464            |  |                |
| 2021   | 9,816               | 626               |  |                |
| 2022   | 9,695               | 626               |  |                |
| 2023   | 9,694               | 626               |  |                |
| 2024   | 9,470               | 265               |  |                |
| Thereafter   | 39,524              | 23                |  |                |
| Total lease payments   | 82,161              | 2,630             |  |                |
| Less imputed interest (based on 3.5% weighted-<br>average discount rate) | (13,454)            | (183)             |  |                |
| Present value of lease liability   | <u>\$ 68,707</u>    | <u>\$2,447</u>    | <u>9.4</u>                               | <u>4.5</u>     |

The Company has additional lease liabilities of \$3.9 million which have not yet commenced as of March 28, 2020, and as such, have not been recognized on the Company's Consolidated balance sheet. These leases are expected to commence during the second quarter of 2020 with a term of three years.

### I. Net Income per Share

The Company calculates net income per share using the two-class method, which requires the Company to allocate net income to its Class A Common Shares, Class B Common Shares and unvested share-based payment awards that participate in dividends with common stock, in the calculation of net income per share.

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.

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 the Class B Common Stock is freely convertible into one share of Class A Common Stock, upon request of the respective Class B holder, and participates equally in dividends.

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The Company's unvested share-based payment awards include unvested shares (1) issued under the Company's 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 and to purchase those shares at a discount ranging from 20% to 40% below market value based on years of employment starting after two years of employment, and (2) awarded as restricted stock awards at the discretion of the Company's Board of Directors. The investment shares and restricted stock awards generally vest over five years in equal number of shares. The unvested shares participate equally in dividends. See Note O for a discussion of the current year unvested stock awards and issuances.

Included in the computation of net income per diluted common share are dilutive outstanding stock options and restricted stock that are vested or expected to vest. At its discretion, the Board of Directors grants stock options and restricted stock to senior management and certain key employees. The terms of the employee stock options are determined by the Board of Directors at the time of grant. To date, stock options granted to employees vest over various service periods and/or based on the attainment of certain performance criteria and generally expire after ten years. In December 2018, the Employee Equity Incentive Plan was amended to permit the grant of restricted stock units. The restricted stock units generally vest over four years in equal number of shares. Each restricted stock unit represents an unfunded and unsecured right to receive one share of Class A Stock upon satisfaction of the vesting criteria. The unvested shares participate equally in dividends and are forfeitable. Prior to March 1, 2019, the Company granted restricted stock awards, generally vesting over five years in equal number of shares. The Company also grants stock options to its non-employee directors upon election or re-election to the Board of Directors. The number of option shares granted to non-employee directors is calculated based on a defined formula and these stock options vest immediately upon grant and expire after ten years.

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

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

|  | Thirteen weeks ended                  |                   |
|--|---------------------------------------|-------------------|
|  | March 28,<br>2020                     | March 30,<br>2019 |
|  | (in thousands, except per share data) |                   |
| Net income                                   | \$ 18,234                             | \$ 23,694         |
| Allocation of net income for basic:          |                                       |                   |
| Class A Common Stock                         | \$ 14,136                             | \$ 17,525         |
| Class B Common Stock                         | 3,967                                 | 5,942             |
| Unvested participating shares                | 131                                   | 227               |
|  | \$ 18,234                             | \$ 23,694         |
| Weighted average number of shares for basic: |                                       |                   |
| Class A Common Stock                         | 9,425                                 | 8,606             |
| Class B Common Stock*                        | 2,645                                 | 2,918             |
| Unvested participating shares                | 87                                    | 111               |
|  | 12,157                                | 11,635            |
| Net income per share for basic:              |                                       |                   |
| Class A Common Stock                         | \$ 1.50                               | \$ 2.04           |
| Class B Common Stock                         | \$ 1.50                               | \$ 2.04           |

\* Change in Class B Common Stock resulted from the conversion of 100,000 shares to Class A Common Stock on August 8, 2019, 145,000 shares to Class A Common Stock on December 13, 2019 and 150,000 shares to Class A Common Stock on March 6, 2020 with the ending number of shares reflecting the weighted average for the period.

