BOSTON BEER CO INC
Form DEF 14A
April 14, 2006

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# SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

**Filed by the Registrant x** **Filed by a Party other than the Registrant o**

Check the appropriate box:

o Preliminary Proxy Statement
x Definitive Proxy Statement
o Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

# The Boston Beer Company, Inc.

*(Name of Registrant as Specified In Its Charter)*

The Boston Beer Company, Inc.

*(Name of Person(s) Filing Proxy Statement)*

**Payment of Filing Fee (Check the appropriate box):**

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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o Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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**THE BOSTON BEER COMPANY, INC.**

**NOTICE OF THE 2006 ANNUAL MEETING OF STOCKHOLDERS**

**May 23, 2006**

To the Stockholders:

The 2006 Annual Meeting of the Stockholders of THE BOSTON BEER COMPANY, INC. (the Company ) will be held on Tuesday, May 23, 2006, at 10:00 a.m. at The Brewery located at 30 Germania Street, Jamaica Plain, Boston, Massachusetts, for the following purposes:

1. The election by the holders of the Class A Common Stock of three (3) Class A Directors, each to serve for a term of one (1) year.

2. The election by the sole holder of the Class B Common Stock of four (4) Class B Directors, each to serve for a term of one (1) year.

3. To consider and act upon any other business which may properly come before the meeting.

The Board of Directors has fixed the close of business on March 24, 2006 as the record date for the meeting. Only stockholders of record on that date are entitled to notice of and to vote at the meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this letter.

**PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING IN PERSON.**

By order of the Board of Directors

C. James Koch,
*Clerk*

Boston, Massachusetts
April 14, 2006

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## THE BOSTON BEER COMPANY, INC.

## PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of The Boston Beer Company, Inc. (the Company ) for use at the 2006 Annual Meeting of Stockholders to be held on Tuesday, May 23, 2006, at the time and place set forth in the notice of the meeting, and at any adjournments thereof. The approximate date on which this Proxy Statement and form of proxy are first being mailed to stockholders is April 14, 2006.

If the enclosed proxy is properly executed and returned, it will be voted in the manner directed by the stockholder. If no instructions are specified, proxies will be voted in favor of the election of directors as set forth in this proxy statement. In addition, if other matters come before the meeting, the persons named in the accompanying proxy and acting thereunder will have discretion to vote on these matters in accordance with their best judgment. Any person giving the enclosed form of proxy has the power to revoke it by voting in person at the meeting, or by giving written notice of revocation to the Clerk of the Company at any time before the proxy is exercised. Please note, however, that if your shares are held of record by a broker, bank or nominee and you wish to vote at the meeting, you will not be permitted to vote in person unless you first obtain a proxy issued in your name from the record holder.

The holders of a majority in interest of the issued and outstanding Class A Common Stock are required to be present in person or to be represented by proxy at the meeting in order to constitute a quorum for the election of the Class A Directors. The election of each of the nominees for Class A Director, as set forth below in this Proxy Statement in greater detail, will be decided by plurality vote of the holders of Class A Common Stock present in person or represented by proxy at the Meeting. The affirmative vote of the sole holder of the outstanding shares of Class B Common Stock, voting in person or by proxy at the meeting, is required to elect the Class B Directors, also as set forth below in this Proxy Statement in greater detail.

Abstentions and non-votes are counted as present in determining whether the quorum requirement is satisfied. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Abstentions and broker non-votes will not be taken into account in determining the outcome of the election of directors.

The Company will bear the cost of the solicitation. In addition to mailing this material to shareholders, the Company has asked banks and brokers to forward copies to persons for whom they hold stock of the Company and request authority for execution of the proxies. The Company will reimburse the banks and brokers for their reasonable out-of-pocket expenses in doing so. Officers and regular employees of the Company, without being additionally compensated, may solicit proxies by mail, telephone, telegram, facsimile or personal contact. All reasonable proxy soliciting expenses will be paid by the Company in connection with the solicitation of votes for the Annual Meeting.

The Company s principal executive offices are located at 75 Arlington Street, Boston, Massachusetts 02116, telephone number (617) 368-5000.

## RECORD DATE AND VOTING SECURITIES

Only stockholders of record at the close of business March 24, 2006 are entitled to notice of and to vote at the meeting. On that date, the Company had outstanding and entitled to vote 9,848,593 shares of Class A Common Stock, $.01 par value per share, and 4,107,355 shares of Class B Common Stock, $.01 par value per share. Each outstanding share of the Company s Class A and Class B Common Stock entitles the record holder to one (1) vote on each matter properly brought before the Class.

