ATHENA SILVER CORP
Form 10-K/A
May 21, 2010

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

FORM 10-K /A-1

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission file number 000-51808

ATHENA SILVER CORPORATION

(formerly GOLDEN WEST BREWING COMPANY, INC.)
(Name of Small Business Issuer in its Charter)

Delaware	25-1909408
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification number

2010A Harbison Drive #312, Vacaville, CA 95687
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: **(707) 884-3766**

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $.0001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

[___] Yes [__x_] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. [____]

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [___] Accelerated filer [__]

Non-accelerated filer [___] (Do not check if a smaller reporting company)

Smaller reporting company [X]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of March 31, 2009, was $132,276

The number of shares outstanding of the registrant s common stock, as of March 31, 2009, are 3,404,525.

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (*e.g.,* Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes

Exhibits

See Part IV, Item 15.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008 includes restatements of the previously filed consolidated financial statements and data (and related disclosures) for the year ended December 31, 2008. A summary of these restatements and corrections are discussed in Note 2, Restatement of Previously Issued Consolidated Financial Statements, included in the accompanying consolidated financial statements for the year ended December 31, 2008. These corrections are also discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. We previously announced, in a Form 8-K filed with the SEC on April 30, 2010 that we would restate our previously reported financial statements as originally filed with the SEC on April 14, 2009 (the Original Report), as a result of the discovery by management of an error during its year-end review, and in conjunction with the annual audit. The information contained in this Annual Report on form 10-K/A amends only Items 6, 7, 8 and 9A of Part II to the Original Report.

This Annual Report on Form 10-K/A does not reflect all events occurring after the original filing of the Original Report or modify or update all the disclosures affected by subsequent events. Information not modified or updated herein reflects the disclosures made at the time of the filing of the Original Report on April 14, 2009. Accordingly, this Form 10-K/A should be read in conjunction with all of our periodic filings, including our amended filings on Form 10-Q/A in relation to the three-month period ended March 31, 2009, and in relation to the three- and six-month period ended June 30, 2009 and in relation to the three- and nine-month period ended September 30, 2009, filed with the SEC in conjunction with the filing of this report.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

This Amendment No. 1 includes changes in Item 9A - Controls and Procedures and reflects management s restated assessment of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) as of December 31, 2008. This restatement of management s assessment regarding disclosure controls and procedures results from management s determination that a material weakness existed with respect to the internal controls over financial reporting related to accounting for the forgiveness of debt by a related party as of December 31, 2008.

This material weakness existed at December 31, 2008, March 31, 2009 and June 30, 2009, September 30, 2009, and December 31, 2009 and was not identified until April 2010. To remediate this material weakness, in April 2010, management retained a financial consultant to design, implement and improve processes and controls to ensure that (a) all material transactions are properly recorded, reviewed and approved; (b) all significant accounts are reconciled on a timely basis; (c) duties are segregated to the extent practicable; and, (d) complex accounting issues are properly evaluated and accounted for in accordance with GAAP. Although management has implemented these additional control procedures to remediate this material weakness, we believe that additional time and testing are necessary before concluding that the material weakness has been remediated.

Except as described in the preceding paragraph to remediate the material weakness described, there have been no changes in the Company   s internal control over financial reporting during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

For additional discussion, see Item 8 Financial Statements and Supplementary Data of this Report.

Safe Harbor for Forward-looking Statements

In General

This report contains statements that plan for or anticipate the future. In this report, forward-looking statements are generally identified by the words "anticipate," "plan," "believe," "expect," "estimate," and the like. These forward-looking statements include, but are not limited to, statements regarding the following:

* our product and marketing plans
* consulting and strategic business relationships;
* statements about our future business plans and strategies;
* anticipated operating results and sources of future revenue;
* our organization's growth;
* adequacy of our financial resources;
* development of new products and markets;
* competitive pressures;
* changing economic conditions;
* expectations regarding competition from other companies; and
* our ability to manufacture and distribute our products.

Although we believe that any forward-looking statements we make in this report are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements, include:

* Changes in general economic and business conditions effecting the craft/microbrew industries;
* Developments that make our products less competitive;
* Changes in our business strategies including our conversion to a contract brewer;

* The level of demand for our products; and

* Availability of sufficient working capital.

In light of the significant uncertainties inherent in the forward-looking statements made in this report, particularly in view of our early stage of operations, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

We were formed to acquire substantially all of the business assets of Butte Creek Brewing Company, LLC, a California limited liability company. We completed the acquisition of Butte Creek on August 31, 2005. We currently are a holding company for our wholly-owned subsidiary Golden West Brewing Company, a California corporation, which was formed to complete the acquisition and since the acquisition has been operating as Butte Creek Brewing Company. In 2008, we formed a wholly-owned subsidiary in Washington, Golden West Brewing, Inc., which was formed to make an acquisition that did not materialize. We have utilized this subsidiary to make speculative investments in marketable securities. In January 2009, we formed a 99% owned Delaware subsidiary of Golden West Brewing Company (California), Butte Creek Brands, LLC which has entered into a three (3) year contract brewing agreement with Mendocino Brewing Company.

Butte Creek has operated as a premier regional craft brewery in Chico, California since 1996. In January 2009, we discontinued brewing and packaging at our Chico, California brewery and outsourced our brewing under a three (3) year contract brewing agreement with Mendocino Brewing Company in Ukiah, California. Our first production from the Mendocino facility was completed on March 31, 2009. We specialize in marketing certified organic craft beers. Our flagship brews consist of Organic Pale Ale, Organic Porter, Organic India Pale Ale, Organic Pilsner. In addition during 2008, we produced seasonal brews consisting of Organic Spring Run™ Pale Ale, Organic Helltown Hefeweizen and Organic Sustainable Harvest (Fresh Hop) IPA. In 2008, we also marketed three premium specialty organic ales --- Revolution X® Organic Imperial India Pale Ale and Revolution 11 Organic Imperial India Pale Ale, and Trainwreck Organic Barleywine.. In March, 2008, we began shipping a new organic beer under the newly-developed brand Blue Marble Organic Pilsner . Most of our Blue Marble sales were through distributors that supplied it exclusively to Cost Plus World Markets. We also sold Blue Marble directly to Cost Plus World Markets for their stores in California. In 2008, we produced and sold approximately 10,000 cases of Blue Marble. We do not anticipate any sales of Blue Marble in 2009. In 2008, we also marketed three craft brewed ales that are not certified organic; Mount Shasta Extra Pale Ale, Mount Shasta Olde #8 Strong Ale; and, Mount Shasta Rock Hard Ten. . In 2009, we have only produced Organic Pilsner, Organic Pale Ale and Organic India Pale Ale due to shortage of working capital. If and when working capital becomes available, we hope to continue producing these products and the rest of our product line.