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

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

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

|   | Thirteen weeks ended                  |               |               |                                       |               |               |
|---|---------------------------------------|---------------|---------------|---------------------------------------|---------------|---------------|
|   | March 28, 2020                        |               |               | March 30, 2019                        |               |               |
|   | Earnings to<br>Common<br>Shareholders | Common Shares | EPS           | Earnings to<br>Common<br>Shareholders | Common Shares | EPS           |
| As reported - basic                             | \$ 14,136                             | 9,425         | \$1.50        | \$ 17,525                             | 8,606         | \$2.04        |
| Add: effect of dilutive potential common shares |                                       |               |               |                                       |               |               |
| Share-based awards                              | —                                     | 116           |               | —                                     | 112           |               |
| Class B Common Stock                            | 3,967                                 | 2,645         |               | 5,942                                 | 2,918         |               |
| Net effect of unvested participating shares     | 1                                     | —             |               | 2                                     | —             |               |
| Net income per common share - diluted           | <u>\$ 18,104</u>                      | <u>12,186</u> | <u>\$1.49</u> | <u>\$ 23,469</u>                      | <u>11,636</u> | <u>\$2.02</u> |

Weighted-average stock options to purchase approximately 33,000 and 15,000 shares of Class A Common Stock were outstanding during the thirteen weeks ended March 28, 2020 and March 30, 2019, respectively, but not included in computing dilutive income per common share because their effects were anti-dilutive. Additionally, performance-based stock options to purchase approximately 10,000 and 10,000 shares of Class A Common Stock were outstanding as of March 28, 2020 and March 30, 2019, respectively, but not included in computing diluted income per common share because the performance criteria of these stock options were not met as of the end of the reporting period.

All of the performance-based stock options to purchase approximately 10,000 shares of Class A Common Stock that were excluded from computing diluted net income per common share as of March 28, 2020, were granted in 2016 to a key employee. The vesting of these shares requires annual depletions, or sales by distributors to retailers, of certain of the Company's brands to attain various thresholds during the period from 2017 to 2023.

### **J. Comprehensive Income or Loss**

Comprehensive income or loss represents net income or loss, plus defined benefit plans liability adjustment, net of tax effect and foreign currency translation adjustment. The defined benefit plans liability and foreign currency translation adjustments for the interim periods ended March 28, 2020 and March 28, 2019 were not material.

### **K. Commitments and Contingencies**

#### *Contract Obligations*

The Company had outstanding total non-cancelable contract obligations of \$239.9 million at March 28, 2020. These obligations are made up of advertising contracts of \$71.2 million, ingredients of \$51.1 million, equipment and machinery of \$45.8 million, hops, barley and wheat totaling \$44.3 million, and other commitments of \$27.5 million.

The Company has entered into contracts for barley and wheat with three major suppliers. The contracts include crop year 2019 and cover the Company's barley, wheat, and malt requirements for 2020 and part of 2021. These purchase commitments outstanding at March 28, 2020 totaled \$13.2 million.

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts extend through crop year 2025 and specify both the quantities and prices, denominated in U.S. Dollars, Euros, New Zealand Dollars, and British Pounds, to which the Company is committed. Hops purchase commitments outstanding at March 28, 2020 totaled \$31.1 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 brews and packages more than 60% of its volume at Company-owned breweries. In the normal course of its business, the Company has historically entered into various production arrangements with other brewing companies. Pursuant to these arrangements, the Company supplies raw materials to those brewing companies, and incurs conversion fees for labor at the time the liquid is produced and packaged.



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The Company is in the process of assessing the impact the COVID-19 pandemic will have on its future commitments and contingencies but does not believe that the future commitments will be materially adversely impacted.

### *Litigation*

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

### **L. Income Taxes**

As of March 28, 2020 and December 28, 2019, the Company had approximately \$0.8 million and \$0.8 million, respectively, of unrecognized income tax benefits.

The Company's practice is to classify interest and penalties related to income tax matters in income tax expense. As of March 28, 2020 and December 28, 2019, the Company had \$0.1 million and \$0.1 million, respectively, accrued for interest and penalties recorded in other liabilities.

The Internal Revenue Service completed an examination of the 2015 consolidated corporate income tax return and issued a no change report in 2018. The Company's state income tax returns remain subject to examination for three or four years depending on the state's statute of limitations. The Company is not currently under any income tax audits as of March 28, 2020. In addition, the Company is generally obligated to report changes in taxable income arising from federal income tax audits.

The following table provides a summary of the income tax provision for the thirteen weeks ended March 28, 2020 and March 30, 2019:

|                                   | Thirteen weeks ended |                   |
|-----------------------------------|----------------------|-------------------|
|                                   | March 28,<br>2020    | March 30,<br>2019 |
|                                   | (in thousands)       |                   |
| Summary of income tax provision   |                      |                   |
| Tax provision based on net income | \$ 5,005             | \$ 7,909          |
| Benefit of ASU 2016-09            | (2,004)              | (1,775)           |
| Total income tax provision        | <u>\$ 3,001</u>      | <u>\$ 6,134</u>   |

The Company's effective tax rate for the thirteen weeks ended March 28, 2020, excluding the impact of ASU 2016-09, decreased to 23.6% from 26.5% for the thirteen weeks ended March 30, 2019, primarily due to one-time state tax benefits related to capital investments.

