

Golden West Brewing Company, Inc.  
Form 10QSB/A  
October 23, 2006

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

**FORM 10-QSB /A-1**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2006

**OR**

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

Commission file number 000-51808

**GOLDEN WEST BREWING COMPANY, INC.**  
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware  
(State or other jurisdiction  
of incorporation or  
organization)

90-0158978  
I.R.S. Employer  
Identification number

945 West 2<sup>nd</sup> Street, Chico, CA 95928  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (530) 894-7906

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Former name, former address, and former fiscal year, if changed since last report

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

As of May 15, 2006, the Registrant had 2,000,000 shares of its Common Stock outstanding.

Transitional Small Business Disclosure Format (check one) Yes  No

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**PART 1. FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

The consolidated financial statements included herein have been prepared by Golden West Brewing Company, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such SEC rules and regulations. In the opinion of management of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of December 31, 2005 and March 31, 2006, and its results of operations for the three month periods ended March 31, 2006 and 2005 and its cash flows for the three month periods ended March 31, 2006 and 2005 and the statement of stockholder's equity as of March 31, 2006. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB.

**GOLDEN WEST BREWING COMPANY, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS OF**

|  | ASSETS                                      |                       | (unaudited)        |
|--|---|-----------------------|--------------------|
| Current Assets:  | <u>December 31,</u><br><u>2005</u>          | <u>March 31, 2006</u> |                    |
| Cash and cash equivalents  | \$ 10,837                                   |                       | \$ -               |
| Accounts receivable, net of allowance for doubtful accounts of \$659   | 109,168                                     |                       | 106,088            |
| Inventory (Note 1 )  | 118,773                                     |                       | 151,485            |
| Prepaid Expenses   | <u>8,833</u>                                |                       | 16,421             |
| Total current assets   | <u>247,611</u>                              |                       | <u>273,994</u>     |
| <br>Fixed Assets:  |   |                       |                    |
| Property and equipment, net of accumulated depreciation of \$8,722 and \$15,264 March 31, 2006, respectively | 280,364                                     |                       | 279,970            |
| <br>Other Assets:  |   |                       |                    |
| Deferred Offering Costs (Note 6 )  | 150,000                                     |                       | 150,000            |
| Goodwill (Notes 1 & 9 )  | 472,503                                     |                       | 472,503            |
| Intangibles, net of accumulated amortization   | 27,085                                      |                       | 28,834             |
| Other assets   | <u>947</u>                                  |                       | <u>2,651</u>       |
| Total other assets   | <u>650,535</u>                              |                       | <u>653,988</u>     |
| Total Assets   | <u>\$1,178,510</u>                          |                       | <u>\$1,207,952</u> |
|  | <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                       |                    |
| <br>Current Liabilities:   |   |                       |                    |
| Checks written in excess of available funds  | \$ -  |                       | \$ 950             |
| Accounts payable   | 222,188                                     |                       | 255,681            |
| Accrued expenses   | 196,740                                     |                       | 208,862            |
| Lines of credit payable (Note 2)   | 36,447                                      |                       | 35,471             |
| Notes payable - other, current portion (Note 2)  | 4,434                                       |                       | 4,534              |
| Notes payable, related party, current portion (Note 2)   | <u>26,984</u>                               |                       | <u>146,334</u>     |
| Total current liabilities  | <u>\$ 486,793</u>                           |                       | <u>\$ 651,832</u>  |
| <br>Long-term liabilities:   |   |                       |                    |
| Notes payable, net of current portion (Note 2)   | 17,492                                      |                       | 16,320             |
| Notes payable - related party, net of current  | <u>405,000</u>                              |                       | <u>405,000</u>     |

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portion (Note 2)

|  |                    |                    |
|--|--------------------|--------------------|
| Total long-term liabilities  | 422,492            | 421,320            |
| Common stock issued subject to rescission (Notes 5 & 11)   | <u>10,000</u>      | <u>10,000</u>      |
| Total Liabilities  | <u>\$ 919,285</u>  | <u>\$1,083,152</u> |
| Commitments and Contingencies (Notes 1,2,3,4, 5, 6,7, 8, 10 and 11)  |                    |                    |
| Stockholders' Equity   |                    |                    |
| Preferred stock, \$.0001 par value, 5,000,000 shares authorized, none issued and outstanding   | -                  | -                  |
| Common Stock, \$.0001 par value, 20,000,000 shares authorized, 2,000,000 shares issued and outstanding at December 31, 2005 and March 31, 2006 | 200                | 200                |
| Additional paid-in capital   | 449,800            | 449,800            |
| Accumulated (Deficit)  | <u>(190,775)</u>   | <u>(325,200)</u>   |
| Total Stockholders' Equity   | <u>259,225</u>     | <u>124,800</u>     |
| Total Liabilities and Stockholders' Equity   | <u>\$1,178,510</u> | <u>\$1,207,952</u> |

*See accompanying notes to these financial statements*

**GOLDEN WEST BREWING COMPANY AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED MARCH 31, 2006 & 2005 (UNAUDITED)**

|                               | <u>2006</u>         | <u>2005</u>       |
|-------------------------------|---------------------|-------------------|
| Revenues                      | \$ 194,900          | \$ -              |
| Less: Excise taxes            | <u>(10,020)</u>     | <u>-</u>          |
| Net revenues                  | 184,880             | -                 |
| <br>                          |                     |                   |
| Cost of sales                 | <u>126,611</u>      | <u>-</u>          |
| <br>                          |                     |                   |
| Gross profit                  | <u>58,269</u>       | <u>-</u>          |
| <br>                          |                     |                   |
| Operating expenses:           |                     |                   |
| Depreciation and amortization | 7,824               | -                 |
| Legal and accounting          | 41,578              | 6,666             |
| Management compensation       | 19,807              | -                 |
| Outside sales compensation    | 23,254              | -                 |
| Rent                          | 9,450               | -                 |
| Selling expenses              | 23,726              | -                 |
| Other                         | <u>54,223</u>       | <u>2,795</u>      |
| Total operating expenses      | <u>179,862</u>      | <u>9,461</u>      |
| <br>                          |                     |                   |
| Operating (Loss)              | <u>(121,593)</u>    | <u>(9,461)</u>    |
| <br>                          |                     |                   |
| Other Income (Expense):       |                     |                   |
| Miscellaneous income          | 369                 |                   |
| Interest expense              | <u>(13,201)</u>     | <u>-</u>          |
| Total other (expense)         | <u>(12,832)</u>     | <u>-</u>          |
| <br>                          |                     |                   |
| Net (Loss)                    | <u>\$ (134,425)</u> | <u>\$ (9,461)</u> |
| <br>                          |                     |                   |
| Net (Loss) Per Share          | <u>\$ (.07)</u>     | <u>\$ (.01)</u>   |