We currently distribute our products in a total of 20 states, including our core market of California which is serviced through distributors. All of our distribution occurs through a network of independent alcoholic beverage distributors who are licensed in their respective jurisdictions.

Butte Creek's offices and currently inactive brewery are located at 945 West 2nd Street, Chico, California 95928. We are not currently staffing this location and our two employees work from their home offices. Our lease at this location was in default and we were sued by our landlord for back rent of $14,904 and legal fees of $800. We have negotiated a settlement that allows us to retain possession of the premises by paying rent on a month-to-month basis. We paid March 2009 rent on March 31, 2009. We are required to pay April 2009 rent by April 15, 2009 and May 2009 and each month thereafter by the 5th of that month as long as the building remains in our possession. The building contains all of our brewing equipment. If we default on our settlement with the landlord, they are entitled to dispose of any equipment remaining on the premises. We are still liable for the delinquent rent amount of $14,904 and future rents due under the lease. We are no longer brewing beer at this location and are attempting to sell our equipment and re-lease the site. Our insurance expired and presently this equipment is uninsured. Our telephone number is (530) 894-7906. In addition, our internet website is located at www.organicale.com.

Description of Operations

Effective October 8, 2004, we executed a definitive Asset Purchase and Sale Agreement to acquire Butte Creek. Under the terms of the Acquisition Agreement, on August 31, 2005, having obtained all necessary regulatory approvals, we completed the purchase of substantially all of the business assets of Butte Creek. In consideration of the Butte Creek assets, we paid:

* the sum of $350,000 in cash all of which has already been advanced;
* an additional $217,400 in advances through August 31, 2005 were capitalized as part of the purchase price;
* the assumption of designated in trade and accounts payable in the approximate amount of $366,000; and
* 200,000 shares of our common stock. Those shares were issued pursuant to a Subscription Agreement executed by Butte Creek in which it makes representations to the effect that it acquired the shares for investment purposes and not with the view to subsequent resale or redistribution. The shares are restricted as to resale and issued in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act. The shares may not be distributed to the members of Butte Creek unless pursuant to a registration statement filed under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act, the existence of which must be demonstrated to the satisfaction of the Company.

The U.S. Beer Industry

According to publications of the Association of Brewers (*Beertown*, February, 2009), in 2008 the total beer sales in the United States consisted of approximately 212.7 million barrels (each barrel consisting of 31 U.S. gallons). Of those total sales approximately 85% of sales were dominated by the four largest brewing companies: Anheuser Busch, Coors Molson, Miller Brewing Company and Pabst.

The remaining market share of approximately 15% is shared by imported beer and craft beers.   In 2008, Craft brewers represented 6.3% of total U.S, Retail Sales and 4% of total U.S. sales production or, 8,569,951 million barrels of craft beer.

Beer Styles

While the beers from the major American brewers are brewed to high quality standards, they are relatively neutral in flavor. They are brewed with less hops and malt than traditional European or craft-brewed beers, creating a less bitter, lighter bodied flavor. In addition, these beers are usually brewed with a high percentage of rice, corn or corn syrup, which further dilutes the flavor and body of the beers. Traditional lager beers use 100% malted barley in the mash (with the exception of specialty wheat beers), which ensures a robust, full-bodied character. The major U.S. brewers have been successful in creating products that appeal to a wide consumer base and have spent heavily to advertise and promote their products. As a result, they have achieved a dominant position in the market for their mass-produced beers. The older regional brewers traditionally produced beers similar in style to the products of major breweries, but several have benefited from the recent boom in specialty, craft-brewed beers as both contract producers and marketers of their own products. Imported beers have long been viewed by the beer-drinking public as being more flavorful and "authentic" than the standard American beers. Although this has not always been the case, the high price and foreign origin of the imported beers created a niche category of "specialty" beers. In recent years, craft-brewed beers have further expanded the "specialty" beer market, and have increased in sales and visibility.

The vast majority of existing craft/microbrewed products in the U.S. are ales. According to a survey published in THE NEW BREWER published by the Brewers Association at www.beertown.org, the five most popular beer styles produced in brewpubs are all ales, and among the 130 responding craft/microbrewers, only the fourth most popular style (European Pilsner) is a lager. The cost of building and operating a lager brewery is substantially greater than that for an ale brewery.

The following terms are helpful in understanding our business and industry:

Craft Brewing: Beers produced by microbreweries, regional specialty breweries, brewpubs and contract brewers. The common appeal of these beers is a more robust flavor than the standard domestic beers, and an image based on traditional, European beer styles.

Microbrewery: Originally used to refer to a small brewery producing less than 10,000 barrels a year, which packages and distributes its beers for sale off site. The cut-off volume has since been increased to 15,000 barrels a year. The new breweries that were founded in the late 1970s and early 1980s were the first to be called microbreweries.

Regional Specialty Brewery: A term used to describe those breweries which were founded as microbreweries, but have since outgrown the category, having a capacity to brew between 15,000 and 2,000,000 barrels per year. A new category was needed to distinguish these breweries from the older, established regional breweries. Examples of regional specialty breweries are: Sierra Nevada (Chico, California), Anchor Brewing (San Francisco, California), Rockies Brewing (Boulder, Colorado) and Abita Brewing (Abita Springs, Louisiana).

Brewpub: A brewery that sells its beers exclusively or primarily at its own bar or restaurant. Since the market is restricted to one outlet, brewpubs tend to be quite small (typically in the 500 to 2,000 barrel range). Examples of brewpubs are Zip City (New York, New York), Crescent City Brewhouse (New Orleans, Louisiana), Wynkoop (Denver, Colorado) and Commonwealth (Boston, Massachusetts).

Contract Brewer: A company that does not have its own brewery but rather markets beer produced "under contract" by an existing (usually regional) brewery. Examples of contract brewers are Pete's Brewing Company and Neuweiler.

Hard Cider: A fermented apple cider with an alcohol content between 7 and 14 percent.

Draft Cider: A fermented apple cider with an alcohol content of less than 7 percent.