### **M. Revolving Line of Credit**

In March 2018, the Company amended its credit facility in place that provides for a \$150.0 million revolving line of credit to extend the scheduled expiration date to March 31, 2023. On March 12, 2020, the Company withdrew \$100.0 million of the available balance to provide flexibility and enhance its ability to address potential future uncertainties regarding the impact of the COVID-19 pandemic. The interest rate for the borrowings withdrawn is 1.15% (LIBOR rate of 0.70% plus 0.45%). As of March 28, 2020, the Company had not made any payments towards the borrowing. As of March 28, 2020, the Company was not in violation of any of its financial covenants to the lender under the credit facility and the unused balance of \$50.0 million remaining on the line of credit was available to the Company for future borrowing.

**N. 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.

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

At March 28, 2020 and December 28, 2019, the Company had money market funds with a “Triple A” rated money market fund. The Company considers the “Triple A” rated money market fund to be a large, highly-rated investment-grade institution. As of March 28, 2020 and December 28, 2019, the Company’s cash and cash equivalents balance was \$129.5 million and \$36.7 million, respectively, including money market funds amounting to \$128.1 million and \$29.5 million, respectively.

**O. Common Stock and Stock-Based Compensation**

*Option Activity*

Information related to stock options under the Restated Employee Equity Incentive Plan and the Stock Option Plan for Non-Employee Directors is summarized as follows:

|  | Shares         | Weighted-Average<br>Exercise Price | Weighted-Average Remaining<br>Contractual Term in Years | Aggregate Intrinsic<br>Value<br>(in thousands) |
|--|----------------|------------------------------------|---|--|
| Outstanding at December 28, 2019                 | 315,678        | \$ 186.53                          |   |  |
| Granted  | 22,970         | 370.43                             |   |  |
| Forfeited  | (2,595)        | 241.84                             |   |  |
| Expired  | —              | —                                  |   |  |
| Exercised  | (23,233)       | 103.99                             |   |  |
| Outstanding at March 28, 2020                    | <u>312,820</u> | <u>\$ 205.70</u>                   | <u>6.08</u>   | <u>\$ 47,034</u>                               |
| Exercisable at March 28, 2020                    | <u>105,636</u> | <u>\$ 164.80</u>                   | <u>4.63</u>   | <u>\$ 20,091</u>                               |
| Vested and expected to vest at<br>March 28, 2020 | <u>285,886</u> | <u>\$ 203.74</u>                   | <u>6.01</u>   | <u>\$ 43,532</u>                               |

Of the total options outstanding at March 28, 2020, 42,000 shares were performance-based options for which the performance criteria had yet to be achieved.

On January 31, 2020, the Company granted options to purchase an aggregate of 978 shares of the Company’s Class A Common Stock to the Company’s newly appointed non-employee Director. These options have a weighted average fair value of \$146.87 per share, of which all shares vested immediately.

On March 1, 2020, the Company granted options to purchase an aggregate of 14,962 shares of the Company’s Class A Common Stock to senior management with a weighted average fair value of \$142.25 per share, of which all shares relate to performance-based stock options.

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On March 2, 2020, the Company granted options to purchase an aggregate of 7,030 shares of the Company's Class A Common Stock to the Company's newly appointed Chief People Officer with a weighted average fair value of \$142.23 per share, of which all shares relate to performance-based stock options.

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

|  | <u>2020</u> |
|--|-------------|
| Expected Volatility                    | 32.4%       |
| Risk-free interest rate                | 1.15%       |
| Expected Dividends                     | 0.0%        |
| Exercise factor                        | 2.03 times  |
| Discount for post-vesting restrictions | 0.0%        |

### *Non-Vested Shares Activity*

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

|                                 | <u>Number of Shares</u> | <u>Weighted Average<br/>Fair Value</u> |
|---------------------------------|-------------------------|--|
| Non-vested at December 28, 2019 | 122,142                 | \$ 213.52                              |
| Granted                         | 40,316                  | 318.07                                 |
| Vested                          | (19,589)                | 187.26                                 |
| Forfeited                       | (2,845)                 | 245.17                                 |
| Non-vested at March 28, 2020    | <u>140,024</u>          | \$ 243.80                              |

On March 1, 2020, the Company granted 15,011 shares of restricted stock units to certain officers, senior managers and key employees, of which all shares vest ratably over service periods of four years. Additionally on March 1, 2020, the Company granted a combined 13,482 shares of restricted stock units to select senior management employees with various service and performance based vesting conditions. On March 1, 2020, employees elected to purchase 9,127 shares under the Company's investment share program. The weighted average fair value of the restricted stock units and investment shares, which are sold to employees at discount under its investment share program, was \$370.79 and \$169.43 per share, respectively.

