Ownership Transitions in the Wine Industry:

Obstacles and Strategies for Success

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SVB Silicon Valley Bank

A Member of SVB Financial Group

Scion Advisors

We owe a vast debt of gratitude to the family businesses that responded to our survey and so generously shared their company information with our research team. The health of the family-controlled business is a fairly new area of study with much uncharted territory. In facing forthcoming challenges with succession, the best work for this industry will emerge from a dialogue among advisors, consultants and the family participants themselves. We trust that our insights contained in this research will assist you with meeting those challenges.

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EXECUTIVE SUMMARY

The wine industry is in the beginning stages of unprecedented change in management and ownership within family-owned wineries. Current ownership is assuming both significant financial and execution risk that will translate to the inability to pass ownership to the next generation, and/or see reduced returns in a third party sale.

As the senior generation in the wine business prepares to retire, keeping the business in the family and preparing for succession presents complex challenges for many reasons. In particular, this industry has little experience with succession plans and there are only a few case studies that can offer strategies and best practices to help guide a successful change-in-control.

> 51% of wineries plan to go through a change in control within 10 years

SVB Silicon Valley Bank and Scion Advisors teamed up in October 2007 to conduct a comprehensive survey of family wine businesses throughout California, Oregon and Washington. The online survey was sent to 2,921 family business owners, CEOs, presidents and general managers; 247 family-owned respondents completed the survey.

What we found is that the majority of survey respondents who desire to keep their winery family-controlled are unprepared for a successful transition of ownership. Our data also suggests that most owners do not yet understand the risks and the requirements associated with changing ownership, nor are they fully aware of the lead-time needed or steps necessary to effect a successful transition at the best after-tax price. Less than half of the owners have begun some form of estate planning. This planning deficiency sets the stage for stressful transitions that may divert precious resources needed to run the business effectively.

The overwhelming majority of significant shareholders in family businesses have only limited knowledge of the senior generation's share-transfer intentions. Only a handful have a board to use as a forum in which to discuss familial and business issues. With their family business at risk, winery owners who have the ability to engage the whole family in open communications will be more successful in developing beneficial estate plans and successful succession strategies.

What does this mean for the wine industry as a whole? The effects of this massive transition will not be isolated to the individual winery level. The large number of retirements will produce a power shift throughout the industry that could have ripple effects. Regional winegrowing boards, distributor relationships, and industry associations across the market will all be susceptible to the turnover. This is an enormous change for such a small, young industry to absorb.

Perhaps the most astounding conclusion of our survey was that the majority of family run wineries expect to go through a change in control[1] within the next 10 years, and almost a quarter of the industry expects to transition within five years. Taken literally, the results could imply the potential of 1,020 wineries industry-wide changing hands.[2] Disturbingly however, our survey concludes that owners in the wine industry are unprepared and have not devised strategies to preserve the wealth they have generated during their lifetimes, and transition it to their heirs.

[1] Change in control = any generational transition of ownership shares to family members, or sale to a third party. A change in control does not include a family winery that hires a non-family member to run the business

[2] Of an estimated audience of approximately 2,400 wineries across California, Oregon and Washington

THE TAX IMPACT OF NOT PLANNING

Upon death of a winery owner, the government wants its share of your life's work. Without good estate planning or cash set aside to make the payment, business assets will need to be sold to meet the estate tax payment, and it will need to be done in the time the government mandates.

What kind of money are we talking about? The net cash impact from tax consequences of a *typical* change in control can run in the millions of dollars. For example, a Northern California winery owner with a $10 million net worth, 80 acres of land, transferring ownership control to the next generation can have a net tax impact of $2-3 million. With the financial leverage most wineries operate under, it is unlikely that this can be raised strictly from savings, cash flow, or from the sale of winery assets less crucial to the winery's success. The more likely outcome in this circumstance is the quick "estate sale."

WHAT IS CAUSING THIS MASSIVE TRANSITION FOR WINERIES?

