



**SO YOU WANT
TO START A**

BREWERY?

The Lagunitas Story

TONY MAGEE

FOUNDER AND OWNER

Lagunitas Brewing Company



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FAUXWORD

*I*t was originally intended as a simple reconnaissance mission in the Quang Phree Highlands off the western trail, far from any sort of modern convenience. We weren't working for either side this time; we were only trying to get back something that had been lost. I was squatting with my lunch in a fecund culvert and rooting through my sad rucksack, looking frantically for a pen that I had borrowed from the now-irate old villager, whose skeletal arms held a rusty Browning Automatic Rifle two inches from my right temple.

The day smelled of oermania and the sun was a fat orange cat in heat stuck in razor wire. When I first met this old man a few days earlier, I'd noticed that he had a tremor in his sclerotic right hand, and now that tremor was far more unnerving than his temper. It was unavoidable that I'd had to borrow his pen to scrawl out a warning note to my partner in this thing, and given the circumstances at that point my loyalty had been somewhat mis-invested. In retrospect, I had no real reason to believe that my artificial partner had any inclination to live up to his end.

For a moment I forgot all about the squinty, gangrenous old man with the rifle because I was distracted by some Moroccan drumming coming from the café at the end of the block. I began to think about the Moroccan drumming, but this didn't last long, because I don't know much about Moroccan drumming. Then I thought about my missing partner and wondered if he had anything to do with the old man's quavering question to me: "Phra da manu katche gua?!" In all truth, I didn't know what to say, and not even a moment later it didn't matter, because I was suddenly lying facedown in my bowl of phra gui with little tofus of old-man brain and chunks of skull in my hair.

I heard the rifle being kicked away and up the alley as I wiped the phra gui from my one good eye and stared up at a towering figure holding a .50-caliber pistol. He was dark, lewd, sinewy, and, had he been anyone else, terrifying. This was how I first met T.M., and it is a little bit more than ordinarily gratifying to say that his behavior wasn't unexpected. There was an odor about him that was reminiscent of burning tractor tires, and I threw up a little bit into my mouth from it as I stood up and tried to catch my breath. He said something that sounded like, "Come with me if you want some squid." To this day I think he meant to say "want to live," but I'll never know for sure.

I raked a little more phra gui from my hair and scooped the old-man brain out of my left ear as I followed T.M. back to town. The perspective from behind him gave me a while to think about the bizarre gimp in his gait. It was a five-count gimp without the usual skitter-step on the third. I'd know men with this particular quirk before, and I had tried to avoid knowing more of them, but it was too late in this instance.

I was asked to write the foreword to this book for two reasons. The first is not repeatable here, and the second is because the first reason was so heinous. I accepted for a third, less visible reason: I had known T.M. during the earliest phases of the start of his preparatory occupation dealing in Irish slaves for the German potato plantations, which devolved into a petty smuggling operation running designer scrunchies out of Lydllandick for the gray market Eastern European hair-extension trade.

It wasn't particularly dangerous work, but it was profitable, and in the course of it all, we were introduced to more than a few attractive and cooperative septuagenarian Polish *bushas*. For my part, it was all about the money and the bushas, but for T.M., there was more to it. I'll never know for sure, but something changed in him after working closely for so long in the same circles as the notorious Doctor

Putchnik and Splam and their intensive underground work around the ideas of radical fermentation and extract-recovery research.

Up to this point, I had seen things in my own life—things that keep meth-crazed housewives awake at night scratching and tearing at the skin of their pale underarm flesh, languid and bittersweet. Scenarios that I would not repeat even in the darkest confessional to the most ribald Salvadorian priest. Scenarios and exchanges that are burned into my mind like gang brand tattoos and animal-cracker Velcro velcro fasteners. I have heard sounds that make kittens purr and women give milk, and inhaled smells that inspire riches beyond the dreams of avarice. But I was not prepared for the visions that accompanied the fall from grace that led to the commencement of brewing on that dimly lit day in the ever-receding December 1993 in the back of the old Casa de Ricardo Building in the tortured hamlet of Forest Knolls, which borders on the equally cromulent village of Lagunitas, California, USA, NA, Earth, Sol, Local Group, Virgo Super Cluster, Space. But all of that would come later. Much later.

EMIL B. KERPUTCHINIKINIKIPURAM N'GORNQ-KARABAKH, 197



First Brewed in September, 1994

“Here, have a beer. It will make you right.” Ernest said to Tarzan. Tarzan had never had the true beer before and Ernest knew this would not be his last. He drank the beer quickly. It was cold, and Tarzan knew this too. He looked at the beer coolly. “Me Tarzan, you beer.” Ernest looked at Tarzan and felt old. “Vas iz schviss vit da old schtuff?” Ernest and Tarzan turned to watch as Sigmund entered the room strangely. “Sigmund,” Ernest said, “my old primitivo! Have a beer with us”. Sigmund knew what Ernest meant and he could not bear it. They all had a beer, and it was good. Ernest said “Do you remember how it was in Stinson with the running of the dogs and how we ate crullers and got drunk on the Lagunitas Pale and stole the grunion from the young girls at the Cafe de Sand Shekel?” Sigmund thought of how Ernest could be cruel and he did not answer. He thought how only dogs were not cruel. And also how sometimes a cold beer was just a beer. Tarzan thought of nothing. They all ordered contuuzti del corratzo and spoke not of their big cigars.

THE DAYS BEFORE THE FIRST DAYS

EVERYTHING COMES FROM SOMEWHERE

This is a memoir of starting a business. The business happens to be a brewery, which is good, because there is alcohol involved. Which can also be bad, but it makes things a lot more interesting. And for anyone. I think it's important to point out that this is not an autobiography; it is a memoir of the business and the things that were not so visible to the public but nonetheless went on. Small brewery goings-on are the subject of a lot of very cool conversations among beer lovers, but the sausage factory behind those goings-on is another story altogether.

One can read every book ever written about “how to,” but until you actually *do* it, it's all just a lot of words. Starting anything is creating, and creation is often messy. The Big Guy started the Big Business and despite his best intentions, well, just read Genesis and it's pretty clear how unintended the consequences can be. So this is not autobiographical in that familiar way. Lagunitas is not monolithical about me; there are many others who have had huge inputs into the whole thing. But since I did start the business, and because I am the one writing this version of its story (a bonus), my preconceptions and predispositions are central to everything that occurred. Much like the Big Guy's decision with regard to the specific strength of the electrical charge of a proton, everything that can be observed now derives from early choices I made. So if you're still reading, here is how marginally I was equipped at the starting point.