On March 2, 2020, the Company granted its newly appointed Chief People Officer 2,696 shares of restricted stock units with a weighted-average fair value of \$370.79 per share with service based vesting through 2024.

### *Stock-Based Compensation*

Stock-based compensation expense related to share-based awards recognized in the thirteen weeks ended March 28, 2020 and March 30, 2019 was \$2.6 million and \$2.1 million, respectively, and was calculated based on awards expected to vest.

## **P. Employee Retirement Plans**

The Company has one company-sponsored defined benefit pension plan that covers certain of its union employees. It was established in 1991 and is open to all union employees who are covered by the Company's collective bargaining agreement with Teamsters Local Union No. 1199 ("Local Union 1199"). As of December 28, 2019, the fair value of the plan assets was \$3.9 million and the benefit obligation was \$6.7 million. On April 21, 2019, the Company reached an agreement with the Local Union 1199 to terminate the Local Union No. 1199 Pension Plan effective January 1, 2020 through either lump sum payments or the purchase of third party annuities. In the fourth quarter of 2020 the Company expects to complete the termination of the plan and record an expense of approximately \$1.8 million as a result of the termination.

## **Q. Related Party Transactions**

In connection with the Dogfish Head Transaction, the Company has entered a lease with the Dogfish Head founders and other owners of buildings used in certain of the Company's restaurant operations. The lease is for ten years with renewal options. The total payments due under the initial ten year term is \$3.6 million. Total related party expense recognized for the thirteen weeks ended March 28, 2020 was approximately \$91,000. Additionally, the Company incurred expenses of less than \$5,000 to various other suppliers affiliated with the Dogfish Head founders.

## R. Subsequent Events

The Company began seeing the impact of the global COVID-19 pandemic on its business in early March and such impacts have continued into April. The principal impacts of the global COVID-19 pandemic were a significant reduction in keg demand from the on-premise channel and higher labor and safety related costs at Company-owned breweries. The Company expects to continue to be impacted as the situation remains dynamic and subject to rapid and possibly material change. Additional impacts may arise of which the Company is not currently aware. The nature and extent of such impacts will depend on future developments, which are highly uncertain and cannot be predicted.

The Company evaluated subsequent events occurring after the balance sheet date, March 28, 2020, and concluded that there were no other events of which management was aware that occurred after the balance sheet date that would require any adjustment to or disclosure in the accompanying consolidated financial statements.

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

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of the Company for the thirteen week period ended March 28, 2020, as compared to the thirteen week period ended March 30, 2019. This discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of the Company and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

### RESULTS OF OPERATIONS

#### *Thirteen Weeks Ended March 28, 2020 compared to Thirteen Weeks Ended March 30, 2019*

|   | Thirteen Weeks Ended<br>(in thousands, except per barrel) |                     |        |                   |                     |        | Amount<br>change | % change | Per barrel<br>change |
|---|---|---------------------|--------|-------------------|---------------------|--------|------------------|----------|----------------------|
|   | March 28,<br>2020   |                     |        | March 30,<br>2019 |                     |        |                  |          |                      |
|   | Per barrel  | % of net<br>revenue |        | Per barrel        | % of net<br>revenue |        |                  |          |                      |
| Barrels sold                                  | 1,423   |                     |        | 1,076             |                     |        | 347              | 32.2%    |                      |
| Net revenue                                   | \$330,565   | \$ 232.24           | 100.0% | \$251,651         | \$ 233.77           | 100.0% | \$78,914         | 31.4%    | \$ (1.53)            |
| Cost of goods                                 | 182,592   | 128.28              | 55.2%  | 127,111           | 118.08              | 50.5%  | 55,481           | 43.6%    | 10.20                |
| Gross profit                                  | 147,973   | 103.96              | 44.8%  | 124,540           | 115.69              | 49.5%  | 23,433           | 18.8%    | (11.73)              |
| Advertising, promotional and selling expenses | 97,891  | 68.78               | 29.6%  | 71,723            | 66.63               | 28.5%  | 26,168           | 36.5%    | 2.15                 |
| General and administrative expenses           | 27,029  | 18.99               | 8.2%   | 23,374            | 21.71               | 9.3%   | 3,655            | 15.6%    | (2.72)               |
| Impairment of assets                          | 1,521   | 1.07                | 0.5%   | —                 | —                   | 0.0%   | 1,521            | 0.0%     | 1.07                 |
| Total operating expenses                      | 126,441   | 88.83               | 38.2%  | 95,097            | 88.34               | 37.8%  | 31,344           | 33.0%    | 0.49                 |
| Operating income                              | 21,532  | 15.13               | 6.5%   | 29,443            | 27.35               | 11.7%  | (7,911)          | -26.9%   | (12.22)              |
| Other (expense) income, net                   | (297)   | (0.21)              | -0.1%  | 385               | 0.36                | 0.2%   | (682)            | -177.1%  | (0.57)               |
| Income before income tax expense              | 21,235  | 14.92               | 6.4%   | 29,828            | 27.71               | 11.9%  | (8,593)          | -28.8%   | (12.79)              |
| Income tax expense                            | 3,001   | 2.11                | 0.9%   | 6,134             | 5.70                | 2.4%   | (3,133)          | -51.1%   | (3.59)               |
| Net income                                    | \$ 18,234   | \$ 12.81            | 5.5%   | \$ 23,694         | \$ 22.01            | 9.4%   | \$ (5,460)       | -23.0%   | \$ (9.20)            |