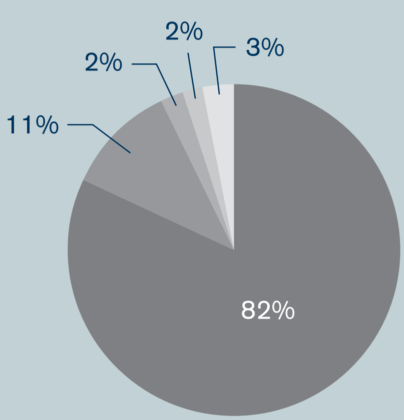
This transformation is gaining its impetus from three separate drivers; 1) normal progression through an industry life-cycle (most of the wineries were founded around the same time), 2) the legacy focused desires of founders to see their dreams transition to a following generation, and 3) business issues compounded by a changing industry.

NORMAL PROGRESSION OF THE INDUSTRY LIFE-CYCLE

Perhaps the magnitude of the impending ownership turnover should not be a surprise, since 88 percent of the wineries presently in businesses in California alone were formed subsequent to 1975. Many of those entered the business as growers-turned-winery-owners when they could not sell their grapes in a given year. Others were more affluent professionals looking for a second, more relaxed career or a "working retirement." The business was young and cottage-based at the time and the pace was slower with sales often made out of the back of a truck, and grape contracts mostly done on a handshake. The Internet was not yet a part of sales and regulatory compliance was less onerous. We know from survey data and interviews that many owners have found the present business environment not to their liking, skill sets or energy levels.

FAMILY WINERIES — THE NEXT GENERATION

Owners' life-stage is the second issue driving the transformation and this expected bulge in anticipated changes in control. Nearly half of the survey respondents believe the next generation will be ready to take over and they note a strong desire to see their heirs assume control. They believe they will be ready to watch their inheritors carry the family label into the future. That said, it should be noted that while founders are looking for heirs to step up, we have not surveyed the heirs to ask if living the



GENERATIONS IN CONTROL

- First Generation
- Second Generation
- Third Generation
- Fourth Generation
- Other

Source: SVB Silicon Valley Bank/SCION Advisors Survey October 2007

founders dream is a dream to which they aspire. This factor may tilt the final count of transitioning wineries more toward sale to a third party in the end.

BUSINESS ISSUES SUPPORTING CHANGE

It's not just about good wine anymore. Additional drivers of change are business issues which can be broken into several sub-categories. First, the dominant competitive issue when many of these family-owned wineries started was simply the ability to make great wine. Making great wine has now become the permission to play. In a much more competitive industry, the dominant competitive issue has become defining a well-differentiated brand strategy and executing an appropriate sales and marketing plan. Not all winery owners have those skills and not all of them are of sufficient scale to be able to afford a qualified professional, or team, capable of executing a sales plan.

Second, a rapidly escalating trend we observe are wineries that are too small to get distributor attention, or too big to sell all direct. In both cases, profits are impaired if the model is out of balance with the price/quality/volume (product and channel strategy) fundamentals. In a separate SVB Wine Industry Conditions Survey in 2007, the third most cited issue hindering long-term profitability was "being spread too thin." For the small business that feels increased pressure, the natural tendency is to focus on the present battle and ignore long-term planning. Supporting this observation, 25 percent of respondents to this survey noted national distribution as the largest obstacle to sustained profitability; 16 percent cite problems in direct-to-consumer sales, while 13 percent cited the strength of key staff as predominant issues.

GREATEST OBSTACLE TO SUSTAINED PROFITABILITY

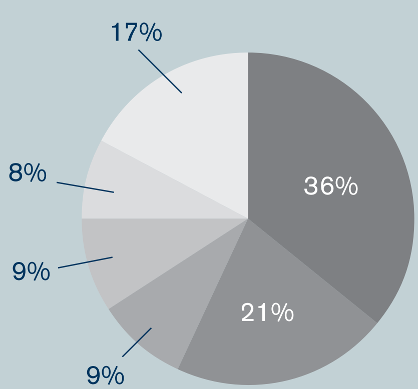
- Distribution
- Direct-to-consumer
- Grape supply
- Crush space
- Spread too thin

Source: SVB Silicon Valley Bank/SCION Advisors Survey October 2007

THE FINANCIAL LANDSCAPE HAS CHANGED

Last is the issue of the availability of capital. About a third of the respondents suggest financial reasons support their desire to transition: owners who need to retire due to estate and tax planning (15%), and owners who simply need liquidity (13%). It was not that long ago when banks considered lending to the wine industry a risky proposition. That was the landscape in 1994 when SVB Silicon Valley Bank entered the business. Since then, the business has improved and financing vehicles that can assist in a change-in-control are more available.