My early years were flawlessly misspent: barely graduating near the very bottom of my high school class, majoring in “getting out of doing stuff,” absentmindedly going to college to study product design, dropping out, then music composition, pursuing a serious buzz, writing commercial music arrangements for everything from full symphony orchestras and choruses to woodwind trios, working as a baritone sax player in the marching band at a Great America theme park, joining a reggae band while perfecting the same buzz playing Bob Marley and English Beat covers on the back roads to university towns all over the Midwest, quitting the band after tripping on Mr. Natural blotter for thirty days straight (it's a long story), and finally dropping out of college with a whimper (the school told me that although I'd been there for four years, I still had three to go). I sold radio ads on the telephone, sold luggage on the street, drove a cab, did a stint as a cook, sold electronic fluorescent light ballasts, and got turned down for night watchman at a bowling alley (who knew you needed experience?). In the morning I drank MD 20/20 (Wild Plum Supreme) with a buddy while mourning the lack of opportunity in the world, investing the balance of each day at a video arcade, twenty-five cents at a time, in serial games of Defender. It was good, long, and therapeutic fall down the stairs. Be careful if your kids claim Jack Kerouac, Quinlan Jones, Wallace Stevens, and Hunter Thompson as heroes.

My other heroes were musicians and writers and one sailor: Ted Turner. That's all he was then—no CNN, no TNT or ABC. He was a transcendent sailboat-racing skipper, seemingly above the rules, and

when he won he was the most quotable guy anywhere because he treated himself roughly and his success very lightly, as if he knew the bigger challenge was always around the corner. I didn't really follow sailboat racing; I followed Ted.

Somewhere deep down I always wanted to have my own business and not be employed, but that was the extent of my big picture. In any case, being a musician leads you to think for yourself, and even within a band setting, you are hired for your individuality. At one point I was actually attracted to the idea of starting a chain of dry cleaners. I think a girl I liked worked in one; I can't remember. Eventually I realized I was not going to make a living as a musician, or a dry cleaner, and over the twelve years that followed the end of those aspirations, I was fired from every job I landed. Sometimes it appeared that I quit, but I knew the difference. I guess if you say "The boss is a jerk" enough times, then you need to prove it by being the boss yourself, and then actually avoid the jerk circuit. As it turned out, it's harder than it looked, but so far, so good. Of course, I suppose you'd have to ask the guys who quit or got fired from the brewery over the years just to be sure.

Mr. Turner had a sign on his door: "Lead, follow, or get out of the way." My bosses never were willing to get far enough out of the way; you know how it is. Turner also had a knack for changing the rules when presented with a no-win scenario. A story goes that once in a race in the South Pacific he got a very bad start and decided to take a shortcut across a "natural barrier" in the racecourse—a coral reef—and won the race. He was on the sixty-one-foot sailboat *Tenacious*, which drew twelve feet of water, and he said they only hit bottom a few times. The race authorities had to make a new rule to prevent that particular innovation in the future.

Ted also liked to invest in assets, like buying prints of *The Andy Griffith Show* instead of renting the rights (later, he bought the whole MGM library). This is why Lagunitas never contracted out the brewing of our beer and never did that chore for others. Turner also thought strategically, four or five moves ahead, and he made things happen by acting. In the difficult craft-beer market of the mid to late 1990s, when we began, we too found our way through by thinking a decade ahead and by changing the rules as we went. It's good to have heroes whose work you'll never compare to, and in that respect, Turner is about as good as it gets.

But I have tried to lead. When I have, others have sometimes followed, and some who would not get out of the way ended up a little worse for the wear. I have had (former) beer distributors try to tell me that our success belonged to them, and there were suppliers, banks, other bad-acting bigger brewers, regulatory agencies, and municipal bureaucrats who saw our revenues as a crop to be harvested and underestimated our resolve to see change occur. It's been an interesting trip. The Pacific Northwest and Northern California markets were the most energetic craft-brewing markets in the country in 1993, and staying alive was more important than growing, but grow we did.

It is cool that Lagunitas has succeeded in helping to change some of the rules in beer and in craft brewing over the years, and in doing so we have found a clear route to our own goals, free of meaningless competition. Along the way, we cleared a path for others, who then made it even wider. It is not so well known that a lot of the things in craft brewing that are very common now are things that we, Lagunitas and a couple of other great Marin County brewers did first. Those things worked, and they caught on.

We have simultaneously built our brand into an asset that is intimately connected with our customers in markets across the country. Technically speaking, I don't think I really even understood what an asset was when I first heard other business owners use the term, but as with a lot of other

fundamental concepts, I hung on to the sound of the words, figuring that one day they'd mean something to me. ~~That might sound stupid, but when you don't even know what it is that you don't know, the best you can do is be on the lookout for clues.~~ I have methodically worked to follow the course in a cool and genuinely American way. Four suitcases and a plane ticket to California have grown into a nice brewery and a whole life that flows from it for my wife and me, and for 500+ others. For what it's worth, my wife and I watched the 2009 stock-market meltdown as you might casually watch animals jostling in a zoo. We congratulated ourselves every morning over coffee on our wisdom of never having had any cash. We are like farmers. We have a big note to the bank, a big healthy crop still in the field, and a forecast for fair weather ahead.

A particular musician hero of mine is Frank Zappa, the ultimate individual, iconoclast, and workaholic. He spoke of something in his life/work that he called "creative continuity," meaning that every note he wrote or played, every interview he gave, every thought about future work that might occur or not, was part of a continuum; nothing could be separated out or isolated from the whole. I have long thought that others who see their life as separate from their work (work time vs. personal time) end up with only half a career and, worse, only half a life. If we were all still the hunter-gatherers (that we actually still are), the idea of "personal time" would be synonymous with starvation. The brewery is a big part of my own creative continuity. The thing about starting your own company and brand and seeing it through is that it is a long-form symphony, a composition, a thing worth doing, and you learn a lot about yourself along the way.