Development of Craft-Brewing Industry Fritz Maytag bought and revived the failing Anchor Brewery in San Francisco in 1965 and is considered the grandfather of the microbrewing movement. However, it wasn't until the late 1970s and early 1980s that the first new microbreweries opened in the U.S., such as New Albion, Redhook, Yakima Brewing & Malting and Sierra Nevada on the West Coast and Newman Brewing Co. (Albany, New York) on the East Coast. By 1983, there were 11 operating microbreweries in the U.S., which were defined as breweries producing less than 10,000 barrels per year (although all were much smaller in 1983). At least one of these (Buffalo Bill's Brewery, Hayward, California) was a brewpub. In the early to mid 1980s, the first contract brewers appeared.

What all of the craft-brewed beers have in common is an appeal based on traditional, highly flavored European beer styles. They have benefited from their contrast with the products of the major brewers, which are much lighter in body and flavor. We believe they also were helped by an increasing concern by consumers about how alcoholic beverages fit into a healthy, active, contemporary lifestyle. Like fine wines, we believe that consumers view craft-brewed beers as beverages of moderation.

Craft Beer Industry Segment

Craft beers are characterized by their full-flavor and are usually produced along traditional European brewing styles. The majority of craft beers are ales, although some are malt lagers. Wheat beers and fruit flavoured ales and lagers have enjoyed recent popularity among craft beer consumers.

The craft beer category consists of:

* *Contract brews* - any style brew produced by one brewer for sale under the label of someone else who does not have a brewery or whose brewery does not have sufficient capacity.

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Regional craft brews - "hand-crafted" brews, primarily ales, sold under the label of the brewery that produced it.

* *Microbrews* - "hand-crafted" brews, primarily ales, sold under the label of the brewery that produced it, if the capacity of the brewery does not exceed 15,000 bbl. per year.

* *Large brewer craft-style brews* - a brand brewed by a national brewer which may only imitate the style of a craft beer. These craft-style brews are often sold under the label of a brewery that does not exist or the label of a brewpub with no bottling capacity. The term "phantom brewery" is sometimes used to describe such brands.

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* *Brewpub brews* - "hand-crafted" brews produced for sale and consumption at the brewery, which is normally connected with a restaurant/saloon. Brewpub brews are not normally sold for off-site consumption in significant quantities.

In 2008, U.S. craft beer industry annual retail sales reached 8,569,951 million barrels, having a total retail value of $6.3 billion. That 2008 production volume was divided into the following categories:

	Volume (barrels)	Percent
Regional craft breweries	5,594,670	65.28%
Contract breweries	1,239,346	14.46%
Microbreweries	1,061,388	12.30%
Brewpubs	699,047	7.96%

See *Beertown*, www.beertown.org

According to *Beertown*, a trade publication, as of December 2008, there were a total of 1,527 breweries operating in the United States, consisting of:

54 Regional Craft Breweries
448 Microbreweries
981 Brewpubs
20 Large breweries (non-Craft)
24 Regional breweries

Business Strategy

Our business objective is to become recognized as the premier developer of organic craft beer brands and marketer in the United States. It is our objective to outsource the production of the finest quality organic craft beers and to market them strategically in niche markets to capitalize on our dedication to the use of organic ingredients, which we consider to be our principal differentiator and competitive advantage.

Our business strategy includes the following key objectives:

* Further develop our position as a leading producer and marketer of organic ales and lagers;
* Develop new brands and convert to our new model of contract brewing most or all of our products; and,
* Develop Key Performance Indicators to better monitor and manage our business.

Products

Butte Creek primarily outsources the production and markets a variety of distinctive certified organic craft beers ranging in color from light to dark. All of our beers planned for 2009 will be outsourced but will remain certified organic: Organic Pale Ale, Organic Pilsner, Organic Porter and Organic India Pale Ale, Revolution X® Organic Imperial IPA, Trainwreck Organic Barley Wine, Organic Helltown Hefeweizen and Sustainable Harvest Organic (Fresh Hop) IPA.

In March, 2008, we also developed a new organic brand under the name Blue Marble Organic Pilsner . We do not plan to produce any Spring Run® Organic Pale Ale or Blue Marble Organic Pilsner in 2009. In making these products, we adhere strictly to the National Organic Program of the United States Department of Agriculture pursuant to which our beers are certified as organic by independent accredited certifiers. All of our beer is made from four traditional ingredients: water, hops, yeast and malted barley. Each beer exhibits unique properties of color, richness, bitterness and aroma, creating a special signature for each beer. In order to maintain full-flavor, our beer is not pasteurized or homogenized. We never use adjuncts in substitute for all grain.

In 2009, we have only produced Organic Pilsner, Organic Pale Ale and Organic India Pale Ale due to shortage of working capital. If and when working capital becomes available, we hope to continue producing these products and the rest of our product line.

We currently plan on outsourcing the production and marketing the following principal organic brands as working capital permits, each with its own distinctive combination of flavor, color and clarity:

*	Organic Pale Ale	A medium bodied Ale with a hint of caramel sweetness complemented by a generous hop flavor and aroma.
*	Organic Porter	A porter with a full bodied malty flavor balanced with a crisp hop bitterness.
*	Organic India Pale Ale	A full-flavored traditional India Pale Ale.
*	Organic Pilsner	A European-style pilsner that is brewed with German malt and Czech hops to make it a light bodied, clean, straw-colored beer with a refreshing crisp finish.
*	*Organic Helltown Hefeweizen (seasonal)*	A Bavarian style wheat beer with a cloudy pale golden color and a thick, creamy white head.
*	Sustainable Harvest(Fresh Hop) India Pale Ale (seasonal)	Brewed with freshly picked wet hops, this IPA has grassy, floral & citrus notes from the use of freshly harvested, unprocessed hops.
*	Trainwreck	Organic Barley Wine
*	Revolution X	Organic Imperial India Pale Ale

In addition to our current craft brews, we are constantly developing new products in order to be responsive to changing customer tastes. We believe that our continued success will be affected by our ability to be innovative and attentive to consumer desires while maintaining consistently high product quality.

BREWING OPERATIONS

The Brewing Process Formerly Used at our Chico Facility and Currently at Our Contract Facility.

Beer is produced from four main ingredients: malt, hops, yeast and water. Malt, the main ingredient of beer, is produced when barley is moistened, allowed to germinate and then dried. The malted barley is then crushed and mixed with hot water and strained, producing a clear amber liquid called "wort". Wort is boiled in the brew kettle and hops are added which add bitterness and variety to the brew. The mixture is then strained and placed in a fermentation vessel where yeast is added and the beer is allowed to ferment. During fermentation, yeast metabolizes the sugars in the wort and produces alcohol and carbon dioxide.