Weighted Average Shares Outstanding     2,000,000     1,500,000

*See accompanying notes to these financial statements*

***GOLDEN WEST BREWING COMPANY, INC. AND SUBSIDIARY*****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
MARCH 31, 2006 (UNAUDITED)**

|   | <u>Preferred Stock</u> |               | <u>Common Stock</u> |               | <u>Additional</u>                | <u>Accumulated</u> | <u>Totals</u>   |
|---|------------------------|---------------|---------------------|---------------|----------------------------------|--------------------|-----------------|
|   | <u>Shares</u>          | <u>Amount</u> | <u>Shares</u>       | <u>Amount</u> | <u>Paid-In</u><br><u>Capital</u> | <u>(Deficit)</u>   |                 |
| Balance, inception                                    | -                      | \$ -          | -                   | \$ -          | \$ -                             | \$ -               | \$ -            |
| Stock issued for assets at \$0.15                     | -                      | -             | 400,000             | 40            | 59,960                           | -                  | 60,000          |
| Stock issued for cash at \$0.25                       | -                      | -             | 300,000             | 30            | 74,970                           | -                  | 75,000          |
| Net (loss)  | <u>-</u>               | <u>-</u>      | <u>-</u>            | <u>-</u>      | <u>-</u>                         | <u>(447)</u>       | <u>(447)</u>    |
| Balance, December 31, 2003                            | -                      | -             | 700,000             | 70            | 134,930                          | (447)              | 134,553         |
| Stock issued for cash at \$0.25                       | -                      | -             | 800,000             | 80            | 199,920                          | -                  | 200,000         |
| Net (loss)  | <u>-</u>               | <u>-</u>      | <u>-</u>            | <u>-</u>      | <u>-</u>                         | <u>(62,543)</u>    | <u>(62,543)</u> |
| Balance, December 31, 2004                            | -                      | -             | 1,500,000           | 150           | 334,850                          | (62,990)           | 272,010         |
| Stock issued for conversion of liabilities at \$0.25  | -                      | -             | 120,000             | 12            | 29,988                           | -                  | 30,000          |
| Stock issued for acquisition of Butte Creek at \$0.25 | -                      | -             | 200,000             | 20            | 49,980                           | -                  | 50,000          |
| Stock issued for conversion of liabilities at \$0.25  | -                      | -             | 180,000             | 18            | 44,982                           | -                  | 45,000          |

|  |          |          |                  |            |                |                  |                  |
|--|----------|----------|------------------|------------|----------------|------------------|------------------|
| Stock issued for conversion of liabilities subject to rescission |          |          |                  |            | (10,000)       |                  |                  |
| Net (Loss)   | <u>-</u> | <u>-</u> | <u>-</u>         | <u>-</u>   | <u>-</u>       | <u>(127,785)</u> | <u>(127,785)</u> |
| Balance, December 31, 2005                                       | -        | -        | 2,000,000        | 200        | 449,800        | (190,775)        | 269,225          |
| Net (Loss)   | <u>-</u> | <u>-</u> | <u>-</u>         | <u>-</u>   | <u>-</u>       | <u>(134,425)</u> | <u>(134,425)</u> |
| Balance, March 31, 2006 (Unaudited)                              | <u>-</u> | <u>-</u> | <u>2,000,000</u> | <u>200</u> | <u>449,800</u> | <u>(325,200)</u> | <u>124,800</u>   |

*See accompanying notes to these financial statements*

**GOLDEN WEST BREWING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31**  
(Unaudited)

|   | <u>2006</u>                 | <u>2005</u>     |
|---|-----------------------------|-----------------|
| <b>Cash Flows from Operating Activities:</b>                                |                             |                 |
| Net loss  | \$ (134,425)                | \$ (9,461)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                             |                 |
| Depreciation  | 6,543                       | -               |
| Amortization of intangibles   | 1,281                       | -               |
| Changes in operating assets and liabilities:                                |                             |                 |
| (Increase) decrease in:   |                             |                 |
| Accounts Receivable   | 3,080                       | -               |
| Inventories   | (32,712)                    | -               |
| Prepaid expenses and other receivables                                      | (7,588)                     | -               |
| Increase (decrease) in:   |                             |                 |
| Checks written in excess of funds available                                 | 950                         | 7,562           |
| Accounts payable  | 33,493                      | (6,591)         |
| Accounts payable Related Party  |                             | 87,900          |
| Accrued Expenses  | <u>12,122</u>               | <u>-</u>        |
| Net cash (used in) operating activities                                     | <u>(117,256)</u>            | <u>79,410</u>   |
| <b>Cash Flows from Investing Activities:</b>                                |                             |                 |
| Equipment deposits  |                             | (15,600)        |
| Investment in fixed assets  | (6,149)                     |                 |
| Investment in intangibles and other assets                                  | (4,734)                     | -               |
| Advances to Butte Creek   | <u>                    </u> | <u>(76,000)</u> |
| Net cash (used in) investing activities                                     | <u>(10,883)</u>             | <u>(91,600)</u> |
| <b>Cash Flows from Financing Activities:</b>                                |                             |                 |
| Proceeds from Paid-In Capital   | -                           | -               |
| Deferred offering costs   | -                           | (13,000)        |

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|  |                |               |
|--|----------------|---------------|
| Net Increase in Advances and Notes Payable | <u>117,302</u> | <u>25,190</u> |
| Net cash provided by financing activities  | <u>117,302</u> | <u>12,190</u> |

**Increase in Cash and Cash Equivalents**

|  |             |             |
|--|-------------|-------------|
| Cash and Cash Equivalents, beginning of period | 10,837      | -           |
| Cash and Cash Equivalents, end of period       | <u>\$ -</u> | <u>\$ -</u> |

**Supplemental Schedule of Cash Flow Information:**

|   |                  |                  |
|---|------------------|------------------|
| Cash paid for interest                          | <u>\$ 13,201</u> | <u>\$ -</u>      |
| Issuance of stock for conversion of liabilities | <u>\$ -</u>      | <u>\$ 30,000</u> |

*See accompanying notes to these financial statements*

**GOLDEN WEST BREWING COMPANY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

MARCH 31, 2006

(UNAUDITED)

**1. Nature of Business and Significant Accounting Policies:**

This summary of significant accounting policies of is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in preparation of the financial statements. The Company has selected December 31 as its year end.

Description of Business - Golden West Brewing Company, Inc., a Delaware Corporation, and its wholly-owned California subsidiary Golden West Brewing Company (hereinafter referred to as The Company on a consolidated basis) were formed in 2003 for the purpose of acquiring Butte Creek Brewing Company, LLC ("Butte Creek"). The acquisition of Butte Creek was completed on August 31, 2005.

In the opinion of management of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of December 31, 2005 and March 31, 2006, and its results of operations for the three month periods ended March 31, 2006 and 2005 and its cash flows for the three month periods ended March 31, 2006 and 2005 and the statement of stockholder's equity as of March 31, 2006. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB. All inter-company account balances and transactions are eliminated in consolidation.

Accounts Receivable - Accounts receivable are reported at net realizable value. The Company has established an allowance for doubtful accounts based on factors pertaining to the credit risk of specific customers. Historical trends and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible.

Inventory - Inventory is stated at the lower-of-average cost or market computed on a first-in first-out basis.

Income Recognition - The Company recognizes revenues at the point of sale when title to the product changes hands to the buyer.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates. The Company's financial statements are based upon a number of significant estimates including the allowance for doubtful accounts. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that the estimates for these items could be further revised in the near term and such revisions could be material.

Financial Instruments - The Company discloses fair value information about financial instruments when it is practicable to estimate that value. The carrying value of the Company's cash, cash equivalents, and accounts payable approximate their estimated fair values due to their short-term maturities.



Concentrations of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and advances. At December 31, 2005 and March 31, 2006, the Company had no amounts of cash or cash equivalents in financial institutions in excess of amounts insured by agencies of the U.S. Government.

Valuation of Long-Lived Assets - The Company evaluates the carrying value of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the projected undiscounted future cash flows are less than its carrying value. The Company measures impairment based on the amount by which the carrying value exceeds the fair market value. Fair market value is determined primarily using the projected cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Income Taxes - The Company recognizes deferred tax assets and liabilities for temporary differences between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements, the effect of net operating losses, based upon the enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Intangibles - Intangibles consists of goodwill, trade names and trademarks. Intangibles other than goodwill are amortized using the straight-line method over the estimated useful life of the intangibles. The \$25,000 of acquired intangible assets relate to tradenames and trademarks that have an expected remaining useful life of approximately five years. Assets determined to have indefinite lives are no longer amortized in accordance with SFAS No. 142, "Goodwill and Other Intangibles," but are tested for impairment on an annual basis.

Recent Accounting Pronouncements - There were various accounting standards and interpretations issued during 2005 and 2004, none of which are expected to have a material impact on the Company's consolidated financial position, operations or cash flows.