**Net revenue.** Net revenue increased by \$78.9 million, or 31.4%, to \$330.6 million for the thirteen weeks ended March 28, 2020, as compared to \$251.7 million for the thirteen weeks ended March 30, 2019, primarily as a result of an increase in shipments, partially offset by estimated keg returns from distributors and retailers related to COVID-19 of \$5.8 million.

**Volume.** Total shipment volume increased by 32.2% to 1,423,000 barrels for the thirteen weeks ended March 28, 2020, as compared to 1,076,000 barrels for the thirteen weeks ended March 30, 2019, primarily due to increases in shipments of Truly Hard Seltzer and Twisted Tea brand products and the addition of Dogfish Head brand products, partially offset by decreases in Angry Orchard and Samuel Adams brand products.

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Depletions, or sales by distributors to retailers, of the Company's products for the thirteen weeks ended March 28, 2020 increased by approximately 36% compared to the thirteen weeks ended March 30, 2019, primarily due to increases in depletions of Truly Hard Seltzer and Twisted Tea brand products and the addition of Dogfish Head brand products, partially offset by decreases in Angry Orchard and Samuel Adams brand products.

The Company believes distributor inventory as of March 28, 2020 averaged approximately 6 weeks on hand and was at an appropriate level based on the supply chain capacity constraints and inventory requirements to support the forecasted growth of Truly and Twisted Tea brands over the summer. The Company expects wholesaler inventory levels in terms of weeks on hand to return to more normal levels of approximately 4 weeks on hand later in the year.

*Net revenue per barrel.* Net revenue per barrel decreased by 0.7% to \$232.24 per barrel for the thirteen weeks ended March 28, 2020, as compared to \$233.77 per barrel for the comparable period in 2019, primarily due to estimated keg returns from distributors and retailers related to COVID-19 of \$5.8 million, partially offset by price increases and package mix.

**Cost of goods sold.** Cost of goods sold was \$128.28 per barrel for the thirteen weeks ended March 28, 2020, as compared to \$118.08 per barrel for the thirteen weeks ended March 30, 2019. The 2020 increase in cost of goods sold of \$10.20 per barrel was primarily the result of higher processing costs due to increased production at third party breweries and higher processing costs and finished goods keg inventory write-offs at Company-owned breweries of which \$3.6 million were direct costs related to COVID-19, partially offset by cost saving initiatives at Company-owned breweries.

**Gross profit.** Gross profit was \$103.96 per barrel for the thirteen weeks ended March 28, 2020, as compared to \$115.69 per barrel for the thirteen weeks ended March 30, 2019. The decrease in gross profit per barrel of \$11.73 was the result of a decrease in net revenue per barrel and an increase in cost of goods sold per barrel.

The Company includes freight charges related to the movement of finished goods from its 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 those of other entities that classify costs related to distribution differently.

**Advertising, promotional and selling.** Advertising, promotional and selling expenses increased by \$26.2 million, or 36.5%, to \$97.9 million for the thirteen weeks ended March 28, 2020, as compared to \$71.7 million for the thirteen weeks ended March 30, 2019. The increase was primarily due to increased investments in media, production and local marketing, the addition of Dogfish Head brand-related expenses beginning July 3, 2019, higher salaries and benefits costs and increased freight to distributors due to higher volumes.

Advertising, promotional and selling expenses were 29.6% of net revenue, or \$68.78 per barrel, for the thirteen weeks ended March 28, 2020, as compared to 28.5% of net revenue, or \$66.63 per barrel, for the thirteen weeks ended March 30, 2019. This increase per barrel is primarily due to advertising, promotional and selling expenses growing at a higher rate than shipments. The Company invests in advertising and promotional campaigns that it believes will be effective, but there is no guarantee that such investments 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 statements of comprehensive income as reductions to advertising, promotional and selling expenses. Historically, contributions from distributors for advertising and promotional activities have amounted to between 2% and 3% of net sales. The Company may adjust its promotional efforts in the distributors' markets if changes occur in these promotional contribution arrangements, depending on industry and market conditions.