Upon completion of fermentation, the beer is then transferred to aging tanks where the flavor is developed and matured. The brewing process, from the conversion of raw materials to the serving of beer, is typically completed in 14 to 28 days, depending on the type of beer being brewed. The production schedule for all of our ale products requires a fourteen (14) day cycle. Our lager products requires a twenty-eight (28) day cycle, from brewing through filtration and packaging. The production cycle includes the following steps:

* Day 1. Mashing. Weighed amounts of milled, malted barley, a cereal grain that provides the body and color to the beer, are mixed and steeped with hot water in a Mash Tun. This serves to extract fermentable and non-fermentable sugars, thus creating a mash. At the end of the mashing process, the sweet, fermentable liquid from the mash, called wort, is run off through screened plates and then transferred into the brew kettle. While the wort is running off, the grain is sprayed with hot water again, a process called "sparing". (This is a process similar to making coffee.)

  Once the wort run off is completed, the spent grains are given to local farmers for cattle feed or to local mushroom growers.

* Day 1. Brewing. When the sweet liquid wort transfer is completed, we start the boil, then add fresh hops that provide bitterness and aroma, thus creating the balance and flavor of our beer.

* Day 1. Clarification. After approximately an hour and one half of boiling, the wort and the spent hops are transferred into a whirlpool. A centrifugal force is created inside the vessel during whirlpooling. This force separates the malt proteins and the spent hops from the wort.

* Day 1. Cooling. The wort is pumped from the whirlpool through a heat exchanger which rapidly cools the wort. The cool wort is transferred into a fermenter.

* Day 1. Inoculation. Pure culture lager yeast or ale yeast is added to the wort in the fermenter and the tank is closed up.

* Days 2-7. Fermentation. Within three to five days, the yeast has metabolized and utilized the sugars from the wort, creating alcohol and carbon dioxide. Our ales are made with a top fermenting ale strain that actually floats to the top of the fermenter. Our lagers are made with a bottom fermenting lager strain that settles during fermentation.

When the yeast completely settles it is collected from the tank and used in the next lager or ale brew cycle.

* Days 5-27. Cooling and Conditioning. At the end of the fermentation cycle, our beer is cooled from its fermentation temperature (between 65-70-F for ales and 58-55-F for lagers) to 32- Fahrenheit. Beer flavors mature during this stage. Our beer is then stored for seven to fourteen days. Isinglass finings are added to aid in the clarification process.

* Day 14. Filtration for Ales. While under pressure, the beer is transferred through cellulose sheets in a Filter Press in order to remove protein haze and yeast while stabilizing and clarifying the beer. The beer is transferred from the Filter Press into a Serving Tank which is counter pressured, for service directly to draft taps at each bar.

* Day 28. Filtration for Pilsners. Our pilsner beer remains in the Cellar Tank for an additional fourteen days of fermentation. It is then processed in the same manner as our ale.

Our Brewing Facilities

In 2008, all of our products were manufactured exclusively in our Chico, California brewery. All of our 2009 production is expected to be outsourced with brewing and bottling to be done at our new contract brewing location. In February 2009, Butte Creek Brands, LLC a newly formed 99% owned subsidiary of Golden West Brewing Company (California) signed a three (3) year production agreement with Mendocino Brewing Company to brew our beers.

Bottled products utilize the latest technology in bottle crowns that prevent oxygen from causing deterioration of the beer's fresh taste. Our beer is naturally carbonated and pasteurized to ensure the customers enjoy the full fresh flavour. The shelf life of our bottled beer is 120 days and the shelf life of our keg beer is 90 days.

Ingredients and Raw Materials

In order to be certified as organic under the National Organic Program of the USDA, our craft beers must have no more than 5% non-organic ingredients in the finished product. We use only the finest, all natural and certified organic ingredients available to brew our products whenever possible.

There are many different varieties of hops which are used in the production of beers. The selection of particular varieties of hops influences the bitterness and aroma of the finished product. The selection of hops in any particular recipe contributes to the final signature of the microbrew.

Not all hops are available organically-grown. In fact, in the United States, only one type of hop is organically grown; and all other organically-grown hops must be purchased from international sources, primarily New Zealand.

For microbrews whose recipes call for hops that are not available organically, those products can still be manufactured and marketed as "organic," since hops comprise less than 5% of the finished product. Nevertheless, there is intense competition for organically-grown hops, and quantities are limited.

Our Organic ales and lagers use some non-organic hops but are nevertheless marketed as organic microbrews. Our principal competitors in the organic microbrew market: Wolavers and Eel River Brewing Company, also use non-organic hops. Anheuser-Busch (A-B) introduced two certified organic beers in 2008 and has substantially more resources and distribution channels than any of our historical competitors. We don't believe that A-B uses any organic hops. Miller Brewing Company released Henry Weinhard s Organic Amber Premium Ale in 2007. We estimate that there are at least 25 breweries selling beer as certified organic. Our principal hops suppliers are Hopunion and New Zealand Hops Ltd. However, we do not have any other contracts or agreements with any of our hops suppliers for ongoing or future deliveries.

We currently obtain our malted barley (grain) from two principal sources: Gambrinus and Great Western Malting supply our organic barley. We do not have any supply contracts with any of our vendors to meet our grain or hop requirements. As a result, any interruption in our supply of grain or hops could result in a curtailment of our production and loss sales.

We have multiple competitive sources for packing materials, such as bottles, labels, six-pack carriers, crowns and shipping cases, as well as kegs. In 2008 purchases of bottles, six-pack carriers and case boxes from Gamer Packaging and California Glass Company amounted to over 40% of the total purchases from all unaffiliated vendors. In 2009, we expect to purchase glass from our contract brewers. We have no affiliated vendors.

Sales and Distribution

We market and sell our craft beers through a network of wholesale distributors supported by a combination of our sales and marketing personnel and third-party brokers in key markets. We currently distribute our products in a total of 20 states.

In each state where our beer is distributed, we must satisfy the state's regulatory requirements for beer sales. Those requirements generally consist of completing an application and paying a distribution fee. Some states also impose product quality standards which must be met as a condition to distribution. We have not experienced any difficulties in obtaining approvals to distribute in states where we have sought that approval.