Development Stage Enterprise - Until August 31, 2005, the Company was a development stage enterprise since planned principal operations had not yet commenced. As a result of the acquisition of Butte Creek on August 31, 2005, the Company is no longer considered a development stage enterprise (Note 9).

Per Share Information - Per share information is computed by dividing the net income or loss by the weighted average number of shares outstanding during the period.

Cash and Cash Equivalents - The Company considers cash and cash equivalents to consist of cash on hand and demand deposits in banks with an initial maturity of 90 days or less.

Risks and Uncertainties - The Company is subject to substantial business risks and uncertainties inherent in starting a new business. There is no assurance that the Company will be able to generate sufficient revenues or obtain sufficient funds necessary for launching a new business venture.

Basis of Presentation - Going Concern - Generally accepted accounting principles in the United States of America contemplates the continuation of the Company as a going concern. However, the Company has sustained losses from operations, and has net working capital deficit, which raise substantial doubt about the Company's ability to continue as a going concern. Management of the Company believes that the additional capital from the proposed public offering and improved results from operations will be sufficient for the continued viability of the company, however there can be no assurance that either will occur.





In view of these matters, realization of certain of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations.

## **2. Advances and Notes Payable:**

On November 1, 2004, J. Andrew Moorer, a Director of the Company, made an uncollateralized advance of \$8,750. The advance continues to be uncollateralized and due on demand. This advance started to accrue interest at 8% on January 1, 2006 and had accrued interest as of March 31, 2006 of \$175.

Between March and September 2005, the Company borrowed a total of \$125,000 from three lenders: \$50,000 in July 2005 from Power Curve, Inc. (a company controlled by John Power); \$50,000 in May 2005 from Lone Oak Vineyards, Inc. (a company controlled by Brian Power); and \$25,000 in March 2005 from Tiffany Grace, an unaffiliated party. The loans were used to payoff Butte Creek's loans to Tri County Economic Development Corporation, purchase additional equipment and provide working capital. The Tiffany Grace note, which was executed on September 9, 2005 accrues interest at the rate of 9% per annum, is payable in monthly payments of principal and interest based upon a five year amortization, and is due in full March 2008. As of March 31, 2006, the Tiffany Grace note had current maturities of \$4,534 and a long-term maturity of \$16,320. The Power Curve and Lone Oak notes were executed in September, 2005, accrue interest at the rate of 9% per annum, and are payable in full in 2008. The loans are collateralized by a security interest covering all of our tangible and intangible assets. As of March 31, 2006, the Power Curve and Lone Oak notes had accrued interest of \$2,023 and long-term maturities of \$100,000.

On December 30, 2005, John Power and Power Curve, Inc. converted \$215,000 and \$90,000, respectively, in outstanding advances into collateralized long-term debt. The notes bear interest at 9% and mature December 31, 2008 and are collateralized by a security interest covering all of our tangible and intangible assets but are junior to the security interest granted to Power Curve, Inc.(\$50,000), Lone Oak Vineyards, Inc.(\$50,000) and Tiffany Grace (\$25,000) in September 2005 described above. As of March 31, 2006, these notes had current maturities of \$0 and \$0 respectively and long-term maturities of \$215,000 and \$90,000 respectively and had accrued interest of \$4,838 and \$2,025 respectively.

As part of the acquisition of Butte Creek, the Company assumed an \$8,136 note payable to Bruce Detweiler, a member of Butte Creek, and a \$10,098 note payable to Richard Atmore, Jr., a member of Butte Creek and the brother of Tom Atmore, a managing member of Butte Creek

The Company has pledged substantially all of its assets to secure some of the notes. Should the Company default in the payment of these secured notes, the collateral could be subject to forfeiture.

In the three months ended March 31, 2006, John Power and Power Curve, Inc. have made advances to the Company of \$57,300 and \$ 62,050 respectively. The advances are uncollateralized and due on demand

### Lines of Credit

The Company assumed a \$25,000 balance on a credit card issued by Wells Fargo Bank, with interest at the rate of 17.25%. The card is uncollateralized and guaranteed by Tom Atmore, Butte Creek's Managing Member and former general manager. The outstanding balance as of March 31, 2006 was \$24,238.

The Company assumed a \$15,400 line of credit on a Butte Creek credit card with MBNA with interest at the rate of 29.98%. The debt on the credit card is uncollateralized but guaranteed by Tom Atmore, Butte Creek's managing member and our former general manager. The outstanding balance as of March 31, 2006 was \$11,233.



| 31-Dec-05                              | <b>Current</b>   | <b>LT</b>        | <b>Interest</b> | <b>Maturity</b> | <b>Collateralized</b> |
|--|------------------|------------------|-----------------|-----------------|-----------------------|
|  | <b>Portion</b>   | <b>Portion</b>   | <b>Rate</b>     | <b>Date</b>     |                       |
| <b>Lines of Credit</b>                 |                  |                  |                 |                 |                       |
| Atmore - MBNA                          | \$11,233         | 0                | 29.98%          | Demand          | No                    |
| Atmore - Wells Fargo                   | <u>\$24,238</u>  | 0                | 17.25%          | Demand          | No                    |
| <b>Total</b>                           | <b>\$35,471</b>  |                  |                 |                 |                       |
| <b>Notes Payable - Related Parties</b> |                  |                  |                 |                 |                       |
| Power Curve, Inc.                      | \$62,050         | \$50,000         | 9%              | Sep-08          | Yes                   |
| Power Curve, Inc.                      |                  | \$90,000         | 9%              | Dec-08          | Yes                   |
| John C. Power                          | \$57,300         | \$215,000        | 9%              | Dec-08          | Yes                   |
| Lone Oak Vineyards, Inc.               |                  | \$50,000         | 9%              | Sep-08          | Yes                   |
| J. Andrew Moorer                       | \$8,750          | 0                | 8%              | Demand          | No                    |
| R. Atmore, Jr.                         | \$10,098         | 0                | 8%              | Demand          | No                    |
| B. Detweiler                           | <u>\$8,136</u>   | 0                | 8%              | Demand          | No                    |
| <b>Total</b>                           | <b>\$146,334</b> |                  |                 |                 |                       |
| <b>Notes Payable - Unaffiliated</b>    |                  |                  |                 |                 |                       |
| Tiffany Grace                          | \$4,534          | \$16,320         | 9%              | Mar-08          | Yes                   |
| <b>TOTALS</b>                          | <b>\$186,339</b> | <b>\$421,320</b> |                 |                 |                       |

### 3. Related Party Transactions

(a) At inception, the Company issued 400,000 shares valued at \$60,000 to five investors in exchange for certain assets the investors had acquired from the Alta Group (see below).

The assets acquired had been sold by Alta California Broadcasting, Inc. and its affiliates Nova Redwood, LLC and Four Rivers Broadcasting, Inc. (hereinafter referred to as the "Alta group"). John C. Power, an officer, director and founder of the Company, is also a former officer and director of all three entities that comprise the Alta group.

Alta California Broadcasting, Inc. had acquired the domain name www.ales.com. On September 29, 2002, Four Rivers Broadcasting, Inc. filed a trademark application number 78169062 with the United States Patent and Trademark Office ("USPTO") for Mount Shasta Ale™ based on its intent to use the proposed mark. In 2003, Nova Redwood, LLC had advanced \$59,500 to Butte Creek Brewing Company, LLC as part of a planned acquisition. In October 2003, the Alta Group decided to not pursue the acquisition of Butte Creek and sold the domain name

www.ales.com, all rights to the Federal Trademark application for Mount Shasta Ale™ and the advances to Butte Creek for \$60,000 to a group of five investors who became founding shareholders of the Company. Subsequently, the Company abandoned the trademark application pending with the USPTO for Mount Shasta Ale , and rather will rely upon common law trademark principles to protect its use of the mark.