Socrates's challenging line "The unexamined life is not worth living" sounds like an endorsement for unrestrained personal time and reflection. But in my experience, developing a recipe and a label that you think are just super and then watching the beer sit on a store shelf unbought requires some serious reflection. Try reeling in an employee whom you like and who is important to your business—but who also thinks you're an idiot. That requires some serious reflection. Contemplation of one's navel is easy, but when you are authentically working and becoming, you really get to know yourself. You can see your true reflection in the work you do. Ask a fine furniture maker about the metaphysical and spiritual implications of cutting an imperfect full-blind mitered dovetail joint. The flaw won't be visible, but for the maker, it sorta ruins everything.

When you own a small business, you don't need psychotherapy, because all of your fears and shortcomings are handed to you every day, and if you don't face them and deal with them honestly, your business will fail. Craft brewing may be the most unforgiving industry of them all. From the mill to the shelf it is a crucible, and every unmanaged input and process has the potential to become a threat to the product quality, and consequentially to the business, your future, and the future of every employee who counts on you to provide the paycheck you promised. That's a heavy commitment. But it seems worth it, doesn't it?

You may—as I do—have 163 employees, but in a brewery those 163 humans are managing, producing, selling the product of, or balancing the ledger for maybe thirty quadrillion yeast cells on any given day. I often hear the founders of good breweries called things like "a brewing genius" or "an artist" or "a visionary" or other genuine expressions of admiration. The truth, I think, is that a guy might start a brewery for any number of reasons, but once you find yourself in the seat of power, you realize it's really a seat of responsibility, and if you are going to survive—let alone succeed—then you need to discover your inner genius, your artist, your Buddha nature, *and* your inner visionary really quickly ... or you fail. John Steinbeck wrote, "Man, unlike any other thing organic or inorganic in the universe, grows beyond his work, walks up the stairs of his concepts, and emerges ahead of his accomplishments."

Anyone can do it, if they recognize that they *have to*. *Willing* is the operative word. What are you willing to do?

Another personal axiom of mine is less poetic but every bit as useful: “You are what you did.” You are not what you talk about or believe or are planning on doing more of someday. If you get hit by a falling chunk of airliner blue ice today and die, you will forever be what you actually did yesterday. You *are what you did*, so get to work.

I was born in Chicago and grew up in the vast deserts of the suburban veldt, surrounded by homes that were incubators of a next generation. Because the tract homes were almost being grown from sporadic seeds and the schools were being built just about as fast, I went to a different school each year and didn’t make a lot of real connections. I didn’t know much, but I knew I liked the things I was learning about music. Of course, I didn’t think of it this way then, but there is much that is profoundly similar between composing music and building a brand.

Musical training was actually an amazing foundation for lots of things I did later. I played and performed, arranged and wrote, ate, cut classes for, and lived and breathed music. I began playing on a tiny Magnus organ next to my bed with the names of the notes taped above the keyboard. The first thing I learned on it was the theme from *The Pink Panther*, and I played it day and night until the neighbors complained. Later I learned sax, and one afternoon in eighth grade I got the idea that I could arrange the music from a movie I’d seen for some friends of mine to play. The ensemble was sax, flute, oboe, and tuba. It was weird, but it was also a revelation to hear what all those black dots sounded like.

Carissa Brader, brewery production scheduler and Tony’s wife

I could write my own book about living with Tony. But in a nutshell—never boring! Mostly fun. Often crazy. I’ve spent a lot of time trying not to think about what was actually happening and just hoping for the best—especially hard during the times when Tony was on the verge of becoming completely unglued. Which was fairly frequently, as there was plenty of crazy stuff going on. Often, in the beginning, I tried not to listen to what was happening. (“I just opened three new bank accounts so the IRS can’t find us right away.” Or, “We have how many liens on our house?”) But Tony is the smartest and most creative person I’ve had the pleasure of knowing, so I figured if anyone could work things out, it was him.

I know this to be a universal truth: people love beer. I’ve been eternally grateful that Tony decided to make beer instead of widgets. Who wants those? But aside from the “everyone loves beer” aspect, I think there are several very good reasons why Lagunitas has been successful. The sense of fun, love, and passion that the people who work there feel flows right into the bottle. I heard someone describe Lagunitas beer as “love in a bottle.” How cool is that? We’ve also been continuously blessed by having the most amazing people work for us and with us. Tony has incorporated some important ideas into the brand that resonate with many, many people: you’re smart, you have a life, and you don’t want to be preached to.

Personally, I don’t really have a favorite brew. I like many of them for various reasons. But if I’m going to have more than a couple, I usually drink the pilsner.

From that moment on, arranging—and, later, composing—was all I wanted to do. In high school I had one of those music teachers who gives their students the idea that everything is way easier than it looks if only you put yourself to the job. And with that, everything did become easy, at least in music realms. I still disregarded regular classes and such, figuring that I was mastering something far more transcendent and ennobling than any calculus or film-study class could ever hope to deliver.

Later in high school I met a guy who wrote music for television commercials, and he gave me the shard of encouragement that set all sorts of other unintended and ill-advised things in motion. I was pretty darn good, but there were others who were great, and there were only about, oh, maybe two jobs available. Before I gave it up as a career, I actually scored a Pizza Hut commercial, a Bud Light ad,

Hallmark Cards spot, and a few other things. I finally caught that buzz I'd been chasing ... and subsequently caught mononucleosis. I fell out of the scene, lived on my mom's couch for a few years, watched a lot of *All My Children* and *The Big Valley*, delivered a car to L.A. to see my dad, and, almost by accident, got a job selling printing in San Francisco in 1987.

By late 1991 I was thirty-one years old, two and a half years married, and closing on my first home. My freshly reminted self was making a surprising amount of money at the printing sales job, but it was just about to collapse. Soon my wife and I would be about \$30,000 behind in federal and state income taxes. My marriage was not going so well when we bought the house with 20 percent down, drawn from income I hadn't yet paid the tax on, and when the Gulf War started, my big San Francisco bank printing customer decided not to print a planned winter Visa Card solicitation while there were US marines oozing out of the nighttime Persian Gulf and onto the beaches of Kuwait. The war quickly ended, but the bank decided to move their printing projects out of San Francisco to Seattle, thus out of my reach, and my wife and I quickly found ourselves on the brink of bankruptcy. I went from earning in the strong six figures to the feeble fives overnight, and the rebuilding took years. The repo guy called nightly about the car, the AmEx card went away, the mortgage went into default, tax collectors seized bank accounts, planned vacations evaporated, the IRS and state tax board letters appeared like new roommates, and Tanqueray and Springbank disappeared from the cupboard while Top Ramen appeared in their place. The letters and calls deepened and "the shit piled up so fast ... you needed wings to stay above it," as Captain Willard says in *Apocalypse Now*.