It's not too surprising that the survey suggests owners are well aware of the improved market for sale of their wineries. Twenty-three percent cited the public disclosures of the large cash prices being paid for wineries as factors that weigh into consideration for both the timing and choice of exit.



SUCCESS STRATEGIES

- Expanding in the direct-to-consumer channel
- Promote the difference and benefits of a family producer to differentiate ourselves in the market
- Hiring more professional talent in the business
- We are not doing anything differently
- Growing volume as we can so we matter to distributors
- Other (less than 4% response)

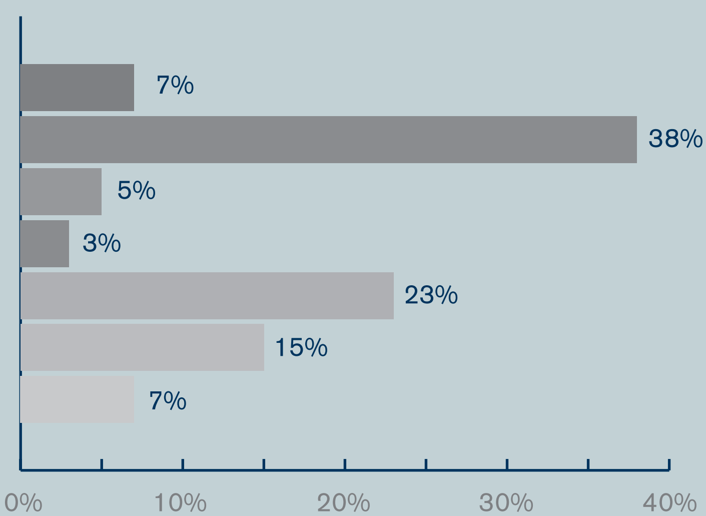
Source: SVB Silicon Valley Bank/SCION Advisors Survey October 2007

LACK OF EFFECTIVE PLANNING IS A MAJOR PROBLEM

Regardless of the reasons wineries are contemplating change, a major finding of this survey is that winery owners are unknowingly assuming both financial and execution risk by not starting the planning process now. There is a huge logical disconnect between the respondents expecting this change in control within the next 10 years, the fact that effective succession and estate planning takes 5-10 years to complete, and the statistical finding within the survey that only a minority of the industry's owners have a plan in place. Compounding that, most simply don't talk to heirs about transition.

PLANNING FOR SALE TO A THIRD PARTY

Winery owners recognize that their winery is not just a retirement activity anymore, and in many cases represents their largest financial asset. But while keeping the business in the family is important, most would be willing to sell to a third party. Forty-five percent said they would take this option if their heirs inevitably don't reveal the aptitude or willingness to run the business, or if there is a lack of heirs to take over the business. An additional 23 percent say they have noticed the numbers being tossed around in the press. The adage that everything has its price would apply to this group who note it's hard to dismiss the possibility of a sale if the right price were offered. But once again, most have adopted a "see what happens philosophy," with only 3 percent proactively planning the sale of their business, or positioning it for the highest return possible.



REASON TO SELL

- There are no heirs to pass the business to
- The heirs I would pass the business to are not interested
- The cost of managing the business... is too much
- A lack of success in sales channels
- The large cash prices being paid for wineries make it hard...
- Selling is not an option
- Other

Source: SVB Silicon Valley Bank/SCION Advisors Survey, October 2007

A WORD ON CONFIDENTIALITY

The sale of a winery to a third party can impact several sensitive relationships including distributor relationships, the management team and suppliers including grape suppliers. Premature news of a pending sale can severely impact current period sales and the availability of raw materials. Working with the right M&A advisors, consultants, bankers, CPAs, and attorneys who have a track record of maintaining confidence during the sale process is critical to the business health when going through a sale, inevitably accruing to an enhanced final price.