**Items 1 and 2.** ***ELECTION OF CLASS A AND CLASS B DIRECTORS***

Upon the recommendation of the Nominating/Governance Committee, the Board of Directors proposes that the initial number of Directors for the ensuing year be fixed at seven (7), consisting of three (3) Class A Directors to

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be elected by the holders of the Class A Common Stock for a term of one (1) year, and four (4) Class B Directors to be elected by the sole holder of the Class B Common Stock, also for a term of one (1) year, reserving the right of the sole holder of the Class B Common Stock to increase the number of Class B Directors to up to seven (7) at such time as he deems appropriate and to elect up to three (3) additional Class B Directors accordingly.

It is proposed that the holders of the Class A Common Stock elect each of the three (3) nominees for Class A Director to serve for a term of one (1) year and until his successor is duly elected and qualified or until he sooner dies, resigns or is removed.

It is anticipated that the sole holder of the Class B Common Stock will elect each of the four (4) nominees for Class B Director also to serve for a term of one (1) year and until his successor is duly elected and qualified or until he sooner dies, resigns or is removed. Three (3) of the four (4) nominees for Class B Directors are either Executive Officers of the Company or immediate family members of such Executive Officers.

The persons named in the accompanying proxy will vote, unless authority is withheld, for the election as Class A Directors of the three (3) nominees named below. In the event that any of the nominees should become unavailable for election, which is not anticipated, the persons named in the accompanying proxy will vote for such substitute nominees as the incumbent Class A Directors, acting pursuant to Section 4.8 of the Company s By-Laws as a nominating committee, may nominate. As indicated below, none of the nominees for Class A Directors are Executive Officers of the Company or its subsidiaries nor immediate family members of such Executive Officers.

*Nominees Proposed in Accordance with the Terms of the Articles of Organization, By-Laws of the Company and the Corporate Governance Guidelines.* Set forth below are the nominees for election as Class A and Class B Directors, respectively, for terms ending in 2007 and certain information about each of them.

***Class A Directors*:**

| **Name of Nominee** | **Age** | **Year First Elected a Director** | **Position With the Company or Principal Occupation During the Past Five Years** |
|---|---|---|---|
| David A. Burwick | 44 | 2005 | Mr. Burwick is the President of Pepsi-QTG Canada. Prior to assuming that position in January 2006, he had served as Senior Vice President and Chief Marketing Officer of PepsiCo North America, a position he held since 2003. Prior to that, Mr. Burwick held several positions with PepsiCo North America, most recently Vice President of Marketing, Carbonated Soft Drinks, a position he held since 2000. |
| Pearson C. Cummin, III | 63 | 1995 | Mr. Cummin served as a general partner of Consumer Venture Partners, a Greenwich, Connecticut based venture capital firm, from January 1986 to December 2002. Mr. Cummin also serves as a Director, Chairman of the Compensation Committee and a member of the Nominating/Governance Committee of Pacific Sunwear of California, Inc., a California-based |

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|---|---|---|---|
| | | | specialty apparel retailer. |
| Jean-Michel Valette | 45 | 2003 | Mr. Valette serves as Chairman of Robert Mondavi Winery, a California wine company. Prior to assuming that position, he had served as President and Managing Director of Robert Mondavi Winery since October 2004. He is also Chairman of the Board and a member of the Audit Committee of Peet s Coffee and Tea Inc., a California-based specialty coffee retailer, and serves as a Director and Chairman of the Audit Committee of Select Comfort Corporation, a Minneapolis-based bed retailer. Mr. Valette also serves as an independent advisor to select branded consumer companies. Mr. Valette has served as a Class B Director of the Company for the last three years. |