(b) On December 1, 2003, an officer and director of the Company purchased a delivery vehicle (2003 Ford Van) for the purposes of assisting Butte Creek Brewing Company, LLC ("Butte Creek") maintain and expand its self-distribution capabilities. The vehicle is 100% utilized by Butte Creek as a delivery vehicle. The purchase price of the vehicle was \$22,920.70 and was financed for 60 months with Ford Credit at an annual percentage rate of 5.99%. The payments on the vehicle are paid and expensed by the Company. The liability to Ford Credit is in the name of the officer and director of Golden West Brewing company, Inc. and is not recorded as a liability on these financial statements. There are no written agreements between the Company and the officer and director memorializing this transaction. The balance owing as of March 31, 2006 was \$13,517.10.

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- (c) In July 2004, an officer and director of the Company purchased a delivery vehicle (2004 Ford Van) for the purpose of assisting Butte Creek maintain and expand its self-distribution capabilities. The vehicle is 100% utilized by Butte Creek as a delivery vehicle. The purchase price was \$26,155.91 and was financed for 60 months with Ford Credit at an annual percentage rate of 0.90%. The payments on the vehicle are paid and expensed by the Company. The liability to Ford Credit is the name of the officer and director of the Company and is not recorded as a liability on these financial statements. There are no written agreements between the Company and the officer and director memorializing this transaction. The balance owing as of March 31, 2006 was \$18,014.69.
- (d) In 2003, an officer and director of the Company guaranteed a \$25,000 line of credit for Butte Creek with one of its key suppliers. No compensation has been paid by either the Company or Butte Creek for the guarantee.
- (e) In 2004, the Company purchased certain hops rhizomes for research and development purposes. The rhizomes were planted on the property of a former director of the Company. The rhizomes were expensed as research and development expense in 2004. The value of the personal real property used by the former director to farm the hops was an insignificant portion of his property.
- (f) On November 1, 2004, J. Andrew Moorner, a Director of the Company, made an uncollateralized advance of \$8,750. The advance continues to be uncollateralized and due on demand. This advance started to accrue interest at 8% on January 1, 2006.
- (g) In January 2005, John Power converted \$22,500 in outstanding advances to the Company into 90,000 shares of common stock.
- (h) Between March and September 2005, the Company borrowed a total of \$125,000 from three lenders: \$50,000 in July 2005 from Power Curve, Inc. (a company controlled by John Power); \$50,000 in May 2005 from Lone Oak Vineyards, Inc. (a company controlled by Brian Power); and \$25,000 in March 2005 from Tiffany Grace, an unaffiliated party. The loans were used to payoff Butte Creek's loans to Tri County Economic Development Corporation, purchase additional equipment and provide working capital. The Tiffany Grace note, which was executed on September 9, 2005 accrues interest at the rate of 9% per annum, is payable in monthly payments of principal and interest based upon a five year amortization, and is due in full March 2008. As of March 31, 2006, the Tiffany Grace note had current maturities of \$4,534 and a long-term maturity of \$16,320. The Power Curve and Lone Oak notes were executed in September, 2005, accrue interest at the rate of 9% per annum, and are payable in full in 2008. The loans are collateralized by a security interest covering all of our tangible and intangible assets. As of March 31, 2006, the Power Curve and Lone Oak notes had accrued interest of \$2,059 and \$0 and long-term maturities of \$50,000 and \$50,000 respectively.
- (i) On December 30, 2005, John Power converted \$10,000 in outstanding advances to the Company into 40,000 shares of common stock.
- (j) On December 30, 2005, John Power and Power Curve, Inc. converted \$215,000 and \$90,000, respectively, in outstanding advances into collateralized long-term debt. The notes bear interest at 9% and mature December 31, 2008 and are collateralized by a security interest covering all of our tangible and intangible assets but are junior to the security interest granted to Power Curve, Inc. (\$50,000), Lone Oak Vineyards, Inc.(\$50,000) and Tiffany Grace (\$25,000) in September 2005 described above. As of March 31, 2006, these notes had accrued interest of \$4,838 and \$2,025 with no current maturities and long-term maturities of \$215,000 and \$90,000 respectively.
- (k) Effective December 30, 2005, our attorney Clifford Neuman converted \$25,000 in accrued fees payable into 100,000 shares of common stock at a conversion price of \$.25 per share. The accrued fees were incurred in connection with this offering. Mr. Neuman immediately gifted the shares to his two children equally.



(l) In the three months ended March 31, 2006, John Power and Power Curve, Inc. have made advances to the Company of \$57,300 and \$62,050 respectively. The advances are unsecured and due on demand.

(m) Subsequent to March 31, 2006, John Power and Power Curve, Inc., have made advances to the Company of \$5,000 and \$31,360 respectively. The advances are unsecured and due on demand.

#### **4. Operating Leases**

Effective July 1, 2005, the Company entered into a five year lease for office and warehouse space in Chico, California for Butte Creek. The lease provides for initial monthly rents of \$3,150, which will increase to \$3,726 beginning July 2006 with increases per year subject to annual Consumer Price Index increases, and expires in 2010.

Future minimum lease payments under this lease are as follows:

Year Ending December 31,

|      |          |
|------|----------|
| 2006 | \$41,256 |
| 2007 | \$44,712 |
| 2008 | \$44,712 |
| 2009 | \$44,712 |
| 2010 | \$44,712 |

#### **5. Commitments & Contingencies**

A. On December 30, 2005, an unsecured outstanding advance to the Company by an unaffiliated party in the amount of \$10,000 was converted into 40,000 shares of common stock. In February 2006, the Company was notified by the SEC that this conversion of \$10,000 into 40,000 shares of common stock to an unaffiliated third party might have been a violation of Section 5 of the Securities Act of 1933 (the "33 Act"). While Management disagrees with this view, if it is determined that this transaction constituted a primary offering by or on behalf of the Company in violation of Section 5 of the 33 Act, then the Company may be subject to remedial sanctions. Such sanctions may include the payment of disgorgement, prejudgment interest and civil or criminal penalties. Management of the Company is not aware of any pending claims for sanctions against it based on Section 5 of the 33 Act, and intends to vigorously defend against any such claims if they arise. However, due to the notification by the SEC, the Company has classified the advance, amounting to \$10,000 as of March 31, 2006, as a liability under amounts subject to rescission in the accompanying March 31, 2006 balance sheet. The shares issued are included in our total number of shares outstanding as of March 31, 2006. A contingency exists with respect this matter, the ultimate resolution of which cannot be determined at this time.



## B. Delinquent Taxes &amp; Rent

At March 31, 2006 the Company had outstanding payroll tax liabilities of \$50,029. Of these amounts \$41,009 are considered delinquent.

California Redemption Value (CRV) is a tax collected on all package sales to retailers, processed through the California Department of Conservation and refunded through the State's recycling program. The United States Bureau of Alcohol, Tobacco and Firearms ("BATF"), now the TTB, and various state agencies collect excise taxes often referred to as "alcohol taxes" with the amount based on the volume of beer sold. At March 31, 2006, the Company had alcohol related taxes payable to federal and state taxing authorities of \$67,904. Of these amounts, \$62,500 is considered delinquent. The detail of those taxes payable is as follows:

| <u>Tax Agency</u>                       | <u>March 31, 2006</u> |                   |                            |
|---|-----------------------|-------------------|----------------------------|
|   | <u>Due</u>            | <u>Delinquent</u> |                            |
| Internal Revenue Service                | \$36,416              | \$30,900          | Payroll Taxes              |
| CA Employment Development Department    | \$13,613              | \$10,109          | Payroll Taxes              |
| Bureau of Alcohol, Tobacco and Firearms | \$39,954              | \$35,324          | Excise Tax                 |
| CA Board of Equalization                | \$5,751               | \$4,413           | Excise Tax                 |
| CA Department of Conservation           | \$24,559              | \$23,785          | CRV Tax                    |
| Butte County & CA Franchise Tax Board   | \$18,170              | \$18,170          | Property & Franchise Taxes |

Most of these delinquent payables have been assumed by the Company in connection with our acquisition of Butte Creek as the continuation of regulatory compliance is material to the Company's ability to continue as a going concern. Continued operations could be severely impaired should the TTB or any other governmental agency seek to collect any of the delinquent payables before we are able to pay them.