The stink of foreclosure, divorce (happily avoided!), and dissolution filled the air, and I just didn't want to become one of the bitter, foreclosed, divorced, and dissipated sixty-five-year-old printing troopers who I'd seen in the afternoon bars of San Francisco's financial district. So my scope went up to see if there was something else to do. This was the life context from which the brewery sprang: nowhere to go but up. There is a principle in chaos theory that says if a chaotic system is infused with sufficient energy, increasingly higher orders of complexity can arise. This is how the primordial ooze of the early world became Idi Amin, Richard Feynman, Britney Spears, and the Lagunitas Brewing Company. But I'll digress.



First Brewed in May, 1995

In the beginning, there were ales. As far as anyone knows, the first beers made were 'top fermented' which is longhand for 'Ale'. Sometime before the 1860's, beers became popular that were made in northern Europe with a bottom fermenting yeast strain that liked the colder temperatures. Because they had to spend weeks aging before they tasted their best, they were known as 'Lager' beer. Lager is the German word for 'storage'. Since they had to sit a while, they took up more time and space and as such were harder and more expensive to make. But they were crisp and light and you could slam them down if you wanted to. Where ales are meaty, lagers are sinewy. Where ales are street, lagers are 'haut couture'. Where an ale might hit you over the head and take your wallet, lagers donate to charity and adopt stray cats. While an ale might steal your car or try to date your daughter and keep her out all night for who-knows-what purpose, a well-bred lager would offer to clean your house while you're on vacation and leave fresh scones and coffee for you when you return. Now, don't get us wrong, ales can be a lot of fun to hang out with when you're in the right mood, and if you have bail money on you. But what's wrong with livin' uptown from time to time, on a nice street, where the doormen all wear those funny uniforms, the air smells of flowers, and lagers rule the Earth.

THE FIRST DAYS

DON'T SWEAT THE SMALL STUFF

The best piece of seemingly useless advice I'd ever been given with respect to what it would take to start the brewery was this: "Imagine the largest amount of money you think it will require to get the brewery up and going, and then triple it." I can't exactly remember who said that to me, although I wish I could, because I'd like to call them and tell them that they were right. I wouldn't be calling to thank them, because that would be like calling to thank the guy that yelled "Stop!" right before you got creamed by a speeding bus. But right they were.

By 1992 my wife and I were slowly rising from the marital and economic ashes, a little worse for the wear and tear, while my younger brother was working for a big and famous brewpub chain in Oregon. He described the business and told me where I could get a kit to make a batch of home brew. Up until then I had never even considered the idea of making my own beer. I'd been digging getting drunk at the famous Marin Brewing Co. pub and I thought the gear for brewing was pretty sexy looking. For me, cool and functional stuff has always been sexy—like a nice reverb unit, a great speaker, or a vintage guitar—and brewing gear fit right in.

So I went down to the local home-brew supply shop my brother recommended and got the standard five-gallon plastic pail, a strainer, hop packets, yeast, malt syrup—everything you need to brew beer. I had my first brewing "stuff" and with it, I made a batch of a prefab recipe pack called "California Common Beer." It turned out pretty vile. I hardly knew why, but the instructions were simple enough so I blamed myself and tried again. This time, I brewed a different prepackaged recipe of a California pale ale ... and it was transcendent. Again, I hardly knew why.

There is one basic truth to learning how to play a musical instrument: if you practice, you will get better. You may never be Itzhak Perlman (and maybe that's not really a bad thing), but you will eventually improve. I knew that the same had to be true for brewing, and so I set about discovering what it was that I didn't know.

In principle, brewing is a primitive process that Mother Nature was doing all by her omnipresence eons before humans were imagined, with just a wad of starch, some heat, a little rain, and a random flock of yeast. Humans have evolved it into a very complex process filled with precision and control, but the essential operation is as simple as singing a major scale: *do, re, mi, fa, so, la, ti, do*. In its fullest expression, brewing approaches Stravinsky and even beyond. Learning is often less a system of affirmation than a process of elimination. As in: "I'll never let the dog lick the spoon again before I start the pitching yeast."

As brewing awareness morphed into understanding, I developed small opinions about what

wanted to accomplish when I brewed a beer. This is another music-simile-laden moment. When you begin to really learn a melodic phrase, you ask yourself, *What do I want to try to get these notes to say*. After the first couple of brews, I remember asking the home-brew supply shop owner which yeast strain might convert the most sugars to alcohol (even then I only wanted to make stronger beers), and remember him looking away from me and saying to the ceiling, “That is not a question a brewer would ask.” I wasn’t deterred, but in that moment I already knew I would be making unconventional and non-stylistically describable beers.

Up until just recently, I wrote all the recipes for the brewery myself. Now I art direct, which is just as much fun. Strict style has never really figured into our recipes. Because of that, we have never done well in the myriad brewing competitions that happen each year. “Not appropriate for style” is the most common comment. Styles are for home brewers and academics. For us, they are jumping-off points for further improvisation. As a student musician, I won plenty of medals and awards of special recognition, but in the end, that didn’t mean that I would be a successful working musician. It is the work that matters. All of the awards are just fingers pointing at the moon, and you should never mistake the finger for the moon. There are maybe two judged events that we enter each year—the Great American Beer Festival (GABF), in particular—mostly because it is required in order to be part of the public tasting sessions that follow them.

But even if we *were* to accidentally win a medal at GABF, I wouldn’t make a big deal out of it with posters or advertisements. Some beer companies will, and that’s cool for them, but it’s not important for us. I mean, if you win, it doesn’t mean that you will succeed, and if you lose, it doesn’t mean you will fail. So why not just avoid the background noise altogether and get back to work? But I digress.

Back in early 1993 I was reminded of something called the Florence Nightingale effect, where wounded soldiers routinely fall in love with their nurses during recovery. I think that brewing was like my nurse as I came out of an unusually hard period in my life, and by the third batch (after three weeks of brewing), I was already sitting on the living room floor making up a pretend income statement and intensely adding up columns of guesstimated production volumes and costs and overhead and everything I could think of to get some idea of how much beer I would have to make to break even. My wife and I were \$38,000 behind on taxes by then, and at that point I aspired merely to break even. Before I had any idea what I was going to do or what it was going to take to get ‘er done, I rented a space in a nearby building, applied for a license, bought and installed a three-tier home-brewing setup, and began plans to install a real commercial brewery ... while also still learning how to make beer. In December of that same year, all of these things actually happened.