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***Class B Directors*:**

| Name of Nominee | Age | Year First Elected a Director | Position With the Company or Principal Occupation During the Past Five Years |
|---|---|---|---|
| C. James Koch | 56 | 1995 | Mr. Koch founded the Company in 1984 and currently serves as the Chairman and Clerk of the Company. Until January 2001, Mr. Koch also served as the Company s Chief Executive Officer. |
| Charles Joseph Koch | 83 | 1995 | Mr. Koch, a former brewmaster, is the father of founder C. James Koch. In 1989, Mr. Koch retired as founder and co-owner of Chemicals, Inc., a distributor of brewing and industrial chemicals in southwestern Ohio. |
| Jay Margolis | 57 | 2006 | Mr. Margolis is the President of the Apparel Group of Limited Brands. Before assuming that position in 2005, he had been President and Chief Operating Officer of Reebok, Inc. since 2001, where he also served as a Director. |
| Martin F. Roper | 43 | 1999 | Mr. Roper is the President and Chief Executive Officer of the Company. Prior to assuming that position in January 2001, he had served as the President and Chief Operating Officer of the Company since December 1999. Mr. Roper joined the Company as Vice President of Manufacturing and Business Development in September 1994 and became the Chief Operating Officer in April 1997. |

## CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Company is committed to having sound corporate governance principles. The Company s Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the Audit, Compensation and Nominating/Governance Committees are available on the Company s website, www.bostonbeer.com/CorporateGovernance, and are also available in print to any stockholder who requests them. Such requests should be directed to the Investor Relations Department, The Boston Beer Company, Inc., 75 Arlington Street, Boston, MA 02116.

### Board Independence

The Board has determined that all of the Class A directors standing for election, namely, Messrs. Burwick, Cummin and Valette, and one (1) of the Class B directors standing for election, namely, Mr. Margolis, together constituting a majority of the Board of Directors, have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and are independent as provided in the New York Stock Exchange ( NYSE ) and Securities and Exchange Commission ( SEC ) director independence standards. In addition, the Board has determined that each member of the Audit, Compensation and Nominating/Governance Committees has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and is independent as provided in the NYSE and SEC director independence standards.

**Board Meetings and Structure; Committee Composition; Director Compensation**

During the Company s 2005 fiscal year, there were five (5) regular meetings of the Board of Directors of the Company. All of the Directors attended, either in person or by telephone, all board meetings and all meetings of the Committees of the Board of Directors on which they served.

The Company strongly encourages all directors to attend annual meetings of stockholders. All Directors except Charles Koch attended the last annual meeting of stockholders.

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As of the date of this Proxy Statement, the Board has eight (8) directors and three (3) standing committees, namely, the Audit Committee, the Compensation Committee and the Nominating/Governance Committee. Robert N. Hiatt, a Class A Director since 1998, will be retiring from the Board at the end of his current term. Committee membership during the last fiscal year and the function of each committee are described below. Each of the committees operates under a written charter adopted by the Board.

In October 2005, the Compensation Committee considered a study prepared by an independent executive compensation consulting firm with respect to compensation of non-management Directors. As a result, certain adjustments were made to non-management Director compensation to take effect in 2006. Each year non-management directors receive $7,500 as an annual retainer, as well as an option grant for 5,000 shares of the Company s Class A Common Stock. In 2005, members of the Audit Committee received an additional annual retainer of $10,000, which, in 2006 will be reduced to $9,000, except for the Chairman of the Audit Committee who will receive an annual retainer of $11,000 for his services as a member and Chairman. Each Committee Chair received an additional annual retainer of $1,000 in 2005, which amount will be increased to $2,500 in 2006 for the Chairmen of the Compensation and Nominating/Governance Committees. In 2006, non-management Directors other than Chairman will receive an annual retainer of $500 for each Committee of which such Director is a member. All retainers and the annual option grant are pro rated if the non-management Director is appointed after the annual meeting of stockholders. Non-management directors also receive compensation for attending Board and Committee meetings as follows: $2,500 was paid in 2005 for each Board meeting attended in person, which amount has been increased to $3,000 effective January 1, 2006; $1,000 for each Board meeting attended by telephone; $500 for each Committee meeting attended in person in 2005, which amount has been increased to $750 effective January 1, 2006; and $200 for each Committee meeting attended by telephone. The first time a non-management director is elected to the Board of Directors, he or she receives an option grant for 5,000 shares of the Company s Class A Common Stock pursuant to the Company s Non-Employee Director Stock Option Plan, as amended. On February 14, 2003, the Board of Directors voted to make a one-time option grant for 5,000 shares to all current non-management directors upon their re-election to the Board. All options to non-management directors are granted under the Company s Non-Employee Director Stock Option Plan, as amended and restated, pursuant to which options are granted at the fair market value on the date of grant, are immediately vested and will expire the earlier of 10 years or 3 years after the grantee ceases to be a director of the Company. In October 2004, the Non-Employee Director Stock Option Plan was amended and restated by action of the sole Class B Stockholder, pursuant to which the number of shares of Class A Common Stock available for issuance under the Plan was increased from 200,000 shares to 350,000 shares.