**General and administrative.** General and administrative expenses increased by \$3.7 million, or 15.6%, to \$27.0 million for the thirteen weeks ended March 28, 2020, as compared to \$23.4 million for the thirteen weeks ended March 30, 2019. The increase was primarily due to increases in salaries and benefits costs and the addition of Dogfish Head general and administrative expenses beginning July 3, 2019.

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**Impairment of assets.** Impairment of long-lived assets increased \$1.5 million from the first quarter of 2019, primarily due write-downs of brewery equipment at the Company's Cincinnati brewery.

**Income tax expense.** During the thirteen weeks ended March 28, 2020, the Company recorded a net income tax expense of \$3.0 million which consists of \$5.0 million income tax expenses partially offset by a \$2.0 million tax benefit related to stock option exercises in accordance with ASU 2016-09. The Company's effective tax rate for the thirteen weeks ended March 28, 2020, excluding the impact of ASU 2016-09, decreased to 23.6% from 26.5% for the thirteen weeks ended March 30, 2019, primarily due to one-time state tax benefits related to capital investments.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash increased to \$129.5 million as of March 28, 2020 from \$36.7 million as of December 28, 2019, reflecting cash borrowed on the Company's line of credit and cash provided by operating activities, partially offset by purchases of property, plant and equipment.

Cash provided by operating activities consists of net income, adjusted for certain non-cash items, such as depreciation and amortization, stock-based compensation expense, 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 for the thirteen weeks ended March 28, 2020 was \$18.9 million and primarily consisted of net income of \$18.2 million and non-cash items of \$24.8 million, partially offset by a net increase in operating assets and liabilities of \$24.1 million. Cash provided by operating activities for the thirteen weeks ended March 30, 2019 was \$13.6 million and primarily consisted of net income of \$23.7 million and non-cash items of \$17.0 million, partially offset by a net increase in operating assets and liabilities of \$27.1 million.

The Company used \$27.3 million in investing activities during the thirteen weeks ended March 28, 2020, as compared to \$22.1 million during the thirteen weeks ended March 30, 2019. Investing activities primarily consisted of capital investments made mostly in the Company's breweries to drive efficiencies and cost reductions, and support product innovation and future growth.

Cash provided by financing activities was \$101.2 million during the thirteen weeks ended March 28, 2020, as compared to \$2.9 million provided by financing activities during the thirteen weeks ended March 30, 2019. The \$98.3 million increase in cash provided by financing activities in 2020 from 2019 is primarily due to \$100.0 million of borrowings on the Company's line of credit to enhance its ability to address the impact of COVID-19 pandemic.

During the thirteen weeks ended March 28, 2020 and the period from March 29, 2020 through April 17, 2020 the Company did not repurchase any shares of its Class A Common Stock. As of April 17, 2020, the Company had repurchased a cumulative total of approximately 13.8 million shares of its Class A Common Stock for an aggregate purchase price of \$840.7 million and had approximately \$90.3 million remaining on the \$931.0 million stock repurchase expenditure limit set by the Board of Directors.

The Company expects that its cash balance as of March 28, 2020 of \$129.5 million, along with future operating cash flow and the unused balance of the Company's line of credit of \$50.0 million, will be sufficient to fund future cash requirements. The Company's \$150.0 million credit facility has a term not scheduled to expire until March 31, 2023. As of the date of this filing, the Company had \$100.0 million in borrowings and was not in violation of any of its covenants to the lender under the credit facility.

### **2020 Outlook**

Year-to-date depletions through the fifteen weeks ended April 11, 2020 are estimated to have increased approximately 32% from the comparable period in 2019. Excluding the Dogfish head impact, depletions increased 27%.

The Company began seeing the impact of the COVID-19 pandemic on its business in early March. Prior to then, the Company was on track to maintain its financial guidance for full-year fiscal 2020. Given the many rapidly changing variables related to the pandemic, at this time the Company is not in a position to accurately forecast the future impacts and is withdrawing its full-year fiscal 2020 financial guidance.

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

### **Off-balance Sheet Arrangements**

At March 28, 2020, the Company did not have off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### **Contractual Obligations**

There were no material changes outside of the ordinary course of the Company's business to contractual obligations during the three-month period ended March 28, 2020.

### **Critical Accounting Policies**

There were no material changes to the Company's critical accounting policies during the three-month period ended March 28, 2020.