My crude initial income statement predicted some break-even sales levels that were, well, wrong. These were the first of more than a dozen annual projections that I worked hard to perfect, and I never even close. Over time we got better at knowing why the projections were so wrong, and I felt good about that ... sorta.

I didn’t want to have a retail brewpub. Personally, I was in a deep bunker mentality following all the home and economic problems I’d experienced, most of which persisted. I was still a full year behind on all of our personal taxes. The thought of having to be Mr. Hospitality and host customers was a nonstarter. I would do it the way another great San Francisco brewery (Anchor Brewing) did it: with wholesale trade. The margins would be thin, but I would do all the work myself, and whatever crumbs were left over, I’d feast on them. I was not in a position to borrow; there was no home equity to tap, no savings, no rich relations. So I would take the money from our household income. But when I began looking for equipment, it seemed to be everywhere, and all of it was too expensive.

By 1993 the craft brewing industry was in the middle of a big burst of growth, which would eventually lead to the 1995 opening of one thousand new breweries ... and the later mess of closures. But that was a few years out, and as it is in any gold rush, the folks making money were the ones selling shovels and pancakes. Fourteen-barrel brew houses could cost upward of \$100 million, and that was just one of many necessary components. I happened on a small classified ad in the back of the *New Brewer* magazine, and in short order I was talking with the ebullient John Cross. He not only wanted to tell me about equipment, but he wanted to discuss everything about the brewing process, including mash and fermentation temperatures. I really needed a guide to the gear and the process. I'd only brewed ten or twelve batches by that time and mostly knew only what I'd read. Noonan, Owens, Papazian, McCabe and Burch were my constant reading companions. So after talking to John Cross, I drove to the tiny southern San Joaquin Valley mountain town of Springville to visit his shop and see what accidental opportunity might exist. Pay dirt was waiting.

John Cross was the guy who imported most of the thousands and thousands of 210-gallon European beer serving tanks they call Grundy Tanks. A little background: in much of Europe, breweries outfit pubs with 210-gallon stainless bulk-tanks instead of the 15.5-gallon kegs we use here in America. European brewers would send out tanker trucks full of beer to fill up these storage tanks at the pubs, sorta like a gas station. I guess it all worked out well for a while, and was certainly more efficient than transporting the long pipeline of expensive kegs that we use here in the States, but in the end, the beer suffered. I'm sure there were problems with sanitation and oxygen pickup, but John Cross told me that the biggest problem was that the "publicans" learned that they could remove the top of the tank with the right tool, and from there it was a simple matter to top a tank off from time to time with a little tap water.

What was good for the publican wasn't good for the brewers, and at some point the brewers uniformly cut off the bulk deliveries and switched to fifty-liter kegs. That put thousands of used Grundy Tanks on the market, so John Cross and a couple of others bought them up, cheap. They brought them across the pond and got out their TIG welders. The versatile tanks were used in many different capacities, and they provided the raw material for hundreds and hundreds of US micro-breweries. The tanks have been used and modified to serve as kettles, mash tuns, fermenters, serving and bottling tanks, glycol tanks, CIP tanks, dry-hop dosing vessels, yeast brinks, you name it. I've used and modified several of them myself, including using one as the boiler for a still. There is one now serving as decoration in our Beer Sanctuary, and another has a continuing career as a fermentation blow-off foam receiver in our brewery. But back to John Cross ...

After seeing his standard "works-in-process" three-vessel systems, I was starting to get discouraged by the true cost of my fantasy, and I said so. John grew quiet for a moment and then shot me a sideways glance and rubbed his chin. He had a cool dog, and it grew silent and laid down. The wind stopped and a cloud passed in front of the sun. This is the truth, and there have been a dozen moments like this in the course of events at the brewery.

John looked at me in silence, sizing me up for the opportunity he was thinking of presenting, and then he spoke. He told me he had a one-off brew house he'd built for delivery to Russia, where he was building brewery systems into forty-foot shipping containers for a plug-and-play sort of installation. That one had been cancelled and was incomplete. But he'd already been paid for the parts to build it. He took me into the back shed, where it sat. It was a twenty-five-foot-long rectangular stainless-steel box with a hot-water tank, a mash tun, a two-hundred-gallon kettle, and all the pumps and piping built in. It took three hundred amps of electricity. (Seems there isn't much natural gas available in rural Russia.)

I didn't have any idea what I was looking at from a technical standpoint, but I figured that John knew more about brewing and brewing equipment than I did, so I blinked and asked him how much I would want in order to complete it for me. He was quiet for a long time, and I figured he was rethinking the whole deal. But then he looked up at me and said the unthinkable: \$5,000. A few weeks later, excitedly told Brendan Moylan of Marin Brewing Co. that I was building a brewery and that I'd bought a brew house for \$5,000. He looked at me blankly and asked if it was made of stainless steel.

In theory it was impossible, but I saw that I could get a real brewery going for about \$30,000 in gear and rent, which seemed doable. I was by that point about \$42,000 behind in my income taxes, and the revenueurs of the world were no less impatient than they were before, but I figured that if I were going to be a slave, I would at least choose my own work. I wanted out of printing very badly. Although I found a little new business to replace what I'd lost, I could see that the boom-and-bust cycle of printing would be eternal. This was (and still is) why all those old-pro printing guys were getting loaded every afternoon in the bars of downtown San Francisco. No, I would pay Uncle Sam and his cousin Governor Pete Wilson soon enough, but first I'd change careers.

I didn't really ask my spouse if this was a good idea or not; I knew what the answer would be. I realize one time how the entrepreneurial urge is, in its purest incarnation, a sort of seizure—nearly involuntary, like speaking in tongues or getting married in Vegas. It was like that for me, and this was the moment where reality and finance parted ways.

Later I was talking with an erstwhile and well-known equipment supplier about an overpriced little keg machine, and he told me that if I was going to be in the wholesale brewing biz, then my kettle needed to be at least thirty barrels or I was doomed. A little later I bought a small keg machine for \$5,000 and was subsequently told by a famous brewing educator that I should have spent at least \$15,000, and that if I didn't do so I was "doomed to failure, and this industry does not need any more failures." Word. In any case, the more I was told that it would never work, the more determined I became. Sort of like the drunk hotel partygoer who climbs out onto the fourth-floor balcony, determined to jump into the pool, while everybody yells, "You'll never make it!"