At March 31, 2006 the Company had outstanding rent obligations on our operating facility of \$17,950. We have entered into a verbal forbearance agreement with the landlord whereby the landlord will not proceed with collection actions to enforce its rights under the lease as long as the Company pays current rent and 8% interest on the outstanding rent obligation timely.

## C. California Department of Alcoholic Beverage Control

On March 15, 2006, the Company was notified that the California Department of Alcoholic Beverage Control had filed an Accusation alleging that it 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, the Company may face sanctions ranging from a warning to either a fine of up to \$10,000 or the temporary suspension of ten days of its manufacturing license. The matter is still pending; however, management of the Company does not believe the matter will have a material adverse effect on our ability to conduct business.

## **6. Deferred Offering Costs:**

As of March 31, 2006, the Company had incurred \$198,122.50 related to the pending public offering of its securities. The Company has carried \$150,000 of the costs as deferred offering costs and has expensed \$11,295 in its fiscal 2005 and \$36,827.50 in the 3 months ended March 31, 2006. If the offering is successful, the deferred offering costs will be charged against the proceeds. All legal and accounting costs incurred in excess of \$150,000 will be charged as an expense. Management believes this is the maximum amount of offering costs that should be charged against the proceeds for an offering of this size.

The Company's SB-2 registration statement was declared effective by the Securities and Exchange Commission on February 14, 2006. The offering consists of a minimum of 400,000 shares at \$0.50 per share and a maximum of 1,000,000 shares at \$0.50 per share. To date, no shares have been sold in the offering.

## **7. Common Stock:**

At inception, the Company issued 400,000 shares of its common stock at \$0.15 per share for assets valued at \$60,000. During the period ended December 31, 2003, the Company issued 300,000 shares of its common stock at \$0.25 per share for cash of \$75,000.

During the period ended December 31, 2004, the Company issued 800,000 shares of its common stock at \$0.25 per share for cash of \$200,000.

In January, 2005, the Company issued 90,000 shares of its common stock at \$0.25 per share for conversion of advances payable of \$22,500, and 30,000 shares of common stock in conversion of outstanding indebtedness in the amount of \$7,500.

In connection with the acquisition of Butte Creek on August 31, 2005, the Company issued 200,000 shares of common stock to Butte Creek.

Effective December 30, 2005, John Power converted \$10,000 in accrued advances payable into 40,000 shares of common stock, at a conversion price of \$.25 per share.

Effective December 30, 2005, our attorney Clifford Neuman converted \$25,000 in accrued fees payable into 100,000 shares of common stock at a conversion price of \$.25 per share. The accrued fees were incurred in connection with this offering. Mr. Neuman immediately gifted the shares to his two children equally.

On December 30, 2005, an uncollateralized outstanding advance to the Company by an unaffiliated party in the amount of \$10,000 was converted into 40,000 shares of common stock. In February 2006, the Company was notified by the SEC that this conversion of \$10,000 into 40,000 shares of common stock to an unaffiliated third party might have been a violation of Section 5 of the Securities Act of 1933 (the "33 Act"). While Management disagrees with this view, if it is determined that this transaction constituted a primary offering by or on behalf of the Company in violation of Section 5 of the 33 Act, then the Company may be subject to remedial sanctions. Such sanctions may include the payment of disgorgement, prejudgment interest and civil or criminal penalties. Management of the Company is not aware of any pending claims for sanctions against it based on Section 5 of the 33 Act, and intends to vigorously defend against any such claims if they arise. However, due to the notification by the SEC, the Company has classified the advance, amounting to \$10,000 as of March 31, 2006, as a liability under amounts subject to rescission in the accompanying March 31, 2006 balance sheet. The 40,000 shares issued are included in our total number of shares outstanding as of March 31, 2006. A contingency exists with respect this matter, the ultimate resolution of which cannot be determined at this time.



**8. Income Taxes**

The Company has an estimated net operating loss carry forward of approximately \$63,000 and \$191,000 at December 31, 2004 and December 31, 2005, respectively, to offset future taxable income. The net operating loss carry forward, if not used, will expire in various years through 2025, and may be restricted if there is a change in ownership. No deferred income taxes have been recorded because of the uncertainty of future taxable income to be offset.

Significant components of the Company's net deferred income tax asset are as follows:

|                                    | March<br>31, 2006 | December<br>31, 2005 | December<br>31, 2004 |
|------------------------------------|-------------------|----------------------|----------------------|
| Net operating losses carry forward | \$ <u>134,425</u> | \$ 191,000           | \$ 63,000            |
| Deferred income tax allowance      | <u>(24,869)</u>   | <u>(35,335)</u>      | <u>(11,700)</u>      |
| Net deferred income tax asset      | \$ _____          | \$ _____ -           | \$ _____ -           |

The reconciliation of income tax (benefit) computed at the federal statutory rate to income tax expense (benefit) for all periods presented is as follows:

|  |              |
|--|--------------|
| Tax (benefit) at Federal statutory rate    | (15.00)%     |
| State tax (benefit) net of Federal benefit | (3.50)       |
| Valuation allowance                        | <u>18.50</u> |
| Tax provision (benefit)                    | <u>-</u>     |

**9. Acquisition**

On August 31, 2005, the Company acquired all the assets and certain liabilities of Butte Creek Brewing Company, LLC (Butte Creek). The results of Butte Creek's operations have been included in the consolidated financial statements since that date. Butte Creek was a manufacturer of craft beers, specializing in organic beers. The Company made the acquisition to become an organic craft brewer and expects to continue to produce organic craft beers and to market them strategically in niche markets to capitalize on dedication to the use of organic ingredients.

This business combination was accounted for as a purchase of Butte Creek by the Company under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. Under the purchase method of accounting, the total purchase price, including transaction costs, is allocated to the net tangible and intangible assets acquired by the Company in connection with the transaction, based on their fair values as of the completion of the transaction. The aggregate purchase price was \$983,084, including \$567,400 cash, \$365,684 assumed liabilities, and common stock valued at \$50,000. The \$567,400 cash consisted of advances to Butte Creek of \$215,035 and \$134,965 during the years ended December 31, 2004 and 2003, respectively, and advances of \$217,400 during the eight months ended August 31, 2005. These advances were prepayments on the purchase of assets and were uncollateralized. The value of the 200,000 common shares issued was determined based on the offering price of the Company's common shares in its prospectus, which management believes to be the fair value.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

At August 31, 2005

|                                  |           |
|----------------------------------|-----------|
| Current assets                   | \$197,612 |
| Property, plant and<br>equipment | 287,969   |
| Intangible assets                | 25,000    |

|                           |           |
|---------------------------|-----------|
| Goodwill                  | 472,503   |
| Total assets acquired     | 983,084   |
| Current liabilities       | 365,684   |
| Total liabilities assumed | 365,684   |
| Net assets acquired       | \$617,400 |

The \$25,000 of acquired intangible assets relate to tradenames and trademarks that have an expected remaining useful life of approximately five years.

#### **10. Equity Incentive Plan:**

On December 10, 2004, we adopted our 2004 Equity Incentive Plan for our officers, directors and other employees, plus outside consultants and advisors. Under the Equity Incentive Plan, our employees, outside consultants and advisors may receive awards of non-qualified options and incentive options, stock appreciation rights or shares of stock. A maximum of 500,000 shares of our common stock are subject to the Equity Incentive Plan. No stock appreciation rights, options or bonus stock have been granted under the Equity Incentive Plan.