In 2005, non-management directors received the following cash compensation:

| **Name** | **Cash Compensation** | |
|---|---|---|
| David A. Burwick | $ | 24,500 |
| Pearson C. Cummin, III | $ | 36,600 |
| Robert N. Hiatt | $ | 36,600 |
| Charles Joseph Koch | $ | 14,000 |
| Jean-Michel Valette | $ | 43,400(1) |

(1) Includes payment of $6,000 in pro rated retainer to Mr. Valette that was due upon his joining the Audit Committee in August 2004, but which was not made until February 2005.

***Audit Committee***

The Audit Committee of the Board of Directors assists the Board in fulfilling its responsibility to oversee management s conduct of the Company s financial reporting process, including overseeing the financial reports and other financial information provided by the Company s systems of internal accounting and financial controls and the annual independent audit of the Company s financial statements. The Audit Committee prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews the Audit Committee charter and the committee s performance; appoints, evaluates and determines the compensation of the Company s independent auditors; reviews and approves the scope of the annual audit, the audit fee and the financial statements; pre-approves all audit and non-audit services provided to the Company by the Company s independent auditors; reviews the Company s disclosure controls and procedures, internal controls and corporate policies relating to financial information and earnings guidance; and reviews other risks that may have a significant impact on the Company s financial statements.

The present members of the Audit Committee are Pearson C. Cummin, III (Chairman), Robert N. Hiatt, and Jean-Michel Valette. The Audit Committee had seven (7) meetings in 2005. The report of the Audit Committee is included in this Proxy Statement on page 16.

***Compensation Committee***

The Compensation Committee discharges the Board s responsibilities relating to compensation of the Company s officers and directors and exercises overall responsibility for evaluating and approving compensation programs and policies of the Company relating to officers and directors; provides general oversight of the Company s compensation structure, including the Company s equity compensation plans; reviews and makes recommendations to the Board concerning policies or guidelines with respect to employment agreements, severance arrangements, change-in-control agreements or arrangements involving senior executive officers and directors of the Company; makes reports to the Board of Directors on a regular basis; reviews its own performance and reviews and reassesses the adequacy of its charter and recommends any proposed changes to the Board of Directors for its approval; and issues an annual report on executive compensation for inclusion in the Company s proxy statement. Other responsibilities of the Compensation Committee include the review and approval of corporate goals and objectives relevant to the compensation of the Chairman and the CEO and evaluation of the performance of the Chairman and the CEO in light of those goals and objectives; and setting the compensation levels of the Chairman and the CEO based on such evaluation.

The present members of the Compensation Committee are Robert N. Hiatt (Chairman), David A. Burwick, and Jean-Michel Valette. The Compensation Committee held five (5) meetings in 2005. The report of the Compensation Committee is included in this Proxy Statement on page 8.

***Nominating/Governance Committee***

The Nominating/Governance Committee assists the Board by identifying individuals qualified to become Board members, recommending nominees for election as Class A Directors to the full Board of Directors, recommending to the Board nominees for each Board committee, developing and recommending to the Board a set of corporate governance principles applicable to the Company and overseeing an annual evaluation of the Board and management. The Nominating/Governance Committee periodically assesses the size and composition of the Board; reviews the adequacy of the Company s corporate governance guidelines and recommends any necessary changes to the full Board for approval; conducts a preliminary review of director independence and financial literacy and expertise of Audit Committee members; annually evaluates the performance of the Chairman and the CEO; and makes periodic reports to the Board on succession planning and management development. The Chairman of the Nominating/Governance Committee receives communications directed to non-management directors.

The present members of the Nominating/Governance Committee are Jean-Michel Valette (Chairman), David A. Burwick and Pearson C. Cummin, III. The Nominating/Governance Committee met four (4) times in 2005.

**Consideration of Nominees for Director**

***Identifying and Evaluating Nominees for the Board of Directors***

The Nominating/Governance Committee employs a variety of methods for identifying and evaluating nominees for director. The Committee assesses and reviews with the full Board at least annually the skills and characteristics that should be reflected in the composition of the Board as a whole. The review includes an examination of the extent to which the requisite skills and characteristics are reflected in the then current Board members and seeks to identify any particular qualifications that should be sought in new directors for the purpose of augmenting the skills and experience represented on the Board. The assessment takes into account issues of experience, judgment, age and diversity in aspects of business relevant to the Company s affairs, all in the context of the perceived needs of the Board at that time. Candidates may come to the attention of the Committee through a number of sources, including current Board members, professional search firms, shareholders or other persons. Candidates are evaluated at regular or special meetings of the Nominating/Governance Committee and may be considered at any point during the year.