## **FORWARD-LOOKING STATEMENTS**

In this Quarterly Report on Form 10-Q and in other documents incorporated herein, as well as in oral statements made by the Company, statements that are prefaced with the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "designed" and similar expressions, are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, results of operations and financial position. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances about which the Company can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect subsequent events or circumstances. Forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth below in addition to the other information set forth in this Quarterly Report on Form 10-Q and in the section titled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 28, 2019.

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

Since December 28, 2019, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

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

As of March 28, 2020, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and that such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As a result of the COVID-19 pandemic, certain employees of the Company began working remotely in March 2020 but these changes to the working environment did not have a material effect on the Company's internal control over financial reporting. There was no other change in the Company's internal control over financial reporting that occurred during the thirteen weeks ended March 28, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

During the thirteen weeks ended March 28, 2020, there were no material changes to the disclosure made in the Company's Annual Report on Form 10-K for the year ended December 28, 2019.

### Item 1A. RISK FACTORS

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 28, 2019, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results. There has been no material change in the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 28, 2019, with the exception of the addition of the following risk factor:

***The Global COVID-19 Pandemic Has Disrupted the Company's Business and the Company's Financial Condition and Operating Results Have Been and Are Expected To Continue to be Adversely Affected by the Outbreak and Its Effects.***

The Company's operations and business has been negatively affected and could be materially and adversely affected by the COVID-19 pandemic and related weak, or weakening of, economic or other negative conditions, particularly in the United States where the Company derives most of its revenue and profit, but also in Europe, where some of the Company's ingredient suppliers are located. National, state and local governments have responded to the COVID-19 pandemic in a variety of ways, including, without limitation, by declaring states of emergency, restricting people from gathering in groups or interacting within a certain physical distance (i.e., social distancing), and in certain cases, ordering businesses to close or limit operations or people to stay at home. Although the Company has been permitted to continue to operate its breweries in all of the jurisdictions in which it operates, there is no assurance that the Company will be permitted to operate these facilities under every future government order or other restriction and in every location or that the third party breweries on which the Company relies for production will similarly be permitted to continue to operate. In particular, any limitations on, or closures of, the Company's Pennsylvania, Cincinnati or Milton breweries or its third party breweries, could have a material adverse impact on the Company's ability to manufacture products and service customers and could have a material adverse impact on the Company's business, financial condition and results of operations.

During the first quarter of fiscal 2020, the principal impacts of the global COVID-19 pandemic were a significant reduction in keg demand from the on-premise channel and higher labor and safety related costs at Company-owned breweries. The Company expects to continue to be impacted as the situation remains dynamic and subject to rapid and possibly material change. Continued or additional disruptions to the Company's business and potential associated impacts to the Company's financial condition and results of operations include, but are not limited to:

- reduced demand for the Company's products, due to adverse and uncertain economic conditions, such as increased unemployment, a prolonged downturn in economic growth and other financial hardships, or a decline in consumer confidence, as a result of health concerns;
- unpredictable drinker behaviors and reduced demand for the Company's products, due to on-premise closures, government quarantines and other restrictions on social gatherings;
- inability to manufacture and ship the Company's products in quantities necessary to meet drinker demand and achieve planned shipment and depletion targets due to disruptions at the Company-owned breweries and third party breweries caused by:
  - the Company's inability to maintain a sufficient workforce at Company-owned breweries due to the health-related effects of COVID-19 and similar staffing issues at third party breweries;
  - disruptions at the Company-owned breweries and third party breweries caused by an inability to maintain a sufficient quantity of essential supplies, such as ingredients and packaging materials, and maintain logistics and other manufacturing and supply chain capabilities necessary for the manufacture and distribution of the Company's products;
  - failure of third parties on which the Company relies, including the Company's inventory suppliers, third party breweries, distributors, and logistics and transportation providers, to continue to meet on a timely basis their obligations to the Company, which may be caused by their own financial or operational difficulties;



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- potential incremental costs associated with mitigating the effects of the pandemic on the Company's operations, including increased labor, freight and logistics costs and other expenses; or
- significant changes in the conditions in markets in which the Company produces, sells or distributes Company products, including prolonged or additional quarantines, governmental and regulatory actions, closures or other restrictions that limit or close the Company's operating and manufacturing facilities, restrict the ability of the Company's employees to perform necessary business functions, restrict or prevent consumers access to the Company products, or otherwise prevent the Company's third-parties from sufficiently staffing operations, including operations necessary for the production, distribution, sale and support of Company products.

These impacts could place limitations on the Company's ability to operate effectively and could have a material and adverse effect on the Company's operations, financial condition and operating results. The Company has implemented policies and procedures at its Company-owned breweries to address potential risks, including entrance screening and temperature checks, face mask requirements, reorganizing work to increase social distancing between and among shifts, and adding two hours of workspace cleaning per shift. As the situation continues to evolve and more information and guidance becomes available, the Company may adjust its current policies and procedures, so as to address the rapidly changing variables related to the pandemic. Additional impacts may arise of which the Company is not currently aware. The nature and extent of such impacts will depend on future developments, which are highly uncertain and cannot be predicted.