The Equity Incentive Plan may be administered by the Board or in the Board's sole discretion by the Compensation Committee of the Board or such other committee as may be specified by the Board to perform the functions and duties of the Committee under the Equity Incentive Plan. Subject to the provisions of the Equity Incentive Plan, the Committee and the Board shall determine, from those eligible to be participants in the Equity Incentive Plan, the persons to be granted stock options, stock appreciation rights and restricted stock, the amount of stock or rights to be optioned or granted to each such person, and the terms and conditions of any stock option, stock appreciation rights and restricted stock.

#### **11. Subsequent Events:**

A. Subsequent to March 31, 2006, John Power and Power Curve, Inc., have made advances to the Company of \$5,000 and \$31,360 respectively. The advances are unsecured and due on demand.

B. The general manager of our brewery, Tom Atmore, resigned his position effective March 31, 2006. Mr. Atmore will serve as a consultant for a period of 90 days thereafter.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Plan of Operations**

Golden West Brewing Company, Inc. (the "Company" or "Golden West") was formed in December 2003 to acquire substantially all of the business assets of Butte Creek Brewing Company, LLC ("Butte Creek" or "Butte"). We are currently a holding company for our wholly-owned subsidiary Golden West Brewing Company, a California corporation, which acquired the assets and certain liabilities of Butte Creek on August 31, 2005. Butte Creek has been operating as a craft brewery in Chico, California since 1996. It specializes in brewing certified organic craft beers. Upon completion of the proposed initial public offering, we hope to increase our production, increase sales and reduce our operating losses, although there is no assurance that we can achieve these goals. In 2005, we doubled our production capacity from 4,000 barrels per year to approximately 8,000 barrels per year with the acquisition of two 80 barrel fermentation tanks and one 80 barrel conditioning or "brite" tank. We still face operational challenges as our sales and production levels increase. The following are the key issues and challenges facing the Company:

- \* Sales. We believe that our minimum level of sales for our operating subsidiary, Butte Creek, to break-even is \$100,000 per month. Butte Creek has only achieved this level of sales during a month once in its history. It is critical for us to improve our sales so that we can achieve at least a break-even operating level. There is no assurance that we will be able to achieve this level of sales, or if we achieve it, that we will be able to maintain it. Our business plan is to (a) introduce new products (b) add new sales territories and (c) increase our penetration in existing territories.

Increase Gross Profit Margin. In addition, our gross profit margin must be increased to at least 35% of sales. Our plan is to take advantage of our increased production capacity and increase our production which we believe will lower our average cost per barrel of beer produced. Also, we are trying to improve our product mix with higher margin products. Finally, we raised our prices in early 2006 and believe they will need to be raised again in January 2007. There is no assurance that we will be successful in implementing our plan to increase our gross profit margin.

Control Selling, General & Administrative Expenses. In addition to raising sales, we must control our expenditures to achieve a break-even operating level. We have taken steps to reduce our monthly operating expenses by reducing our employee head-count.

- \* Working Capital Shortage. Our history of working capital deficiencies make it difficult to build finished inventory. We owe delinquent taxes to several Federal and State agencies. In addition, we have increased our production capacity and launched new

products that will require increased levels of inventory.

- \* Lack of Marketing Materials. We have very limited marketing budgets and are not competitive with other breweries of our size in the amount and quality of marketing materials needed to support our distribution network.



- \* Continued Operating Losses. Our history of operating losses makes it difficult to raise capital for our working capital needs.
  
- \* Lack of Inventory Controls. We need to improve our control and management of our finished inventory to reduce the amount of shrinkage we have experienced due, we believe, to unsupervised employees. We do not believe our lack of inventory control has materially impacted our business. We conduct physical inventories on a monthly basis and recently upgraded our accounting software to improve our inventory control. If these measures do not provide improved inventory controls, we would expect our margins to erode and our sales to decline.

Both Golden West and Butte Creek have sustained losses from operations. Golden West has a working capital deficit which raise substantial doubts about their ability to continue as a going concern. Our audited financial statements have received going concern qualifications from our Independent Registered Public Accounting Firm.

The following discussion and analysis is for the three month period ended March 31, 2006 and should be read in conjunction with the Notes thereto of Golden West Brewing Company, Inc. financial statements. We were a development stage entity prior to our acquisition of Butte Creek on August 31, 2005.

#### **Possible Section 5 Violation**

It is possible that it may be determined that we violated Section 5 of the Securities Act. Section 5 of the Securities Act prohibits the use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell a security unless a registration statement is in effect as to such security. Section 5(c) of the Securities Act prohibits the use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy a security unless a registration statement has been filed as to such security.

The transaction that may have caused such a violation of Section 5 is as follows: In December, 2004, we made the initial filing of the registration statement of which this prospectus forms a part. In June 2005, an unaffiliated third-party, Bob Vogt, loaned us the sum of \$10,000. The loan was unsecured and undocumented. It was our intention to repay the loan in a short period of time; however, we were unable to do so due to our lack of working capital. In December 2005, in an effort to improve our balance sheet, we offered Mr. Vogt an opportunity to convert his \$10,000 loan into shares of our common stock. In December 2005, we effected the conversion of Mr. Vogt's loan into shares of our common stock in a transaction in which we relied upon an exemption from the registration requirements of the Securities Act contained in Section 4(2), which exempts transactions not involving a public offering.

Under the principals of integration, two or more offerings of securities may be integrated and deemed to be one offering under certain circumstances. Factors considered in determining whether offers and sales of securities should

be integrated are:

- \* Whether the sales are part of a single plan of financing;
- \* Whether the sales involve the issuance of the same class of securities;
- \* Whether the sales have been made at or about the same time;
- \* Whether the same type of consideration is being received; and,
- \* Whether the sales were made for the same general purpose.

If it were to be determined that the conversion of Mr. Vogt's note payable into shares of common stock is integrated with the offering covered by the registration statement and this prospectus, then we could not rely upon the exemption contained in Section 4(2) of the Securities Act for the Vogt conversion, and as a result, it may be determined that the conversion of the Vogt loan into shares of common stock constituted a violation of Section 5 of the Securities Act. If this were to occur, we would become subject to remedial actions, which would include the payment of disgorgement, pre-judgment interest and civil or criminal penalties pursuant to Sections 12(a)(1), 8A and 24 of the Securities Act. We are not aware of any pending claims for sanctions against us based upon a Section 5 violation and we intend to vigorously defend any such claim should it arise. However, in our financial statements, we have classified the advance payable to Mr. Vogt as subject to rescission. A rescission offer would require that we file a registration statement covering the offer and, once the registration statement has been declared effective by the Securities and Exchange Commission, redeeming the shares of common stock and repaying the loan to Mr. Vogt. In addition, we could face possible civil penalties in an undetermined amount. This could have a significant impact on our working capital and impair our ability to continue as a going concern.

Furthermore, any claim for rescission would make it difficult for us to raise additional debt or equity financing needed to run our business, and would not be viewed favorably by analysts or investors.

### **Critical Accounting Policies And Estimates**

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates. Our financial statements are based upon a number of significant estimates, the allowance for doubtful accounts, obsolescence of inventories and the estimated useful lives selected for property and equipment. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that the estimates for these items could be further revised in the near term and such revisions could be material.

### **Overview - Factors Affecting Results of Operations**

Sales in the craft beer industry generally reflect a degree of seasonality, with the first and fourth quarters historically being the slowest and the rest of the year typically demonstrating stronger sales. We have historically operated with little or no backlog and, therefore, our ability to predict sales for future periods is limited.