***Shareholder Nominees***

The policy of the Nominating/Governance Committee is to consider properly submitted shareholder nominations for candidates for membership on the Board as described above under Identifying and Evaluating Nominees for the Board Directors. The same process is used for evaluating a director candidate submitted by a shareholder as is used in the case of any other potential nominee. Any shareholder nominations proposed for consideration by the Nominating/Governance Committee should include the nominee s name and qualifications for Board membership and should be addressed to:

Chairman
Nominating/Governance Committee
The Boston Beer Company, Inc.
75 Arlington Street
Boston, MA 02116

If the Company receives a communication from a shareholder nominating a candidate that is not submitted as described above, it will forward such communication to the Chairman of the Nominating/Governance Committee.

**Executive Sessions**

Those non-management directors who are independent met in scheduled executive sessions without management five (5) times during the Company s 2005 fiscal year, which were chaired by Mr. Jean-Michel Valette.

**Communications with the Board**

Stockholders may communicate with the Board of Directors or any individual director by submitting an email to the Company s Board at *bod@bostonbeer.com*. All directors have access to this email address. Communications that are intended specifically for non-management directors should be sent to the email address above to the attention of the Chairman of the Nominating/Governance Committee.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of the Company s Class A Common Stock and Class B Common Stock as of March 7, 2006 by:

each person (or group of affiliated persons) known by the Company to be the beneficial owner(s) of more than five percent (5%) of the outstanding Class A Common Stock;

each current director of the Company, nominees and the executive officers of the Company named below in the Summary Compensation Table on page 11; and

all current directors and executive officers of the Company directors as a group.

The information provided in the table is based on the Company s records, information filed with the SEC and information provided to the Company, except where otherwise noted.

Beneficial ownership is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares that the individual has the right to acquire under certain circumstances. Unless otherwise indicated, each person named below held sole voting and investment power over the shares listed below. All shares are Class A Common Stock, except for shares of Class B Common Stock held by C. James Koch.

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## BENEFICIAL OWNERSHIP TABLE

| Name of Beneficial Owner | Shares Beneficially Owned(1) (i) Number | Percent |
|---|---|---|
| **C. James Koch**(1)(2) | 4,548,524 | 32.6% |
| **Martin F. Roper**(1)(3) | 543,119 | 5.2% |
| **William F. Urich**(1)(4) | 67,000 | * |
| **Jeffrey D. White**(1)(5) | 43,000 | * |
| **Robert H. Hall**(1)(6) | 88,400 | * |
| **David A. Burwick**(1)(7) | 11,200 | * |
| **Pearson C. Cummin, III**(1)(8) | 69,130 | * |
| **Robert N. Hiatt**(1)(9) | 43,000 | * |
| **Charles Joseph Koch** (1)(10) | 45,000 | * |
| **Jay Margolis**(1)(11) | 6,000 | * |
| **Jean-Michel Valette**(1)(12) | 40,500 | * |
| **Barclays Global Investors, NA**(13) Barclays Global Fund Advisors 45 Fremont Street, San Francisco, CA 94105 | 1,035,669 | 10.5% |
| **Royce & Associates, LLC**(13) 1414 Avenue of the Americas, New York, NY 10019(13) | 992,800 | 10.1% |
| **All Directors, Nominees for Director and Executive Officers as a group** (11 people) | 5,504,873 | 37.1% |

* Represents holdings of less than one percent (1%).

(1) The mailing address for all directors, nominees and named executive officers is c/o The Boston Beer Company, Inc., 75 Arlington Street, Boston, MA 02116.

(2) Includes 4,107,355 shares of Class B Common Stock, constituting all of the outstanding shares of Class B Common Stock, options to acquire 34,000 shares of Class A Common Stock exercisable currently or within sixty (60) days and 4,908 shares of Class A Common Stock purchased under the Company s Investment Share Plan which are not yet vested. Also includes 18,056 shares of Class A Common Stock held by Mr. Koch as custodian for the benefit of his children in which he has sole voting and investment power, but to which Mr. Koch disclaims any beneficial ownership. Does not include 62,186 shares of Class A Common Stock held by a limited liability company in which Mr. Koch s children have a pecuniary interest, as to which Mr. Koch disclaims any beneficial ownership.