Based on the responses from the survey that indicate the lack of planning, we conclude that many wineries that plan to sell their winery will be disappointed in their market valuations largely due to poor planning. Selling a business involves more than getting the financials together or running an ad in the paper. The process necessary to position a family winery for sale can take up to five years. Issues that can slow, stop or severely limit sale proceeds:

- cleaning up financial records and practices (e.g. separating family cash flow from business);
- taking steps to build more profitability into the business (e.g. realigning product portfolio to included most profitable wines that build equity);
- realigning strategic and non-strategic assets against a plan (e.g. some business assets may be separated from the assets for sale and set up to be sold piecemeal; some may be set up to be kept in the family);
- solidifying key relationships (e.g. grape contracts, distribution, consultants, management team);
- banking (loan agreements, covenants, prepayment fees, due on sale clauses);
- tax (e.g. estate plan, an employee share option plan (ESOP), deal structuring, positioning other owners' assets for the best after-tax return);
- licensing (e.g. Alcohol and Tobacco Tax and Trade Bureau (TTB), bounty, zoning ordinances, changes not grandfathered to the next owner); and
- real estate (e.g. vineyards near the end of useful life, not planted to newer clones, inadequately positioned for the brand, seller's home on the property).

All of this and a host of other elements take time and proper consultation with experts for the best outcome.

OR, PLANNING TO KEEP IT IN THE FAMILY

Most family businesses lack written strategic plans. Eighty-four percent said they do not have strategic plans and only 23 percent claim some kind of financial plan.[3] National

[3] Compare this to a national average of 37 percent, which is considered low and many believe could be contributing to the failure rate of so many family businesses as they transition to the next generation. See results from January 2003 report from Massachusetts Mutual Life Insurance Company/ George and Robin Raymond Family Business Institute.

studies show that business owners with written strategic plans tend to engage in other types of planning as well – practices that are essential to family-business survival and success.[4]

For example, business owners in other industries are more likely to have buy/sell agreements, a formal redemption plan and formal valuations of company share value. They hold board of directors meetings more frequently and rate the contribution of their boards more positively. They also tend to have more professional employees, qualification policies for employing family members, and are more likely to have selected a successor. In addition, they post higher sales revenues and greater international sales. These findings support the relationship between the existence of a written strategic plan and taking actions that are correlated with family-business wealth preservation: success and survival.

IF PLANNING AND COMMUNICATION IS CRITICAL, WHY IS NO ONE DOING IT?

There are numerous reasons why planning is not done, but the survey results are quite clear on the issue at hand: 77 percent of owners have no financial plan for a transition, and 80 percent have not completed estate planning. Of the CEOs expected to retire or semi-retire within 10 years, most have not chosen a successor (72 percent have no succession timeline articulated; 85 percent have not agreed to clear roles and responsibilities).

What is preventing planning? Many hurdles are associated with family dynamics, personality and hierarchy. We have seen founders, strong business people allowing their children the opportunity to find their own voice in the business, who cannot stop themselves from taking back control when decisions fall into areas in which they are expert, thereby stunting successor growth.

From experience, we have seen cases where current ownership has more than one heir working in the business, but the founder will not select a CEO from among them, out of fear of showing favoritism. Never mind that neither may be qualified to be the CEO. Another revealing finding of this survey is that 84 percent of family wine businesses that expect to transition in the next five years have no policy regarding qualifications that family members must meet to be full-time employees of the business or any type of family continuity plan that delineates family policies.

We know of one case where there is more than one heir working in the business, but the future CEO will assume leadership only at the passing of the founder and

[4] January 2003 report from Massachusetts Mutual Life Insurance Company/ George and Robin Raymond Family Business Institute

will not discover the news until the owner's will is read. While this sounds extreme, the survey reveals that other than knowing a will exists, 80 percent of significant stakeholders in these family businesses have no knowledge of the senior generation's final share-transfer intentions.