Our sales are affected by several factors, including consumer demand, price discounting and competitive considerations. We compete in the craft brewing market as well as in the much larger specialty beer market, which encompasses producers of import beers, major national brewers that produce fuller-flavored products, and large spirit companies and national brewers that produce



flavored alcohol beverages. Beyond the beer market, craft brewers also face competition from producers of wines and spirits. The craft beer segment is highly competitive due to the proliferation of small craft brewers, including contract brewers, and the large number of products offered by such brewers. Imported products from foreign brewers have enjoyed resurgence in demand since the mid-1990s. Certain national domestic brewers have also sought to appeal to this growing demand for craft beers by producing their own fuller-flavored products. In 2001 and 2002, the specialty segment saw the introduction of flavored alcohol beverages, the consumers of which, industry sources generally believe, correlate closely with the consumers of the import and craft beer products. While sales of flavored alcohol beverages were initially very strong, these growth rates slowed in 2003 and 2004. The wine and spirits market has experienced a surge in the past several years, attributable to competitive pricing, increased merchandising, and increased consumer interest in spirits. Because the number of participants and number of different products offered in this segment have increased significantly in the past ten years, the competition for bottled product placements and especially for draft beer placements has intensified.

## Operating and Financial Review and Prospects

### Operating Results

*For the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005:*

**SALES.** Net sales for the quarter ended March 31, 2006 were \$184,880 compared to \$0.00 in the quarter ended March 31, 2005. The increase was due to our acquisition of Butte Creek which occurred on August 31, 2005. Our sales by segment consisted of:

Case Beer Sales      87.9%

Draft Beer Sales      8.7%

Contract Brewing    3.4%

**COST OF GOODS SOLD.** Cost of goods sold for the quarter ended March 31, 2006 was \$126,611 or 68.5% of net sales. There was no comparison to fiscal 2004 as we were still a development stage company in the corresponding period. Our cost of goods sold for each segment was:

Case Beer Sales      64.3%

Draft Beer Sales      44.5%

Contract Brewing    78.4%

In addition we had \$2,315 in shipping costs that were not allocated to any segment but was part of our cost of goods sold.

**GROSS PROFIT.** Gross profit for the quarter ended March 31, 2006 was \$58,269 or 31.5% of net sales. Our goal is to increase our gross profit to at least 35% of net sales. There was no comparison to fiscal 2004 as we were still a development stage company in the corresponding period.



OPERATING EXPENSES. Total operating expenses increased \$170,401 or 1800% to \$179,862 for of the quarter ended March 31, 2006 compared to \$9,461 in the quarter ended March 31, 2005. The increase was primarily due to our acquisition of Butte Creek in 2005. In addition, we had \$36,828 in legal and accounting costs that were expensed in the quarter related to our self-underwritten public offering that commenced on February 14, 2006.

Components of operating expenses were:

- \* Depreciation & Amortization expense was \$7,824 for the quarter ended March 31, 2006. The increase was the result of tangible and intangible assets acquired from Butte Creek on August 31, 2005 and additional brewing equipment acquired in 2005. We did not own any assets in the first quarter of 2005 that were subject to depreciation or amortization.
- \* Management compensation was \$19,807 for the quarter ended March 31, 2006 compared to zero in the corresponding quarter ended March 31, 2005. The increase was solely related to our acquisition of Butte Creek on August 31, 2005.
- \* Rent expense was \$9,450 for the quarter ended March 31, 2006 compared to zero in the corresponding quarter in 2005. The increase was the rent paid for our Chico, California brewery during the period which we did not operate until our acquisition of Butte Creek on August 31, 2005.
- \* Selling expense was \$23,726 for the quarter ended March 31, 2006 compared to zero in the prior fiscal year. The increase was due to our acquisition of Butte Creek on August 31, 2005.
- \* Outside Sales Compensation was \$23,254 for the quarter ended March 31, 2006 compared to zero in the prior fiscal year. The increase was the result of purchase of Butte Creek on August 31, 2005.

- \* Other General & Administrative Operating Expenses increased \$51,428 or 1,840% for quarter ended March 31, 2006 compared to \$2,795 for the quarter ended March 31, 2005. The increase was a result of our acquisition of Butte Creek in 2005. This categories primary components are insurance, payroll and payroll related expenses.

**OPERATING LOSS.** The operating loss for the quarter ended March 31, 2006 increased \$112,132 or 1185% to \$121,593 from \$9,461 compared to the corresponding quarter ended March 31, 2005 as a result of our acquisition of Butte Creek on August 31, 2005. In addition, we have incurred substantial legal and accounting expense in the quarter related to our pending public offering.

**OTHER INCOME & EXPENSE.** Total other expense was \$12,832 for the quarter ended March 31, 2006 compared to zero for the corresponding quarter ended March 31, 2005. The primary component was interest expense of \$13,201 related to debt that was incurred as part of the Butte Creek acquisition on August 31, 2005.

**NET LOSS.** Net loss increased \$124,964 or 1320% to \$134,425 for the quarter ended March 31, 2006 compared to \$9,461 for the corresponding period of 2005. The increase in our net loss was a result of the operating losses incurred by Butte Creek in the first quarter of 2006. We did not own Butte Creek in the first quarter of 2005. In addition, we incurred \$36,828 in legal and accounting costs during the quarter related to our pending self-underwritten public offering.

### **Liquidity and Capital Resources**

We have required capital principally for the purchase of Butte Creek and the funding of operating losses and working capital. To date, we have financed our capital requirements through the sale of equity and short and long-term borrowings. We expect to meet our future financing needs and working capital and capital expenditure requirements through cash on hand, borrowings and offerings of debt or equity securities, although there can be no assurance that our future financing efforts will be successful beyond this offering. The terms of future financings could be highly dilutive to investors in this offering.

The minimum net proceeds of our pending self-underwritten public offering should satisfy our working capital requirements for approximately three months; if the maximum offering is sold, the proceeds should be sufficient to satisfy our working capital needs for nine months. We have no commitments, understandings or arrangements for any additional working capital. If this offering is not successful, or if we are unable to secure additional financing to cover our operating losses until break-even operations can be achieved, we may not be able to continue as a going concern.

We had no cash and cash equivalents and a negative working capital of \$377,838 at March 31, 2006. Our long-term debt was \$421,320 at March 31, 2006. We do not have sufficient cash on hand or available credit facilities to continue operations for more than 30 days and are dependent upon the completion of this offering to provide adequate working capital to continue operations. In the interim, we have raised capital through the sales of unregistered securities and advances and/or loans from its officers and directors to acquire Butte Creek, and fund its operations after its acquisition. There are no assurances that we will be able to secure additional capital to maintain the operations of Butte Creek until the proposed initial public offering is completed.

During the quarter ended March 31, 2006, the Company's capital expenditures totaled \$6,551.





*Available Credit*

The Company assumed a \$25,000 balance on a credit card issued by Wells Fargo Bank, with interest at the rate of 16.25%. The card is uncollateralized and guaranteed by Tom Atmore, Butte Creek's Managing Member and former general manager. The outstanding balance as of March 31, 2006 was \$24,238..

The Company assumed a \$15,400 line of credit on a Butte Creek credit card with MBNA with interest at the rate of 29.98%. The debt on the credit card is uncollateralized but guaranteed by Tom Atmore, Butte Creek's managing member and our former general manager. The outstanding balance as of March 31, 2006 was \$11,233.

*Notes Payable*

On November 1, 2004, J. Andrew Moorer, a Director of the Company, made an uncollateralized advance of \$8,750. This advance started to accrue interest at 8% on January 1, 2006. Between March and September 2005, the Company borrowed a total of \$125,000 from three lenders: \$50,000 in July 2005 from Power Curve, Inc. (a company controlled by John Power); \$50,000 in May 2005 from Lone Oak Vineyards, Inc. (a company controlled by Brian Power); and \$25,000 in March 2005 from Tiffany Grace, an unaffiliated party. The loans were used to payoff Butte Creek's loans to Tri County Economic Development Corporation, purchase additional equipment and provide working capital. The Tiffany Grace note, which was executed on September 9, 2005 accrues interest at the rate of 9% per annum, is payable in monthly payments of principal and interest based upon a five year amortization, and is due in full March 2008. As of December 31, 2005, the Tiffany Grace note had current maturities of \$4,336 and a long-term maturity of \$18,638. The Power Curve and Lone Oak notes were executed in September, 2005, accrue interest at the rate of 9% per annum, and are payable in full in 2008. The loans are collateralized by a security interest covering all of our tangible and intangible assets. As of March 31, 2006, the Power Curve and Lone Oak notes had accrued interest of \$2,059 and long-term maturities of \$100,000.