I would eventually find out that all the naysayers were correct. But by using the shoestring at hand I cobbled together a brewery that could produce about one thousand barrels per year with two John Cross-built Grundy Tanks as fermenters, and the weird little electric Russian brew house. At the time, I was only planning to produce unfiltered draft beer and to market it as a private-label product to twenty or so bars and restaurants in San Francisco and tourism-heavy West Marin County, where I lived. I would brew, filter, keg, sell, deliver, and service it all solo, while still maintaining the nice chunk of printing work that I had rebuilt. If worst came to worst, I could even live in the 750-square-foot brew house space. Eventually those worries ended, but it took a while.

Six months into the business, the summer of 1994 had gotten very busy. I'd already bought one additional fermentation tank and needed a fourth one to keep up. My days went something like this: I would mill grain around 9:00 PM the night before a brew, wake up at 3:00 AM, mash in at 3:30, knock out the kettle at 7:30, clean up by 10:00, and then do printing work all day—sometimes even while I'm making keg deliveries—after which I'd often have to fly to L.A. overnight to meet my printing customers at the plants to approve press runs, while still doing the brewery business from there too.

At some point in June 1994 it all got to be too much, and while the little brewery was just beginning to carry its own weight financially by selling only the private-label draft beer, I needed to hire some help. This single decision to increase the brewery's daily cash "burn rate"—and the resultant need for increased

sales volume to support the first payroll position—was the beginning of many crazy years of what I can only describe as being chased down the street by a pack of wild dogs.

When I began, I thought that the brewery would be like a custom cabinet shop. I'd do everything and I'd keep all the winnings, however meager. But this was unrealistic. Adding that first employee was like the first punch thrown in a crowd. The consequences were complicated, like trying to describe what happens while falling down a flight of stairs. It went something like this; try to hang with me ...

There is too much work and too many good customers for you to do a good job all by yourself. You go from being an A student in five things to being a C+ student in thirty things. So you hire one new guy, and consequently your daily cost of operation goes up. Then you need to sell more beer to pay for the change, which you can, so you do. To make the extra-tasty brew you need to buy more ingredients which you can, so you do. But unless you sell the beer COD, you will probably need to pay for the ingredients before you get to collect for the beer the ingredients will become, which means you need a little more cash up front.

It's all about the "time of arrival" of the money to your checking account. Your little brewery is a little bit profitable, but you are growing quickly, and the "time of arrival" thing is getting tighter and tighter, because you seem to need more than the little bit of money that you are generating in profits. You are going to pay your bills on time. Checks are clearing your account faster and faster. Since you have another day job, you just put your paychecks from that directly in the brewery because things seem to be going so well, and you feel confident.

So you grow quickly, you pay for more materials and then an employee salary, but you have to do all that before you actually collect for the brew you're delivering, and while you *are* technically profitable, your cash somehow remains scarce. Suddenly you realize that you need another fermenter and a few more kegs, because you are growing and you are starting to short orders, so you buy another fermenter, which also takes more money than you are making. Maybe you have a bank that will lend you money, but in 1996 I didn't, and if you're small, you won't either. I had to land more printing jobs instead.

Every month now you are brewing and selling a whole lot more than you did the previous month and you have a hard time keeping up with the hand deliveries to your expanding new customers. You need a distributor to better handle the deliveries so you don't lose those customers over service problems. The distributor needs to make money on the kegs, and you can't easily charge a lot more for them, so you reduce your selling price to the distributor. Now you really need to make and sell more beer to get that little bit of profitability back up, but your brewer is getting worn out by the long hours, so he wants a raise, and you have to hire him an assistant. Now you need to sell even more beer to pay for the new guy because your sales are increasing and you are buying more ingredients. And you are now waiting to get paid from the distributor—and since you only have one distributor, and it is going well, you decide to get more—and then you need a salesman, and then another distributor, and another salesman, and then you need more brewers, more ingredients so you can make more beer, so you can sell more beer, so you get more distributors. One day you realize that you need a bookkeeper. The good news is that you have a growing business and brand and you feel like you are making beers that haven't been made before (and *that* is exciting!). Now you feel great, so you buy even more fermenters and kegs, and you hire more salesmen, and this takes even more money. The good news is that you'll never have to pay to get drunk ever again!

There is this invisible and prickly detail that takes a while to get your mind around, or at least it took me a while: the mysterious financial bugaboo called the cash-flow statement. The cash-flow statement is the first derivative of the income statement and balance sheet. It all comes down to sources and uses

cash. The uses are inventory and receivables. They are serious liquidity sponges—meaning that they soak up cash. ~~If you don't have or can't generate that cash, then you will pay your bills slower.~~ Suppliers understand this better than you do, so they watch for it and pull the reins tight to prevent you from getting too upside down with them. Their basic response is to require you to pay for supplies COI which empties your bank account pretty quickly.

One of the interesting things about starting something when you don't know what you are doing is that you are constantly presented with very specific details that you have to master, or you will be consumed by them. They are things you'd never heard of before that must quickly become second nature. Things like heat-exchange ratios, hemocytometers, commercial lease negotiations, basic fluid dynamics, workman's compensation insurance, trucking companies, payroll taxes, and cash-flow statements. I don't know about anybody else, but the learning curve was simultaneously the most energizing and the most exhausting part of growing Lagunitas. I can remember the gears beginning to grind while trying to grasp something complex and unfamiliar at 3:45 on a Friday afternoon, while the uptake of glucose in my brain emptied the last of its meager reserves.

Where was I? Oh yeah ...

The two things that will most reliably devour all of your cash are inventory and receivables. Everyone has heard these words, and in the past when I'd heard them discussed, I just narrowed my eyes and nodded my head thoughtfully, murmuring, "Mmmm, uh-huh, I see." But suddenly these tiny words were threatening to ruin Lagunitas. Inventory and receivables are the raw materials in waiting, product in process, finished product on hand, and the money you are waiting thirty days to receive for product you've already sold.