This dearth of understanding can make it difficult for these businesses to anticipate capital needs for estate taxes and stock redemptions. The uncertainties over the senior generation's stock-distribution plans can also create significant confusion and friction among family members when the full extent of the plan is disclosed only upon the death of the majority owner — the time when family members are not only grieving, but being tasked with tactical decisions they are not prepared to tackle.

Succession Practices	In Place
Advisors have been identified or are active in the process (such as a CPA, attorney, M&A advisor, banker or family business advisor)	43%
Formal or less formal timeline for succession has been agreeded to	28%
Financial plans are in place	23%
Exit strategy has been completed, including estate and tax planning	20%
Board of directors or advisors have been put in place	18%
Strategic plans are in place	16%
Family continuity plans are in place defining family business policies	16%
Clear roles and responsibilities in the translation have been reviewed and disclosed to everyone applicable	15%
Outside board members are participating in the process actively	5%
Non-family spouses are aware of their roles in transition and contracts exist that define those roles and ownership interests	5%

HOW TO BEAT THE ODDS—OVERCOMING OBSTACLES TO PLANNING

SUCCESSION IS NOT WHAT HAPPENS ONCE YOU ARE GONE.

The strategic objective of succession planning is family wealth preservation – to settle a variety of complex issues concerning the family business by defining the guidelines and rules affecting this transition, such as identifying and grooming a successor; determining how to treat family members who are not involved in the business; and ensuring sufficient liquidity to pay taxes and other expenses. A family's ability to remain in business over a long period of time most often comes down to excellent long-term succession planning, regardless of how successful the family is financially. Tactically, a well executed plan makes the main decision maker redundant well before a successor assumes complete control.

In this era of change in the family wine business, this type of planning, while functionally difficult to execute, is nevertheless critical for long-term survival. Those businesses that embrace the concepts presented will have a stronger likelihood of successfully meeting their own goals and long-term vision.

While family relationships and communication problems can impact the functioning and running of a family business, there are common solutions that can be employed to both enhance relationships and improve the functioning of the core business asset for the present and the future.

LEADERSHIP AND THE USE OF FAMILY BOARDS: BUILD STABILITY AND A LONG TERM APPROACH

While the survey reports the majority of owners want to see their heirs take the reigns in the next 5-10 years, they reduce the heirs' likelihood of success by not planning or constructing a forum where important topics can be addressed. The forum most appropriate for these and other discussions is a formal advisory board, or a board of directors. Alarmingly, only 28 percent reported having some form of a board of directors or advisors. Less than 5 percent have outside board members participating actively in the governance process.

Why are so many wineries eschewing a board of directors? Experience teaches us that many founders of small businesses decided to start their own business in part because they have a strong preference for independence, so the thought of reporting to a board of any form may be unappealing entirely. But boards, while typically existing to help drive strategic decisions, in a family business can be used in numerous capacities to solve issues more unique to a family business such as assisting in successor selection, equity discussions amongst family members and generations, setting policies concerning family member compensation, performance reviews, career development, hiring and firing, selecting a bridge CEO in the event of the sudden incapacitation of a key family employee, dispute resolution, and as important, strategic input, guidance and support.

Founders who want to transition the business to heirs need to implement board oversight early in the succession planning process. Often, the founder may see a board as an ideal solution for avoiding potential future pitfalls, but the independence trait of the founder may overpower the final decision. The mind-set becomes "that's something that will be good" after I'm gone. The reality is that establishing a board is an essential early task in succession planning. Implementing a board function will require tinkering and adjustment. It's also important to demonstrate to heirs the willingness to be accountable to a board, and to be certain that the board fulfills the roles envisioned.

Boards are not one-size-fits-all for businesses. A winery could chose to have a few key advisors who are competent professionals willing to coordinate with other advisors and address business issues, or can create a more formal board of advisors that advises the business but possesses no legal power. Or, a traditional formal board of directors can be employed with advisory, legal and fiduciary responsibility.