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

As of April 17, 2020, the Company had repurchased a cumulative total of approximately 13.8 million shares of its Class A Common Stock for an aggregate purchase price of \$840.7 million and had \$90.3 million remaining on the \$931.0 million share buyback expenditure limit set by the Board of Directors. During the thirteen weeks ended March 28, 2020, the Company did not repurchase any shares of its Class A Common Stock under the previously announced repurchase program.

During the thirteen weeks ended March 28, 2020, the Company repurchased 225 shares of its Class A Common Stock, of which all represent repurchases of unvested investment shares issued under the Investment Share Program of the Company's Employee Equity Incentive Plan, as illustrated in the table below:

| Period                                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| December 29, 2020 to February 1, 2020 | 167                              | \$132.37                     | —  | \$ 90,335  |
| February 2, 2020 to February 29, 2020 | —                                | —                            | —  | 90,335   |
| March 1, 2020 to March 28, 2020       | 58                               | 105.56                       | —  | 90,335   |
| Total                                 | 225                              | \$125.46                     | —  | 90,335   |

As of April 17, 2020, the Company had 9.7 million shares of Class A Common Stock outstanding and 2.5 million shares of Class B Common Stock outstanding.

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

Not Applicable

### **Item 4. MINE SAFETY DISCLOSURES**

Not Applicable

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

Not Applicable

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### Item 6. EXHIBITS

| <u>Exhibit No.</u> | <u>Title</u>  |
|--------------------|---|
| **10.1             | <a href="#"><u>Registration Rights Agreement with the Stockholders named therein, dated July 3, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended June 29, 2019, filed on July 25, 2019).</u></a>               |
| **10.2             | <a href="#"><u>Indemnification Agreement with the Dogfish Head Founders, dated July 3, 2019 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the period ended June 29, 2019, filed on July 25, 2019).</u></a>                        |
| **10.3             | <a href="#"><u>Employment Agreement with Sam A. Calagione III, Dogfish Head Brewer and Founder, dated July 3, 2019 (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the period ended June 29, 2019, filed on July 25, 2019).</u></a> |
| **10.4             | <a href="#"><u>Coworker Agreement with George Pastrana, President – Dogfish Head, dated July 3, 2019 (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the period ended June 29, 2019, filed on July 25, 2019).</u></a>               |
| **10.5             | <a href="#"><u>Offer Letter to Lesya Lysyj, Chief Marketing Officer, dated March 21, 2019 (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the period ended June 29, 2019, filed on July 25, 2019).</u></a>                          |
| *31.1              | <a href="#"><u>Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>                                  |
| *31.2              | <a href="#"><u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>  |
| *32.1              | <a href="#"><u>Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>  |
| *32.2              | <a href="#"><u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>  |
| *101.INS           | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document  |
| *101.SCH           | XBRL Taxonomy Extension Schema Document   |
| *101.CAL           | XBRL Taxonomy Calculation Linkbase Document   |
| *101.LAB           | XBRL Taxonomy Label Linkbase Document   |
| *101.PRE           | XBRL Taxonomy Presentation Linkbase Document  |
| *101.DEF           | XBRL Definition Linkbase Document   |
| *104               | The cover page from this Quarterly Report on Form 10-Q for the quarter ended March 28, 2020, formatted in Inline XBRL (formatted as Inline XBRL and contained in Exhibit 101).  |

\* Filed with this report

\*\* Designates management contract or compensatory plan or arrangement

**SIGNATURES**

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

THE BOSTON BEER COMPANY, INC.  
(Registrant)

Date: April 22, 2020

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

Date: April 22, 2020

/s/ Frank H. Smalla  
Frank H. Smalla  
Chief Financial Officer  
(principal financial officer)

I, David A. Burwick, certify that:

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

Date: April 22, 2020

/s/ David A. Burwick

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

I, Frank H. Smalla, certify that:

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

Date: April 22, 2020

/s/ Frank H. Smalla

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

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

In connection with the Quarterly Report of The Boston Beer Company, Inc. (the "Company") on Form 10-Q for the period ended March 28, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, David A. Burwick, President and Chief Executive Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 22, 2020

/s/ David A. Burwick

David A. Burwick

President and Chief Executive Officer

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

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

In connection with the Quarterly Report of The Boston Beer Company, Inc. (the "Company") on Form 10-Q for the period ended March 28, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Frank H. Smalla, Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 22, 2020

/s/ Frank H. Smalla

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Frank H. Smalla  
Chief Financial Officer

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