(3) Includes options to acquire 523,323 shares of Class A Common Stock exercisable currently or within sixty (60) days and 13,451 shares of Class A Common Stock purchased under the Company s Investment Share Plan which are not yet vested.

(4) Consists of options to acquire 67,000 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(5) Consists of options to acquire 42,300 shares of Class A Common Stock exercisable currently or within sixty (60) days and 700 shares of Class A Common Stock purchased under the Company s Investment Share Plan which are not yet vested.

(6) Consists of options to acquire 88,400 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(7) Includes options to acquire 11,000 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(8) Includes options to acquire 42,500 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(9) Includes options to acquire 40,000 shares of Class A Common Stock exercisable currently or within sixty (60) days. Does not include 1,000 shares of Class A Common Stock owned by Mr. Hiatt s spouse.

(10) Includes options to acquire 42,500 shares of Class A Common Stock exercisable currently or within sixty (60) days. Does not include 1,000 shares of Class A Common Stock owned by Mr. Koch s spouse nor 1,000 shares held in trust in which Mr. Koch disclaims any beneficial ownership.

(11) Consists of options to acquire 6,000 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(12) Includes options to acquire 20,000 shares of Class A Common Stock exercisable currently or within sixty (60) days.

(13) Information has been derived from Schedule 13G for the year ended December 31, 2005 filed with the SEC.

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION[1]

*Compensation Philosophy.* The Company s executive compensation system is comprised of base salaries, annual bonuses based upon specific performance objectives and the Company s overall performance, and stock option and restricted stock grants. The Compensation Committee of the Board of Directors (the Committee ), reviews executive officer compensation annually. Executive compensation is designed to be competitive within the alcoholic beverages industry and other companies of comparable size and complexity, so as to enable the Company to continue to attract and retain talented and motivated individuals in key positions.

Compensation paid to the Company s executive officers is intended to reflect the responsibility associated with each executive officer s position, the past performance of the specific executive officer, the goals of management and the profitability of the Company.

In 2005, the Compensation Committee devoted particular attention to developing specific goals and objectives to be achieved by the Chairman and the Chief Executive Officer in 2006 and bonus potential related to the achievement of those goals. In addition, the Committee strengthened its evaluation process for overall performance by the Chairman and the Chief Executive Officer, as well as established criteria for evaluation of other senior executive officers of the Company.

*Equity-Based Compensation.* As a result of the Compensation Committee s review of executive compensation and a study presented by an independent executive compensation consulting firm, the Compensation Committee devoted significant attention to the equity-based compensation under the Company s Employee Equity Incentive Plan (the EEIP ). One feature of the EEIP, is the Discretionary Option, which has been used by the Compensation Committee as an integral part of the overall compensation approach for the officers and senior managers of the Company. Further, in December 2005, upon the recommendation of the Compensation Committee, the Board of Directors amended the EEIP to include Restricted Stock Awards as another feature of the plan designed to provide incentive to the Company s key employees to increase the market value of the Company s stock, thus linking corporate performance and stockholder value to executive, senior manager and key employee compensation.

The EEIP calls for the Compensation Committee to make recommendations to the full Board with respect to the grant of Discretionary Options and Restricted Stock Awards. In recommending these grants, the Compensation Committee takes into account the position and responsibilities of the optionee being considered, the nature and value to the Company of his or her service and accomplishments, his or her present and potential contributions to the success of the Company and such other factors as the Compensation Committee deems relevant. In carrying out these responsibilities in 2005, the Committee met with the Company s Chairman in October to review

[1] The material in this report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Management s preliminary recommendations with respect to Discretionary Options and Restricted Stock Awards to be granted effective January 1, 2006. The Compensation Committee met again with the Chairman in December to review final recommendations to be made to the Board of Directors in the context of the overall compensation plan for executives. Based on this review, the Committee recommended that the EEIP be amended to include Restricted Stock Awards for key employees. Upon the recommendation of the Compensation Committee, the Board granted Discretionary Options covering an aggregate of 79,000 shares of Class A Common Stock, effective as of January 1, 2006. Of this number, options covering 41,500 shares of Class A Common Stock were granted to the named executive officers of the Company, constituting 53% of the total options granted. All options granted to the named executive officers were contingent options, whereby the actual number of shares as to which the option shall become exercisable in any year, if any, is dependent upon the Company s performance as measured against a benchmark determined by the Company s Board of Directors. In addition, upon the recommendation of the Compensation Committee, the Board of Directors awarded a total of 32,079 shares of Restricted Stock under the amended EEIP to senior managers and key employees, effective as of January 1, 2006.