BEYOND THE BOARD: LONG TERM WEALTH PRESERVATION IS A QUESTION OF FAMILY GOVERNANCE

As wine businesses move from controlling ownership stage (single owner controlling decisions) to a group of sibling or cousin owners, and as the business gets more complex, it will be important to consider new forms of governance. By governance we mean some structure that ties in all the communications and decision making that needs to happen among the three essential circles of people that make up the business: family members (family counsel), business owners (board of directors or advisors) and the business team.

Fundamentally, the precise form of governance can range from informal to very formal. The bottom line is that it needs to define the participation level, roles and commitments of all three circles that ultimately provide a balance of problem solving and oversight. Successful governance is achieved best when decisions are made by consensus without having to move to a vote.

USE OF NON-FAMILY MANAGERS: BUILD A PERFORMANCE CULTURE

Successful family businesses will outperform their competition by instilling a performance culture. A performance culture is one in which the company's shared values, beliefs, and practices align to have the greatest positive impact on individual and organizational performance. There are three highly-interrelated performance culture categories that have a direct impact on the execution of business strategy: (1) Shared direction and love for the company, (2) persistent performance execution, and (3) focus on developing both human and financial capital.

As wine businesses move from the first generation to the next, they will need to develop a performance culture to survive and thrive. This can sometimes be nurtured from within the family or sometimes by hiring non-family managers who already have expertise and knowledge. This strategy can help combat a common issue for a family in transition — an heir unable, unwilling or unqualified to run the family business. At times when the heir may not be ready, or simply needs mentoring and experience before taking the family-business reins, a non-family CEO can serve as a bridge (bridge CEO) between current and next-generation family members.

Because the wine industry has been so family centric, it's not surprising that relatively few family-owned businesses (20%) have hired persons outside the family for CEO positions. Part of the reason is obviously financial. A small family winery may not make sufficient profit after debt service to provide a CEO's wage. But because the business is changing so rapidly in so many other areas, the majority of owners say they are open to hiring non-family members to run the business either now, or in lieu of a family member if none are ready or willing. It should also be encouraging to a winery owner to hear the generally positive antidotal evidence we have collected from those who have hired non-family members to run their businesses.

SIGNIFICANT FINDINGS AT A GLANCE

The following key facts and figures were extrapolated from our survey to help provide context to our findings on current industry succession trends and practices. These statistics may not add up to 100 percent either due to multiple possible answers to a question, non-reported respondents falling under the category "other," or cross tabulation analysis.

Sample Size: 247

Many Respondents are Small Businesses	
Under $3 million in annual revenues (8,000 cases)	
Most Respondents are First Generation Businesses	
First generation/founders of the current businesses	82%
Second generation	11%
Third generation	2%
Fourth generation	2%
Other	3%
Respondents Have Little Experience and Few Case Studies of Strategies and Practices of Successful Transitions	
Most wine families that have never been through a change in control	78%
Been through a change in control (last 5 years)	11%
Been through a change in control (>6 years)	11%
Many Owners Expect Change in Control	
Within 10 years	51%
Within 5 years	22%
More than 10 years	49%
What is Driving This?	
Next generation will be ready	47%
Estate/tax planning needs of key owners/investors	16%
Owners needing liquidity	13%
No longer have the time and energy the industry now requires	9%
Other	15%

Majority of Respondents Would Consider Selling to a Third Party	
Would consider selling a controlling interest	36%
View their business as an asset; would sell for the right price	16%
Would prefer the family to continue to control the family business	40%
Other	8%
What is Driving This?	
Heirs are not interested in running the business or lack of heirs	45%
Large cash prices being paid for wineries make it hard for me to ignore	23%
Selling is not an option	15%
Cost of managing the business or poor performance	8%
Other	9%
Inadequate Planning Could Put Next Generation at Risk	
For wine families facing change in control within 10 years *(adds to more than 100% due to multiple responses)*	
Advisors identified or active	43%
Exit Strategy/Estate planning *NOT* completed (other than a will)	80%
Businesses that *DO NOT* have a strategic plan	84%
Financial plan *NOT* developed	77%
Succession timelines *NOT* defined	72%
Clear roles and responsibilities *NOT* defined and disclosed	85%
Family continuity plans *NOT* in place	84%
Few Respondents Have Adequate Family Communications[5]	
Last time future ownership was discussed (under 1 year)	48%
Last time future ownership was discussed (1-2 years ago)	19%
Never	33%

[5] One of the biggest factors in family business mortality is the lack of communications skills which take the form of family discussions and robust dialogue.