Wholesale distributors sell our products to supermarkets, warehouse stores, liquor stores, taverns and bars, restaurants and convenience stores. Most of our brands are also available on draft' and these are delivered directly to retail outlets. Our independent distributors also distribute a variety of other alcoholic beverages, including other craft beers, import beers and national beer brands. We rely on our distributors not only to provide product sales and deliveries but also to maintain retail shelf space and to oversee timely rotation of inventory. Favorable consumer demand for microbrewed products and higher profit margins are the two primary factors that contribute to strong interest from distributors in handling our regional microbrewed products. Our success is dependent upon our ability to maintain and develop our third party distributor, bar and restaurant accounts.

We have written distribution agreements with all of our wholesale distributors; however, the agreements are all terminable upon 30 days' written notice and provide no reliable assurance of future performance.

Sales are distributed widely over our customer base with only three large customers comprising a significant portion of sales. For the year ending December 31, 2008, Bison Brewing, Mountain

People s Warehouse and Craft Brewer s Distributing were responsible for 18.9%, 9.1% and 5.6% respectively.

Strategic Brewing Relationships

Mateveza USA, LLC

In November, 2006, we entered into a License, Production and Distribution Agreement with Mateveza USA, LLC, a California limited liability company (Mateveza). Under the terms of the Mateveza Agreement, we were granted an exclusive license to manufacture, sell and distribute Mateveza s proprietary yerba mate ales within an exclusive territory consisting of the states of California, Oregon, and Washington. Under the terms of the arrangement, we agreed to advance production costs and sell under a jointly-developed marketing plan. We further agreed to pay Mateveza a royalty equal to fifty percent of the net profits generated from the sale of the Mateveza yerba mate ales. We agreed to maintain a minimum manufacturing capacity of 1,000 barrels per year, and have a right of first refusal with respect to any required capacity in excess of that amount. This agreement was terminated in February of 2008 by mutual agreement.

Bison Brewing Company

In February, 2007, we entered into a Production Agreement with Bison Brewing Company, LLC (Bison Brewing). Under this Agreement, we were a contract brewer for Bison Brewing s craft beers. In consideration of our contract brewing, Bison agreed to pay all direct production costs, including materials, bottling and labor and to share general and administrative expenses of the brewery. This agreement was terminated by mutual consent on December 31, 2008.

All of our contract brewing operations are considered discontinued operations as we are not currently operating a brewing facility.

Marketing

Our marketing efforts are focused on bars, restaurants, grocery stores and retailers of premium beer products in order to obtain shelf and tap space. This is accomplished by intensive one-on-one contact to familiarize our customers thoroughly with our products and our commitment to service. The microbrewers' market is not for the masses but rather it is focused on customers searching for a flavor that is superior and in some cases unique.

We have designed slogans, logos and trade names for use in print advertising. To create additional name recognition and customer identification, we plan to sell T-shirts, sweatshirts and other merchandise featuring our name and logo. Distributors and package store locations are provided with point-of-purchase cards, banners, static stickers and shelf channels as funds permit.

Sales of beer in general are seasonal in nature and are at their highest level in the second and third calendar quarters and at their lowest in the first and fourth calendar quarters. This seasonality has historically had a significant impact on our operations on a quarter-to-quarter basis.

Dependence on Major Customers

During 2008 and 2007, wholesale distributors were responsible for 73.2% and 68.9% of our sales, respectively. Two distributors (Mountain People's Warehouse and Craft Brewer s Distributing) accounted for 14.7% of our sales for 2008. In addition, we have one customer, Bison Brewing Company, which accounts for 18.9% of our business. We have no long-term commitments or agreements from any of our distributors or customers. Our distributors can terminate their agreements with us on 30 days' notice. The loss of a major distributor or customer could severely impair our sales for a significant period of time. Our contract brewing relationship with Bison Brewing was terminated by mutual consent on December 31, 2008.

Competition

As of December 31, 2008, there were a total of 1,483 craft breweries that included 981 brew pubs, 448 microbreweries, 54 regional craft breweries and 20 large breweries. During 2008, 42 brew pubs, 9 microbreweries and 3 regional breweries closed, but 61 brew pubs, 53 microbreweries opened, and 1 regional brewery opened.

We compete with other craft brewers on the basis of product quality and freshness, packaging design, distribution, marketing support and regional identification. The beer industry in general and the craft brewing segment in particular is highly competitive and we experience stiff competition and expect that competition to increase in the future. Our products compete with products from large and small domestic and foreign breweries and from and increasing number of regional specialty breweries, microbreweries, brew pubs and contract brewers. Many of these competing breweries, including some existing microbreweries, have significantly greater financial, production, distribution and marketing resources than ours.

Our principal competitors in the organic microbrew market are Wolavers and Eel River Brewing Company. As both are privately held, there is little information available concerning their relative financial strength and resources. Anheuser-Busch (A-B) introduced two certified organic beers in 2006 and has substantially more resources and distribution channels than any of our historical competitors. Miller Brewing Company released Henry Weinhard s Organic Amber Premium Ale in 2007. We estimate that there are at least 25 breweries nationwide selling beer as certified organic.

In addition, we formerly contract microbrewed for Bison Brewing Company, of Berkeley, California under a production sharing agreement executed in February 2007. The beers that we made for Bison are certified organic, although they too use some non-organic hops. Bison Brewing has a California Department of Alcohol Beverage Control license at our facility as part of this contract brewing arrangement. Bison represented approximately 18.9% of gross revenues in 2008, and 15.3% of revenues in 2007. This agreement was terminated on December 31, 2008 by mutual agreement.

Governmental Regulation

The Company's United States operations are subject to licensing by both state and federal governments, as well as to regulation by a variety of state and local governments and agencies. The Company is licensed to manufacture and sell beer by the Department of Alcoholic Beverage Control in California. Our license issued by California does not permit us to engage in retail sales to consumers on the premises. A federal permit from the United States Bureau of Alcohol, Tobacco Tax and Trade (TTB) allows the Company to manufacture fermented malt beverages. To keep these licenses and permits in force, the Company must pay annual fees and submit timely production reports and excise tax returns. Prompt notice of any changes in the operations, ownership, management or company structure must also be made to these regulatory agencies. BATF must also approve all product labels, which must include and alcohol use warning. These agencies require that individuals owning equity securities in the aggregate of 10% or more in the Company be investigated as to their suitability. The Company's production operations must also comply with the Occupational Safety and Health Administrations' workplace safety and worker health regulations and comparable state laws. Management believes that the Company is presently in compliance with the aforementioned laws and regulations.