The EEIP also contains a so-called Investment Share program, pursuant to which all employees who have been employed by the Company for at least one year may purchase shares of the Company s Class A Common Stock at a discount of up to 40% based on years of service. In December 2005, the Committee adopted a policy precluding the Chairman and the Chief Executive Officer from further participation in the Investment Share program.

Up to an aggregate of 3,687,500 shares of Class A Common Stock may be issued under the EEIP. As of March 7, 2006, there were approximately 124,000 shares of Class A Common Stock available for grant under the EEIP.

*Compensation of Chief Executive Officer.* The Compensation Committee reviewed and approved the compensation paid to Martin F. Roper as the Company s Chief Executive Officer during 2005. In February 2005, the Committee set Mr. Roper s annual base salary for 2005 at $567,000 and established bonus opportunities for him equal to 80% of his 2005 salary, with an incremental 64% tied to achieving certain goals that would require substantial out-performance of the Company s financial plan for the year. Mr. Roper s objectives for 2005 as a percentage of his bonus opportunities, including the out-performance goals, were (i) depletions growth and other revenue goals 56%, (ii) increased gross profit and other cost reductions 17%, and (iii) strategic initiatives and stock price 28%. In February 2006, the Committee approved a bonus of $225,000, based on its assessment of Mr. Roper s achievement against those objectives and the overall performance of the Company in 2005. In December 2005, the Committee established bonus opportunities for Mr. Roper in 2006 equal to 80% of his 2006 salary, with an incremental 64% tied to achieving certain goals that would require substantial out-performance of the Company s financial plan for the year. The objectives for 2006 as a percentage of Mr. Roper s bonus opportunities, including the out-performance goals, are (i) depletions growth 52.8%, (ii) increased gross profit 16.7%, (iii) cost reductions and other strategic initiatives 13.8%, and (iv) stock price 16.7%. In February 2006, the Compensation Committee set Mr. Roper s annual base salary for 2006 at $606,700

Also, in June 2005, upon the recommendation of the Compensation Committee, the Board of Directors granted Mr. Roper an option to acquire 300,000 shares of the Company s Class A Common Stock pursuant to the EEIP with an exercise price equal to the fair market value as of the date of grant. The option vests, provided certain criteria are met, on May 1, 2008 with respect to 180,000 shares, and on May 1, 2010 with respect to the remaining 120,000 shares. Vesting criteria relate to volume growth and increased earnings, in each case relative to certain benchmarks as determined by the Compensation Committee. If the criteria are not met on the applicable vesting date, then the option will lapse with respect to the subject shares. In addition, the option provides for partial accelerated vesting in the event of Mr. Roper s death or total disability or termination of employment by the Company not for cause prior to May 1, 2008, or in the event of a change in control pursuant to which C. James Koch or members of his family no longer control a majority of the Company s issued and outstanding Class B Common Stock.

*Compensation of Chairman.* The Compensation Committee also reviewed and approved the compensation paid to C. James Koch, the Chairman and a full-time employee of the Company, in 2005. In February 2005, the Committee set Mr. Koch s annual base salary for 2005 at $195,000 and established bonus opportunities for him equal to 100% of his 2005 salary based on the following objectives as a percentage of his bonus opportunities for

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2005: (i) depletions growth 30%, (ii) relative depletions growth 30%, (iii) gross profit 15%, and (iv) stock price 25%. In February 2006, the Committee approved a bonus of $250,000, based on its assessment of the overall performance of the Company in 2005. In December 2005, the Committee established bonus opportunities for Mr. Koch in 2006 equal to 100% of his 2006 salary. The objectives for 2006 as a percentage of Mr. Koch s bonus opportunities are (i) depletions growth 30%, (ii) relative depletions growth 30%, (iii) gross profit 15%, and (iv) stock price 25%. In February 2006, the Compensation Committee set Mr. Koch s annual base salary for 2006 at $250,000. In addition, upon the recommendation of the Committee, in February 2006, the Board granted to Mr. Koch an option to acquire 15,000 shares of the Company s Class A Common Stock under the EEIP, with contingent vesting on the same basis as those granted to other executives on January 1, 2006.