Few Respondents Have a Functioning Board of Directors	
For wine families facing change in control within 10 years (cross tab)	
Have board of directors or advisors	18%
Don't have boards of directors or advisors	81%
For Those Who Have Boards, Board Contribution is Limited	
(Adds to less than 100% due to multiple responses)	
Have outside directors	5%
Drive business strategy and decision making	17%
Mentoring the next generation	7%
Mediating family and intergenerational differences	6%
Driving policy, performing control and governance	< 5%
Respondents are Trending to Professional Managers	
Current Situation	
Family businesses currently run by non-family manager	20%
Family businesses currently run by family manager	80%
Consideration of a Non-family Manager	
Respondents willing to consider non-family manager	56%
Respondents not willing to consider non-family manager	44%
Non-family managers are compensated	
Salary only	10%
Salary plus bonus	49%
Long term incentives as owners through stock, phantom stock or life insurance	21%
Other	20%

Respondents Greatest Challenges	
National distribution sales	25%
Direct to consumer sales	16%
Strength of key staff	13%
Production quality	11%
Business succession	10%
Cost of Goods	10%
Other	15%
Respondents Success Strategies	
Expanding direct to consumer channel	36%
Promoting the benefits of family as point of difference	21%
Hiring more professional staff	9%
Not doing anything different	8%

ABOUT SVB SILICON VALLEY BANK'S WINE DIVISION

SVB Silicon Valley Bank's Wine Division has the largest team of commercial bankers dedicated to the wine industry of any bank nationwide. It specializes in commercial banking for premium wineries and vineyards and the industries that support them. SVB's Wine Division opened in 1994 and has offices in Napa and Sonoma counties serving 350 clients. The Division continues to grow its client base in Napa, Sonoma, the Central Coast of California, Oregon and Washington. Wine Division employees are 100 percent dedicated to the wine industry, enabling the company to consistently support its clients through economic and growth cycles. By virtue of its dedication to the wine industry, SVB Silicon Valley Bank helps make its clients more successful with counsel on many aspects of their business, beyond traditional banking services. More information can be found at www.svb.com.

ABOUT SCION ADVISORS

A business advisory group, Scion Advisors is committed to helping wine family businesses prepare for the future. We work along side winery owners to develop the plans and structures to navigate important business transitions. Our approach has enabled clients to manage family business succession, derive new sources of profitable growth, and reposition their assets to build higher value. Scion Advisors is comprised of seasoned executives who have worked across 100 companies and several industries — we understand what works and what doesn't in different situations and get at the heart of things faster. Driving better solutions that achieve higher levels of performance and long-lasting results, we have successfully guided clients through a broad range of family business issues. www.scionadvisors.com

APPENDIX

FAMILY WINE BUSINESS PROFILE

We estimate that the average survey respondent's annual revenues are $3 million and volumes are 8,000 cases.[6] The range in volume varies broadly, with 10 companies reporting more than 100,000 case volumes. Overall, 70 percent of the wineries reported volumes of 10,000 cases or less.