In the United States, taxation of alcohol has increased significantly in recent years. Currently, the federal tax rate is $7.00 per bbl. for up to 60,000 bbl. per year and $18.00 per bbl. for over 60,000 bbl. The California tax rate is $6.20 per bbl. Federal and state excise taxes on alcoholic beverages are subject to change. It is possible that excise taxes will be increased in the future by both the federal government and State of California. In addition, increased excise taxes on alcoholic beverages are currently being considered in connection with various governmental budget balancing or funding proposals. Any such increased in excise taxes, if enacted, could adversely affect our business. We believe that we currently have all licenses, permits and approvals necessary for our current operations.

However, the TTB has requested that we increase the amount of our brewers bond to $11,000 from $4,250. As of March 31, 2009, we have not complied with this request. However, existing permits or licenses could be revoked if we were to fail to comply with the terms of such permits or licenses, and additional permits or licenses could in the future be required for our existing or expanded operations. If licenses, permits or approvals necessary for our brewery were unavailable or unduly delayed, or if any such permits or licenses were revoked, our ability to conduct our business could be substantially and adversely affected.

Various federal and state labor laws govern our relationship with our employees, including minimum wage requirements, overtime, working conditions and immigration requirements. Significant additional government-imposed increased in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting and tax payment requirements for employees could have an adverse effect on our results of operations.

On March 15, 2006, we were notified that the California Department of Alcoholic Beverage Control had filed an Accusation alleging that we had violated California regulations by participating in a beer tasting at the Mt. Shasta Board & Ski Park, not sponsored by a non-profit. As a result, we entered into a consent sanction consisting of a temporary suspension of ten days of our manufacturing license which was automatically stayed.

Research and Development

During the last two fiscal years we have not expended any working capital on product research and development.

Compliance with Environmental Laws

We are subject to various federal, state and local environmental laws which regulate the use, storage, handling and disposal of various substances.

Our waste products consist of water, spent grains, hops, glass and cardboard. We have instituted a recycling program for our office paper, newspapers, magazines, glass and cardboard at minimal cost to us. We gave away our spent grain to local cattle ranchers. We have not purchased any special equipment and do not incur any identifiable fees in connection with our environmental compliance.

Our former brewing facility in Chico was subject to various federal, state and local environmental laws which regulate use, storage and disposal of various materials. The Company paid approximately $1,500 per month towards sewer fees for liquid waste. The sewer discharge from the brewery was monitored and was within the standards set by the Butte County Sewer Department. Presently, we are not brewing at our Chico, California location and plan to contract brew for the foreseeable future.

Various states in which the Company sells its products in the U.S., including California, have adopted certain restrictive packaging laws and regulations for beverages that require deposits on packages. The Company continues to do business in these states, and such laws have not had a significant effect on the Company's sales. The adoption of similar legislation by Congress or a substantial number of states or additional local jurisdictions might require the Company to incur significant capital expenditures to comply.

Employees and Consultants

As of April 1, 2009, we had a total of 2 employees, both of whom were full time. The full time employees include Jason Ganis, Master Brewer, and Amy Coderre, Sales Director. Our former General Manager, Tom Atmore, tendered his resignation as general manager effective March 31, 2006; and continued as a consultant until June 30, 2006. Atmore continues to accrue $1,000 under the terms of his separation and consulting agreement. Effective Jan 1, 2009, our President, Mark Simpson, invoices the company on an hourly basis. Our Chief executive officer, John

Power, is not compensated. Our former CFO, Dan Del Grande resigned effective March 31, 2009.

We do not maintain key man life insurance on any of our employees.

Effective February 21, 2007, our wholly-owned subsidiary entered into an Employment Agreement with Daniel Del Grande, the Manager of Bison Brewing, to serve as Chief Financial Officer of the subsidiary for the period beginning February 21, 2007 and ending the earlier of (i) February 20, 2009 or (ii) the termination of the Production Agreement with Bison Brewing Company, LLC. This Production Agreement was terminated by mutual agreement on December 31, 2008. The employment agreement was extended until March 31, 2009.

Effective December 1, 2007, we entered into an employment agreement with Mark Simpson to serve as President of the Company on a part-time basis. In consideration of his services as President, the Company agreed to grant and issue to Mr. Simpson, subject to vesting, an aggregate of 13,000 shares of the Company s common stock. All of these shares were issued in 2007 and 2008. There is no current agreement to issue any additional shares to Mark Simpson.

Concurrently with the execution of Mr. Simpson s employment agreement, the Company entered into a consultation agreement with Artisan Food and Beverage Group, Inc., (Artisan), a consulting firm controlled by Mark Simpson. Under the terms of the consulting agreement, Artisan agreed to provide certain strategic consulting services in consideration of a consulting fee equal to $4,500 per month. This agreement terminated on December 31, 2008. Mr. Simpson and Artisan continue to perform consulting services on an as needed basis.

Trademarks and Intellectual Property

We consider all of our beer recipes to be trade secrets which we protect by confidentiality and non-disclosure agreements.

We claim common law trademark protection to all of our trademarks, words and design. However, we have applied for federal registrations of certain brand names that are in the development stage but have not sought any protection for our existing brand names except for Golden West Brewing® ,Revolution X®.and our service marks Organic Pioneers® and The Official Beer of Planet Earth®. In addition, we filed an application to register the trademark for Blue Marble Organic Pilsner™ that was filed and subsequently abandoned in 2008. We own several other registered trademarks for products that are in the development stage, including Rock Hard Ten®. In 2007and 2008 we used a federal trademark, Spring Run®, under license from a 3rd party

In addition to the domain name www.ales.com, we have registered the domain name www.organicale.com and www.buttecreek.com. Both domain addresses link to the same website. We believe that our domain name plays an important role in expanding the awareness of our products on the Internet.

Notwithstanding our efforts to develop and protect our intellectual property rights, trademark protection and the uncertainty surrounding the legal protections of domain names may be unenforceable or limited. As a result, we may not be able to maintain our current trademarks or domain name if they are subject to challenge. We believe that any successful challenge to our use of a trademark or our domain name could have a material adverse impact upon our business, financial condition and future operations.

ITEM 1A RISK FACTORS.

Due to our history of operating losses our auditors are uncertain that we will be able to continue as a going concern.