*Tax Limitation.* Section 162(m) of the U.S. Internal Revenue Code limits the tax deductibility by a corporation of compensation in excess of $1,000,000 paid to the Chief Executive Officer and any other of its four most highly compensated executive officers. However, compensation which qualifies as performance-based is excluded from the $1,000,000 limit if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals under a plan approved by stockholders. Mr. Roper s bonuses and stock option grants have been approved by the sole holder of the Company s Class B Common Stock, that acts with sole authority on such matters, in accordance with the requirements of Section 162(m).

The Compensation Committee does not presently expect that total cash compensation to any individual executive, other than Mr. Roper, will exceed $1,000,000. The Compensation Committee will continue to monitor the compensation levels potentially payable under the Company s compensation programs, but intends to retain the flexibility necessary to provide total compensation in line with competitive practice, the Company s compensation philosophy and the Company s best interests. The Company has not adopted a policy that all executive compensation be fully deductible.

The Compensation Committee:
Robert N. Hiatt, Chairman
David A. Burwick
Jean-Michel Valette

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended December 31, 2005, the members of the Compensation Committee were Robert M. Hiatt (Chairman), David A. Burwick and Jean-Michel Valette. No member of the Compensation Committee was an officer or employee of the Company or any of its subsidiaries during fiscal year 2005.

## EXECUTIVE OFFICERS OF THE COMPANY

Information with respect to executive officers of the Company is set forth below. The executive officers of the Company are elected annually by the Board of Directors and hold office until their successors are elected and qualified, or until their earlier removal or resignation.

C. James Koch, 56, currently serves as Chairman and Clerk of the Company. Mr. Koch founded the Company in 1984 and was the Chief Executive Officer from that time until January 2001.

Martin F. Roper, 43, was appointed Chief Executive Officer of the Company in January 2001, and has been President of the Company since December 1999, after having served as its Chief Operating Officer since April 1997. He joined the Company as Vice President of Operations in September 1994.

William F. Urich, 49, was appointed Chief Financial Officer and Treasurer of the Company in September 2003. Prior to joining the Company, Mr. Urich had been the Chief Financial Officer of Acirca, Inc., a producer of organic foods and beverages, from 2001 to 2003. From 1998 to 2000, Mr. Urich served as Vice President Finance and Business Development for United Distillers & Vintners, a subsidiary of Diageo, PLC, and from 1995 to 1998 as its Vice President Finance and Treasurer.

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Jeffrey D. White, 48, was appointed Chief Operating Officer of the Company in February 2001, after serving as Vice President of Operations since April 1997. Mr. White joined the Company in 1989, and served as Director of Operations of the Company from 1994 to 1997, Operations Manager from 1991 to 1994, and as Distribution Manager from 1989 to 1991.

Robert H. Hall, 45, serves the Company as Vice President of Brand Development. Prior to joining the Company in June 2000, Mr. Hall had been employed by Kellogg Company from 1993 to 2000, where he held the positions of Vice President Marketing, US Natural and Functional Foods Division, and Vice President Global Cereal Innovation, North America.

## EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by or paid to the Company s Chief Executive Officer and the Company s four (4) highest paid executive officers, other than the Chief Executive Officer, whose total annual salary and bonus exceeded $100,000 for all services rendered in all capacities to the Company for the Company s three most recent fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003.

### SUMMARY COMPENSATION TABLE FOR FISCAL YEARS ENDED DECEMBER 31, 2005, DECEMBER 25, 2004 AND DECEMBER 27, 2003

| | | Annual Compensation | | | Long Term Compensation | | |
|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Year** | **Base Salary(1)** | **Bonus(2)** | **Other Annual Compen-sation(3)** | **Restricted Stock Awards($)(4)** | **Securities Underlying Options** | **All Other Compen-sation(5)** |
| **C. James Koch (6)** | 2005 | $ 198,555 | $ 47,100 | $ 1,297 | $ 12,566 | | $ 7,775 |
| Chairman | 2004 | $ 188,503 | | $ 1,292 | $ 17,016 | | $ 6,319 |
| | 2003 | $ 188,420 | $ 27,563 | $ 1,170 | $ 26,577 | 10,000 | $ 5,238 |