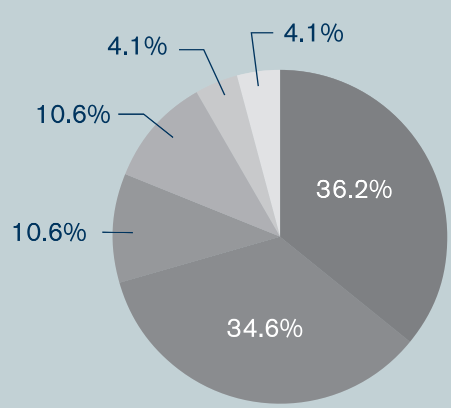
SVB Silicon Valley Bank's 2006 Peer Group Analysis suggests that wine businesses make an average 12 percent after tax profit.[7] The biggest challenge for these small businesses is being able to afford the cost of the high caliber professional resources necessary to navigate their family business through a successful succession transition. Their ability to invest in knowledgeable family business advisors is fundamental to managing the risk around their family assets during complex transitions. Coupled with the fact that most winery owners have never been through a change in control, they risk underestimating the cost of the transition, which can run into hundreds of thousands of dollars in industry services, and the amount of time needed to complete succession.

SURVEY METHODOLOGY

The survey team polled a comprehensive group of family wine businesses covering California, Oregon and Washington. The online survey contained more than 20 questions and was mailed in October 2007 to 2,921 family business owners, CEOs, presidents and general managers. 1,510

[6] Calculation: assuming 65 percent sold at average $15/bottle FOB and 35 percent sold at average $30/bottle MSRP

[7] A proprietary program that averages all of SVB Silicon Valley Bank's wine clients' financial statements



VOLUME PRODUCTION

- Less than 3,000 cases
- 3,001 - 10,000 cases
- 10,001 - 25,000 cases
- 25,001 - 50,000 cases
- 50,001 - 100,000 cases
- More than 100,000 cases

Source: SVB Silicon Valley Bank/SCION Advisors Survey October 2007

e-mail surveys were opened. The response rate was 18 percent, with 271 surveys being completed within a 15-day period. Ninety-two percent or 247 of these qualified as family-owned respondents.

The preceding data was created expressly for this survey and focused on identifying individual wineries and wine companies on the West Coast of the United States. Also, a special thank you to Christian Miller of Full Glass Research for exploring the statistical significance of our data with us.

COMPANY CHARACTERISTICS

Responding wineries are majority family owners. Seventy-seven percent of the 247 survey respondents are the majority owner of the business, while 16 percent have limited ownership. The remaining 6 percent have no ownership or hope for some level of future limited minority ownership. Eighty percent of respondents reported being the majority owner running the business; another 11 percent are running the business and identify as a family member who is a minority owner or non-owner. Only 6 percent of respondents were non-family member CEOs of family owned wineries.

SIGNIFICANCE OF DATA

Potential survey biases include the following, but are deemed to have little relative impact on the outcomes of our report.

1. Geographic bias: The ratio of California winery respondents as compared to Oregon and Washington wineries looks reasonable.[8]

   a. Respondents came from the following geographical locations: California (129); Oregon (24); Washington (20), Other (94 probably from CA, OR, WA).

2. Business size bias: respondents trend slightly toward smaller volumes which would bias the number of first generation wine business owners who responded to the survey.

   a. 80 percent of respondents run wineries <25,000 cases versus 69% (in a 2005 ZAP Producer Study) versus 71 percent (in a 2004 California Economic Impact Report).

   b. 14 percent run wineries 25,000 – 100,000 cases versus eight percent (2005 ZAP Study) versus 17 percent (California Economic Impact Report).

   c. 4 percent run wineries >100,000 cases versus seven percent (2005 ZAP Study) versus 11 percent (California Economic Impact Report).

[8] The 2004 California Economic Impact Report counted 1,049 “bricks & mortar wineries”. The 2005 Oregon Economic Impact report by Full Glass Research counted 247 wineries. The 2001 Washington Economic Impact Report counted 160 wineries.

3. Incentive bias: respondents are people who are more interested in transition issues.

   a. Respondents were offered a copy of the survey data as compensation and are therefore people who are more likely to be interested in the transition issue.

   b. The number of respondents anticipating ownership change in control in the next 10 years may be overstated at an industry level.

   c. However, comparisons within our sample are not affected (types of transitions or measures of preparedness).

4. Timing bias: the timing of the report (at the end of harvest) could unfavorably bias our survey towards wineries where the decision maker is not the winemaker.

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