Our consolidated financial statements have been prepared assuming that we will continue as a going concern. Due to our continuing operating losses and negative cash flows from our operations, the reports of our auditors issued in connection with our consolidated financial statements for the fiscal years ended December 31, 2005, 2006, 2007 and 2008 contained an explanatory paragraph indicating that the foregoing matters raised substantial doubt about our ability to continue as a going concern. We cannot provide any assurance that we will be able to continue as a going concern.

All of our assets have been pledged as collateral to secure the repayment of loans to third parties, three of whom are related parties. If we default in any of those loans, our assets would be subject to risk of forfeiture.

All of our assets have been pledged as security to third parties, including three related parties: Power Curve, Inc., a company controlled by John C. Power; John Power individually, and Lone Oak Vineyards, Inc., a company controlled by Brian Power, for the repayment of loans. If we are unable to pay any of those debts in a timely fashion or otherwise breach any of the terms of the loans or security agreements, our assets would be subject to foreclosure by the lender. Should foreclosure occur, it is likely that we would be forced to discontinue operations and our interest in the assets could be forfeited.

We do not yet have a history of earnings, profit or return on investment and there is no assurance that we will operate profitably or provide a return on investment in the future.

We have never been profitable, we expect to incur net losses for the foreseeable future and we may never be profitable. We incurred a consolidated net loss of $(1,096,660) and $(1, 001,563) for the fiscal years ended December 31, 2008 and 2007.

Our trademarks and other intellectual property rights do not provide us with protection against competition.

We do not claim intellectual property rights and do not believe that patents and copyrights can protect the recipes and formulas that we use in developing and manufacturing our craft beers. While we try to protect them as trade secrets through agreements with our employees, those agreements may not provide adequate protection against use by others.

We rely heavily on developing brand recognition for our products and claim common law trademark protection for all of our brands. We have applied for and been granted a federal and state registrations for several of our trademarks. However, we cannot be assured that these registrations will successfully preclude others from using the mark.

We do not believe that intellectual property rights, including trademark and copyright laws form a basis for significant competitive advantage or protect us from intense competition.

We could become involved in costly and disruptive litigation related to our use of trademarks for our products, which could result in adverse judgments against us.

We are not aware that any of our products or other intellectual property infringe upon the proprietary rights of third parties. However, there can be no assurance that third parties will not claim infringement by us with respect to current or future products. Furthermore, we may initiate claims or litigation against third parties for infringement of our proprietary rights, or for purposes of establishing the validity of our proprietary rights. Litigation, either as plaintiff or defendant, could cause us to incur substantial costs and divert management resources from productive tasks whether or not such litigation is resolved in our favor, which would impair our limited working capital and interfere with our ability to increase our marketing and sales. Parties making claims against us could seek to recover substantial damages, which we may not have the resources to pay as well as injunctive or other equitable relief, which could effectively block our ability to sell or license our products.

We owe significant amounts to our creditors, including taxes to federal and state taxing authorities, a portion of which are delinquent. Taxing authorities could shut down our business and foreclose on our assets for non-payment of delinquent taxes. We will continue to need significant capital, without which our business may fail.

At December 31, 2008, we owed approximately $79,428 in taxes to the IRS, TTB and State of California and local taxing authorities and in excess of $1,934,818 in current liabilities to various persons, including, vendors, our officers and directors and other related parties. The taxing authorities to whom we owe unpaid delinquent assessments could pre-emptively shut down our operations for non-payment and foreclose on our assets to collect the taxes. Such an action would likely result in a total business failure. We have targeted the payment of these taxes as our highest priority for the use of offering proceeds, which may be insufficient to pay all of the delinquency. We do not have any commitments for any other funds and there can be no assurance that additional funds will be available on acceptable terms, if at all. We do not have any agreements with our creditors, including our officers and directors, concerning payment of our liabilities and if we are unable to continue in business we would be required to pay those obligations before any payment could be made to any shareholder. .

If we are unable to increase our production volume, we may not be able to achieve break-even or profitable operations.

In order to increase production, we will need to purchase additional inventory, which will require additional working capital. There can be no assurance that we can raise working capital or increase sales to a break-even or profitable level.

If we are unable to expand our product distribution, we may not be able to achieve break-even operation results.

We have third-party distributor sales in Northern California, as well as in 19 other states; however, those sales are sporadic, unpredictable and difficult to manage. There is no assurance that consumers in new geographic markets will be receptive to our products. We believe that Northern California is likely to continue to be the largest market for our brands, and that regional identification may assist our competitors in other regions. Penetration into other regional markets is an important element of our growth plan, and failure to accomplish this objective will hinder the success of the expansion plan which is necessary to achieve break-even operations.

We rely heavily upon independent distributors to market our product. Those distributors also market other alcoholic beverages, including other craft beers that are competitive with ours. As a result, distributors over whom we exercise little control can significantly influence the degree to which retailers and consumers buy our products instead of products of competitive microbreweries.

We distribute our products through a network of independent import distributors for resale to retailers such as restaurants, taverns, and bars as well as to local distributors. Accordingly, we are dependent upon these distributors to sell our beer and to assist us in creating demand for, and promoting market acceptance of our products. We also depend upon them to provide adequate service to our retail customers. There can be no assurance that our distributors will devote the resources necessary to provide effective sales and promotional support to us.

For the year ending December 31, 2008, Bison Brewing, Mountain People s Warehouse and Craft Brewer s Distributing were responsible for 18.9%, 9.1% and 5.6% respectively. A disruption of our distributors or wholesalers' or the loss of a significant customer, or the termination by any major distributor could have a material adverse impact on our sales and results of operations.

The distributors that we rely upon also market competing imported and domestic craft beers. Although by law distributors are independent of any brewer, a distributor can be controlled if it relies on one or two large brewers who account for the majority of its sales. We have no formal long term written distribution agreements with our distributors; and most distribution arrangements can be terminated by the distributor on 30 days notice. A down-turn in the performance or loss of a single distributor can have a material adverse impact on sales and, as a result, on our business, financial condition, and results of operations.

Aging of inventories may result in material losses in the future.

We do not use preservatives in our products, and accordingly the packaged beer has a shelf life of approximately 120 days from the release date. Our policy is to sell product to distributors with sufficient remaining shelf life to ensure that the beer will be fresh when sold to the consumer. Product that remains unsold after 120 days is returned to us for destruction or other disposition. If and to the extent that near-term sales projections exceed actual performance and result in material excess packaged beer inventories, we may experience inventory write-downs, spoilage and associated losses.

Our compliance with governmental regulation of environmental matters could pose additional expenses on our business.