Stay with me now (I can already hear you murmuring, "Mmmm, uh-huh, I see"). If you buy malt and hops on, say, May 1, and by May 15 you have a great beer that you package and sell by May 20, you hope to get paid for it around June 20, *if* your distributors mail their payments on time. Meanwhile, the malt and hops bills are due promptly thirty days after you bought them—in this case on June 1! Along with all of your other expenses (like payroll and rent and pump seals), you also need to pay your malt and hops bill nineteen days before you have any hope of seeing the money for the great beer you made from them.

Say you sell \$20,000 in beer one month, but you are growing fast, so the next month you sell \$30,000, and your cost of goods sold (which means all the costs of making this great beer) is 65 percent of your selling price (which it might well be when you are small). That means that you need to find \$7,000 to cover the increased raw-material bills for those painful nineteen days, because you need to pay your bills on time. But since you're still a very small brewer, you are only barely profitable, so maybe you made 10 percent (*maybe*), or \$3,000, so you are conclusively \$4,000 short for the month (the difference between your cost of brewing and your profits).

People like your beer and you are profitable, but you are running out of cash. It's creepy. Imagine this going on month after month after month, year after year. You are happy because you are growing and the scene is totally cool and you are having fun doing it, but you are becoming skinnier and more anemic every month. Like a high school kid in a growth spurt, no matter how much you eat, you can't put on a single pound. Now the thing that happens while you are busy running your brewery is that you start to pay your bills later and later, and this gets on your suppliers' nerves quickly. The big companies who are selling you these raw materials already know about this scenario, and they can get pretty impatient with your exciting learning process.

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Cappuccino STOUT

ALE BREWED WITH COFFEE

*Brewed with
Sebastopol's Own
Hard Core Coffee*

The Lagunitas Brewing Co. Petaluma, Calif.

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ALC. 8.4 %
BY VOL.

NET CONTENTS: 1 PINT 6 FLUID OZ

ME-VT-CT-DE-NY-MA-IA-OR-5¢ MI 10¢ DEP (Whim...) [CASH REFUND]

coffee is my shepherd; I shall not doze. It maketh me to wake in green pastures. It leadeth me beyond the sleeping masses. It restoreth my brain. It leadeth in the paths of consciousness for it's name's sake. Yea, though I walk through the valley of the shadow of seep, I shall fear no artificial sweetener for thou art with me; thy cream and thy sugar they comfort me. Thou preparest a carafe for me in the presence of m ZZZ's, Thou anointest my day with sunlight; My cup runneth over. Surely richness and flavor shall follow me all the days of my life; and I will dwell in the house of Cappuscino forever... Let us sip... or whatever...

7 23830 00003 2

GOVERNMENT WARNING: (1) ACCORDING TO THE SURGEON GENERAL, WOMEN SHOULD NOT DRINK ALCOHOLIC BEVERAGES DURING PREGNANCY BECAUSE OF THE RISK OF BIRTH DEFECTS. (2) CONSUMPTION OF ALCOHOLIC BEVERAGES IMPAIRS YOUR ABILITY TO DRIVE A CAR OR OPERATE MACHINERY, AND MAY CAUSE HEALTH PROBLEMS.

www.lagunitas.com

First Brewed in January, 1994

Coffee is my shepherd; I shall not doze. It maketh me to wake in green pastures. It leadeth me beyond the sleeping masses. It restoreth my brain, It leadeth in the paths of consciousness for it's name sake. Yea, though I walk through the valley of the shadow of seep, I shall fear no artificial sweetener for thou art with me; thy cream and thy sugar they comfort me. Thou preparest a carafe for me in the presence of m ZZZ's, Thou anointest my day with sunlight; My cup runneth over. Surely richness and flavor shall follow me all the days of my life; and I will dwell in the house of Cappuscino forever... Let us sip... or whatever...

THE TYRANNY OF FAST GROWTH

WHAT DOESN'T KILL YOU MAKES YOU STRONGER

This is the tyranny of fast growth that no one outside the business ever really sees. If you are an employee, the good boss will make sure that the one bill that always clears the bank is payroll, you keep coming in to work to keep the thing going so that the business has at least some chance of catching up someday. And to make the whole thing tougher for the boss, most people inside the business don't ever see the stretching that is occurring, and if they work in the plant brewing or bottling, all they see clearly is a lot more beer going out the door, a lot of new money being borrowed for equipment, and not much more in their pockets for the effort they are expending, which is considerable.

Ask your favorite local brewery owners how many of their early brewers and employees are still with them. The answer will almost uniformly be zero. For me this has been a source of great anguish, because the problem is subtle, and explaining it sounds like hocus-pocus accounting stuff that doesn't really exist although everyone is certain it does. For the owner it is heartbreaking when the people who have helped make the first part happen leave before the promised land appears on the horizon. Kinda makes you seem like one of the jerks you worked for in your previous life. I guess it is part of what my folks mean when they said, "You'll understand when you grow up." This basic cash-flow business scenario ought to be taught early in every classroom so that we can all be on the same page when things get hard. It was certainly all news to me, given my vast inexperience, but I was surprised to find out that even some smart kids from a nearby hard-to-get-into, very expensive, and world-class business school, who once came to do a study project on the brewery, had only the vaguest of notions about the sources and (more important) uses of cash in a small and fast-growing business.

To be honest, when I asked them what a brewer should do in this ubiquitous situation, one of the MBA students answered, "Well, you need to raise more capital." This is the basic truth, but capital—specifically equity capital—is the most expensive financing you'll ever take, if you can even find it. The grad student meant that I should sell stock, and he was correct, but that share that you might sell for that one day for \$50 will be worth \$5,000 someday if you succeed. That means the \$50 will eventually cost you \$4,950!

I didn't have any deep pockets nearby, my own had quickly emptied, and I didn't want to sell any more shares of my little company than I absolutely had to. Eventually, when I had to move the brewery into a larger space, buy bigger brewing stuff, and do a bunch of building renovations, I needed to raise money. I got it from some old friends and from some new friends, and in 1998 I traded about half ownership of the brewery for \$650,000. At the time I couldn't borrow it from anywhere, so I had to raise it by selling stock. It seemed like a lot of money in 1998, but later, in 2011, I easily borrowed more than

\$9 million from a local bank with just a couple months of phone conversations and some routine paperwork. We even had two other banks competing to lend it to us at the same time. Jeez ... snott-nosed MBA kids.