On December 30, 2005, John Power and Power Curve, Inc. converted \$215,000 and \$90,000, respectively, in outstanding advances into collateralized long-term debt. The notes bear interest at 9% and mature December 31, 2008 and are collateralized by a security interest covering all of our tangible and intangible assets but are junior to the security interest granted to Power Curve, Inc. (\$50,000), Lone Oak Vineyards, Inc. (\$50,000) and Tiffany Grace (\$25,000) in September 2005 described above. As of March 31, 2006, these notes had accrued interest of \$4,838 and \$2,025 respectively and long-term maturities of \$215,000 and \$90,000 respectively.

As part of our acquisition of Butte Creek, the Company assumed an \$8,136 note payable to Bruce Detweiler, a member of Butte Creek, and a \$10,098 note payable to Richard Atmore, Jr., a member of Butte Creek and the brother of Tom Atmore, a managing member of Butte Creek

The Company has pledged substantially all of our assets to secure some of the notes. Should the Company default in the payment of these secured notes, the collateral could be subject to forfeiture.

In the three months ended March 31, 2006, John Power and Power Curve, Inc. have made advances to the Company of \$57,800 and \$ 52,150 respectively. The advances are uncollateralized and due on demand.

Subsequent to March 31, 2006, John Power and Power Curve, Inc., have made advances to the Company of \$5,000 and \$31,360 respectively. The advances are unsecured and due on demand.

*Delinquent Taxes & Rent*

**Delinquent Taxes & Rent**

At March 31, 2006 the Company had outstanding payroll tax liabilities of \$50,029. Of these amounts \$41,009 are considered delinquent.

California Redemption Value (CRV) is a tax collected on all package sales to retailers, processed through the California Department of Conservation and refunded through the State's recycling program. The United States Bureau of Alcohol, Tobacco and Firearms ("BATF"), now the TTB, and various state agencies collect excise taxes often referred to as "alcohol taxes" with the amount based on the volume of beer sold. At March 31, 2006, the Company had alcohol related taxes payable to federal and state taxing authorities of \$67,904. Of these amounts, \$62,500 is considered delinquent. The detail of those taxes payable is as follows:

| <u>Tax Agency</u>                       | March 31, 2006 |                   |                            |
|---|----------------|-------------------|----------------------------|
|   | <u>Due</u>     | <u>Delinquent</u> |                            |
| Internal Revenue Service                | \$36,416       | \$30,900          | Payroll Taxes              |
| CA Employment Development Department    | \$13,613       | \$10,109          | Payroll Taxes              |
| Bureau of Alcohol, Tobacco and Firearms | \$39,954       | \$35,324          | Excise Tax                 |
| CA Board of Equalization                | \$5,751        | \$4,413           | Excise Tax                 |
| CA Department of Conservation           | \$24,559       | \$23,785          | CRV Tax                    |
| Butte County & CA Franchise Tax Board   | \$18,170       | \$18,170          | Property & Franchise Taxes |

Most of these delinquent payables have been assumed by the Company in connection with our acquisition of Butte Creek as the continuation of regulatory compliance is material to the Company's ability to continue as a going concern. Continued operations could be severely impaired should the TTB or any other governmental agency seek to collect any of the delinquent payables before we are able to pay them.

At March 31, 2006 the Company had outstanding rent obligations on our operating facility of \$17,950. We have entered into a verbal forbearance agreement with the landlord whereby the landlord will not proceed with collection actions to enforce its rights under the lease as long as the Company pays current rent and 8% interest on the outstanding rent obligation timely.

**Off Balance Sheet Arrangements**

The Company does not have and has never had any off-balance sheet arrangements.



## **Overview of Product Distribution**

Our products are available for sale directly to consumers in draft and bottles at restaurants, bars and liquor stores, as well as in bottles at supermarkets, warehouse clubs and convenience stores. Like substantially all craft brewers, our products are delivered to these retail outlets through a network of local distributors whose principal business is the distribution of beer and, in some cases, other alcoholic beverages, and who traditionally have local distribution relationships with one or more national beer brand.

Sales in the craft beer industry generally reflect a degree of seasonality, with the first and fourth quarters historically being the slowest and the rest of the year typically demonstrating stronger sales. We have historically operated with little or no backlog and, therefore, our ability to predict sales for future periods is limited.

## **Certain Considerations: Issues and Uncertainties**

We do not provide forecasts of future financial performance or sales volume, although this prospectus contains certain other types of forward-looking statements that involve risks and uncertainties. Those risks and uncertainties are discussed more fully in the section of this prospectus titled "Risk Factors." While we are optimistic about our long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating its business prospects and any forward-looking statements.

In light of uncertain contingencies relating to our acquisition of Butte Creek, we anticipate that a material impairment charge is reasonably likely to occur in the future, resulting in a material impact on our financial statements and results of operations. Since the acquisition has been consummated, we will be required to determine if a valuation allowance with respect to our investment in Butte Creek. Based upon the financial history of Butte Creek, it appears to us that a valuation allowance is reasonably likely.

## **Recent Accounting Pronouncements**

There were various accounting standards and interpretations issued during 2005, 2004 and 2003, none of which are expected to have a material impact on the Company's consolidated financial position, operations or cash flows.

## **ITEM 3. CONTROLS AND PROCEDURES**

The Company's Principal Executive Officer and Principal Financial Officer, John C. Power, has established and is currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

The Principal Executive Officer and Principal Financial Officer conducted an update review and evaluation of the effectiveness of the Company's disclosure controls and procedures and have concluded, based on his evaluation as of the end of the period covered by this Report, that our disclosure controls and procedures are not effective to provide reasonable assurance that information



required to be disclosed in the reports that you file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, to allow timely decisions regarding required disclosure and we refer you to Exchange Act Rule 13a-15(e). We initially became subject to the reporting requirements of Section 13a of the Exchange Act on February 16, 2006. The principal deficiency in our disclosure controls and procedures is our lack of a dedicated Chief Financial Officer who is primarily responsible for our public disclosures and financial reporting. We intend to retain a qualified Chief Financial Officer during the present fiscal year. There have been no material changes in our internal controls or in other factors that could materially affect these controls subsequent to the date of the previously mentioned evaluation.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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 may face sanctions ranging from a warning or up to \$10,000 in fines or a temporary suspension of ten days of our manufacturing license. The matter is still pending; however, we do not believe the matter will have a material adverse effect on our ability to conduct business.

There are no material legal proceedings in which either we or any of our affiliates are involved which could have a material adverse effect on our business, financial condition or future operations.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None, except as previously disclosed.

### **Item 3. Defaults Upon Senior Securities**

None, except as previously disclosed.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None, except as previously disclosed.

### **Item 5. Other Information**

None, except as previously disclosed.

### **Item 6. Exhibits and Reports on Form 8-K**

#### Exhibits

31 Certification



32 Certification pursuant to 18 U.S.C. Section 1350

Reports on Form 8-K

Current Report on Form 8-K, Items 5.02 and 9.01, dated March 31, 2006, as filed with the Commission on April 6, 2006.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GOLDEN WEST BREWING COMPANY, INC.**

Date: October 23, 2006 By: /s/ John C. Power  
John C. Power, President, Chief Financial  
Officer, Principal Accounting Officer