The manufacture and sale of alcoholic beverages is regulated by both federal and state authorities. We have obtained and currently maintain all required federal and state permits, licenses and bonds required to operate our brewery. In addition, our brewery is subject to regulation by the water pollution control divisions of the United States Environmental Protection Agency and the State of California. Although we believe that we are in full compliance with all applicable environmental regulations, there can be no assurance that future changes in those regulations may require us to alter our method of operations or install fixtures and equipment with associated delays and increased costs.

Our waste products consist of water, spent grains, hops, glass and cardboard. Disposal of our waste, including sewer discharge from the brewery, is monitored by local governmental agencies. While we believe we currently comply with all governmental regulations, if we fail to comply with applicable standards for such disposal, fines could be levied and our business operations suspended until we achieve compliance.

Possible increases in excise taxes could adversely affect our business.

Alcoholic beverages are subject to substantial federal and state excise taxes. The federal rate of taxation increases from $7.00 per bbl. to $18.00 per bbl. for annual production in excess of 60,000 bbl. Our production rate at our Chico facility was less than 6,000 barrels in 2008. The State of California imposes an excise tax of $6.20 per bbl. Alcoholic beverages have in recent months have been targets of attempts to increase so-called "sin taxes." If excise taxes are increased, we could have to raise prices to maintain profit margins. Historically, price increases due to additional excise taxes have not reduced unit sales, but past experience does not necessarily indicate future effects, and the actual effect is likely to depend on the amount of the increase, general economic conditions, and other factors. The occurrence of significant tax increases could require us to increase our prices, which could result in a loss of sales, or erode our margins, which would make it more difficult to achieve profitability.

Operating hazards related to our business could result in liability risks in excess of our insurance.

Our operations are subject to certain hazards and liability risks faced by all brewers, such as bottle flaws or potential contamination of ingredients or products by bacteria or other external agents that may be accidentally or wrongfully introduced into products or packaging. Our products are not pasteurized, irradiated or chemically treated and require careful product rotation to prevent spoilage. However, neither spoiled beer nor the bacteria introduced in the brewing process is known to be harmful to human health. We run periodic diagnostic tests on all of our products to assure that they meet our quality control guidelines and comply with federal and state regulatory requirements. While we have not experienced a serious contamination problem in our products, the occurrence of such a problem could result in a costly product recall and serious damage to our reputation for product quality. Our operations are also subject to certain injury and liability risks normally associated with the operation and possible malfunction of brewing and packaging equipment. We currently do not maintain general liability insurance, which formerly included liquor liability coverage, currently limited to $1,000,000 per occurrence and $2,000,000 in the aggregate annually. A large uninsured or underinsured damage award could force us to discontinue operations.

Shifting public attitudes toward alcohol consumption may impact revenues.

The alcoholic beverage industry has become the subject of considerable societal and political attention in recent years due to increasing public concern over alcohol-related social problems including drunk driving, underage drinking, and health consequences from the misuse of alcohol, including alcoholism. In addition, a number of anti-alcohol groups are advocating increased governmental action on a variety of fronts unfavorable to the beer industry, including the legislation of new labeling or packaging requirements and restrictions on advertising and promotion that could adversely affect the sale of our products. If beer consumption in general were to come into disfavor among domestic consumers, or if the domestic beer industry were subjected to significant additional governmental regulations, our business could be materially adversely affected. In addition, there can be no assurance that the operations of our brewery will not become subject to increased taxation by federal or state agencies, which may materially and adversely affect our operations, revenues and potential profitability. Congress and many state legislatures are considering various proposals to impose additional excise taxes on the production and sale of alcoholic beverages, including beer. Some of the excise tax rates being considered are substantial. Restrictions on the sale and consumption of beer or increases in the retail cost of beer due to increased governmental regulations, taxes or otherwise, could require us to either increase prices, which would dampen sales, or erode our margins, which would make it more difficult to achieve profitability.

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We have no contracts with our suppliers of hops and grain. Supply shortages could adversely affect our business.

Shortages or increased costs of fuel, water, raw materials or power, or allocations by suppliers could restrict the operations of our brewery. We have no contracts for our hops and grains, so our supply channels could be disrupted without notice.

While we attempt to use organic hops wherever possible, many forms of hops are not available organically. In the United States, only one type of hops is organically grown. All other organically-grown hops must be purchased from foreign sources, and those quantities are limited. As a result, the limited supply of organic hops limits our possible production of 100% organic microbrews. This limited supply impairs our ability to exploit our competitive advantage over non-organic microbrewers. In addition, if we experience difficulty or inability to acquire the particular hops needed for a production run, we may be forced to curtail production and lose potential revenues. All of these factors increase the risk that we will not be able to achieve profitable operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES

Corporate Offices

Our former executive offices and brewery were located at 945 West 2nd Street, Chico, California. The entire building consists of approximately 8,280 square feet, of which 1,000 square feet was used for executive offices, 7,280 square feet for our brewery, bottling, shipping and storage. The property is an industrial building which we lease from a member of Butte Creek Brewing, LLC the entity in which we acquired our business in 2005. The lease has a term of five years, expiring in 2010, and provides for monthly rental for the first year of $3,312 per month. In July 2006, the rent increased to $3,726 and is subject to an annual adjustment based upon the increase in the Consumer Price Index. There was no CPI adjustment made in 2007. Our two full-time employees currently work from their home offices.

Our lease at this location was in default and we were sued by our landlord in March 2009 for back rent of $14,904 and legal fees of $800. We have negotiated a settlement that allows us to retain possession of the premises by paying rent on a month-to-month basis. We paid March 2009 rent on March 31, 2009. We are required to pay April 2009 rent by April 15, 2009 and May 2009 and each month thereafter by the 5th of that month as long as the premises remain in our possession. The building contains all of our brewing equipment. If we default on our settlement with the landlord, they are entitled to dispose of any equipment remaining on the premises. We are still liable for the delinquent rent amount of $14,904 and future rents due under the lease.

ITEM 3. LEGAL PROCEEDINGS

There are two material legal proceedings in which either we or any of our affiliates were involved in 2008 and 2009 which could have a material adverse effect on our business, financial condition or future operations.

1.

On January 6, 2009, Capital Beverage Co. and Capital Coors Co. (Capital) filed suit against Crown Imports LLC, Butte Creek Brewing Company and Bison Brewing Company alleging that the defendants had unlawfully cancelled their distribution contracts with Capital. Capital is seeking damages equal to fair market value of