Back to the cash nightmare. A few years down the road, you've grown your little brewery quite a bit. You've found ways to cover the cash deficit (more on how to do that and how *not* to do that later). Now imagine that you are selling \$1 million worth of beer every month; you have better margins, and your cost of goods sold is more like 50 percent. That means that if you grow at 30 percent, you'll sell \$1.3 million the next month (yahoo!) and you might need something around \$150,000 to fund just those pesky inventory and receivable costs. Well, if you are good enough to operate at a 12 percent net profit and you made \$156,000, then from a cash standpoint, after you cover your cost of goods sold, you might get to keep about \$6,000 (about half a percent!) with which to pay all the other new hires and buy all those tanks and kegs and fuses and pump seals. It's better, but the tanks and kegs you'll need will cost way more than the \$6,000 in cash you might have kept. Sheesh. Breathe, borrow, breathe, borrow, breathe.

This is one reason that you see so many breweries now making very strong beers that sell for more money per ounce: the perceived value is greater, and so they can charge more. The higher your revenue per barrel, the easier all the trouble can be to manage. In 1995 we were making stronger beers like we still do today—because I like them—but it would have been hard to charge today's higher prices and still grow nicely. This was because craft beer was still relatively new, and stronger beers were not really in demand yet. San Francisco was a pretty developed craft-beer market at the time, yet most bar owners refused to carry any of our seasonal brews (which were all much higher than 7.5 percent) because they felt that they would sell fewer pints and have bigger problems with drunks. Most of the breweries that now brew stronger and more expensive beers developed in markets that didn't like craft beer in 1995, and so when their markets "woke up," craft beer as a whole was further evolved, and those breweries enjoyed early state market rules that were more receptive to higher strength and more expensive brews.

But at the time of our entry into the San Francisco beer scene, every brewery in the country seemed to be trying to sell and deeply discount their beer there, including many larger craft breweries that are long gone as a result. The Bay Area was, in the early 1990s, a focal point for growth for most of the breweries that originated in the Pacific Northwest, as well as being the all-important home market for the handful of California-born brewers. For the Pacific Northwest brewers, the Bay Area represented a huge population base a good six hundred miles from home. That distance from their homies allowed them to be very aggressive in their marketing and to deeply discount their beer without feeling like they were harming their brand's image. Back then, being a national brand wasn't so realistic, so California seemed a long way away—a safe distance. Craft beer was pretty cheap in those days, and we had to ante up!

When I look at reviews on beer rating sites, I sometimes read comments about our beers that sound like things like, "A nice beer, but for a few dollars more there are other beers that have bigger flavors." There is a chicken-and-egg thing at work here: making the beer stronger does not really cost the brewer a few dollars more, but making stronger beer allows the brewer to *charge* a few dollars more. We make our beer with the flavors that we do—and sometimes they are more delicate—because we like them that way, not because we are saving on ingredients to keep them cheap. It is interesting how different perception is from reality in this way, and I often wonder how it will all turn out down the road.

Uh, but I have indeed digressed.

So let's return to late 1994, when, after only nine months in our little brewing home in West Marin's tiny hamlet of Forest Knolls, I got a call from our septic tank. In putrid tones, it told me we had to leave.

and quickly. The septic tank also called the neighbors. It called the busy street out in front of the brewery, the playground behind us, and then it called the county.

It was the end of innocence for the brewery, and leave we did, quickly landing a lease in near Petaluma. I'd sunk a large fistful of piastres into getting that first little plant running, and losing that investment was a drag, but the new situation was so much better. The move and the new space were both expensive, and so (by now you know what's coming) we would have to sell more beer. But the bigger problem was that my little seven-barrel electric Russian brew house was quickly running out of juice, and after the move I would have no money left for a new one, let alone a larger one. So I called up the honorable Mr. John Cross again, and in the single most amazing act of generosity ever, topping his first act of Russian brew-house generosity, he offered to build a bigger one for me. He asked only that I make a monthly interest payment on the cost of building it. Once I was resuscitated, I accepted. The money was later repaid in full, but never the debt.

Ron Lindenbusch, first marketing guy and current chief marketing officer (CMO)

Tony was like the mad scientist that had just discovered the secret formula, but the recipe wasn't a brew, it was a way of being. He was selling kegs out of the back of his Ford Ranger; I had never seen anything quite like it. When I first hitched up to the brewery, I just hoped that the horse could go a long way on very little water ... maybe it could live on beer! For me, [working at Lagunitas] has paid off in ways far greater than money. It's like being part of a big family where everyone is allowed to be who they are, as long as they bring something tasty to the potluck dinner. I never thought that I would be part of something this cool for this long ... I always thought that I was relatively unemployable! The experience has been like a roller coaster ride where all the hills are going down and you're going as fast as you can go and you can't help but wonder if the damn thing can possibly stay on the tracks ... we've only lost a few of our riders so far. Ever since that first batch rolled off the bottling line in '95, our IPA has been my favorite. It has a flavor that I just can't get tired of ... no matter how hard I try!

During this time, we were cutting off the tops of our existing fermenters and welding in additional sidewalls to make them taller and increase the capacity. A friend of the brewery stepped in and lent me the money to do this work interest-free, with only my promise of later equity when we issued stock. These sorts of things occurred far more frequently than the Monte Carlo method would suggest were possible. It is good to have friends.

By 1995 things were still financially very uncomfortable, and I desperately needed to get more money into the business. Up in Petaluma, we were still only packaging beer in kegs, which don't really bring in much profit. Back then, a brewery might have sold a keg to a distributor for about sixty-five dollars wholesale. So a fourteen-barrel batch would bring in around \$1,820. The same fourteen barrels converted into bottled beer, however, might bring something like \$2,960 wholesale. I might be financially as dumb as a bag of hammers, but I reasoned that if there was more money in play, I might have more flexibility. I knew that bottled beer has a lot more ingredients: in addition to the actual beer there's glass, labels, crowns, carriers, and cartons. So the pesky inventory-and-receivables thing would be harder, but I plunged in anyway.

I had a lot of decisions to make about the new bottled brand, but oddly enough, the heaviest one was what we would charge for it. It was a very turbulent market when we were ready to go. I looked up some market info (IRI) reports and saw that the average selling price of almost every six-pack brand in the top twenty was \$5.99—and some even less. This seemed really, really cheap, but it was the world we were in. The Pacific Northwest brewers were literally dumping their excess capacity into the San Francisco market. They all had frontline six-pack prices of \$6.99, but they did every-other-month

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