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### **Grapes of Wrath: Inside a Napa Valley Empire, A Family Struggles With Itself --- Two Rival Mondavi Brothers Are Replaying Past Battles, Imperiling Their Winery --- Undercut by Two-Buck Chuck**

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Corrections & Amplifications

"TWO-BUCK CHUCK" is a nickname for the Charles Shaw brand of wine sold by Trader Joe's Co. A page-one article Thursday on the Mondavi family mentioned Two-Buck Chuck but didn't identify Charles Shaw as the wine's actual brand name.

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For decades, Robert G. Mondavi worked with his brother for their family's Charles Krug Winery, where they argued regularly. Robert wanted to expand the business while Peter was more conservative. In 1965, Robert punched Peter during a dispute over a mink coat. Seeking a resolution, the Mondavis forced Robert to take a paid leave.

When he returned, Robert left the family firm and founded what would become Robert Mondavi Corp., a Napa Valley pioneer that helped transform an agricultural backwater into a world-class wine-producing region. Desperate to ensure the tensions bedeviling his generation wouldn't be repeated, Robert, who is now 90 years old, spent 30 years planning how he would transfer control of the company to his two sons.

But last year, Robert's son, Timothy, 53, abruptly left his job as "winegrower," took a six-month sabbatical and went to Hawaii where he shaved his head. In January, Robert helped oust his other son, Michael, 61, as chairman of the company. Michael and Timothy, following the tradition set by their father and uncle, had paralyzed the business by fighting over details large and small, from whether Mondavi should go public to the design of its labels.

For the first time, there is no Mondavi family member managing the winery, and Michael is starting to branch out on his own. Many in the industry think Mondavi, the U.S.'s sixth-largest wine company -- ranked by volume -- and valued at nearly \$600 million, may be broken up or sold.

"I am personally tired of seeing this same soap opera replayed," says Peter H. Ventura, Robert's nephew and first cousin of Michael and Timothy, who until recently was an executive at the winery.

Robert, in his desire to keep the family in the family business, forced his sons to share power despite their differences and the pressure of running a public corporation. At the same time, the wine industry shifted away from Mondavi's elegant blends as critics cooed over boutique wines from obscure vineyards and consumers snapped up inexpensive imports. That set the stage for a repeat of the family drama, according to dozens of people interviewed for this account, including family members, close friends, former employees and a psychologist who has worked with the clan.

"I know my brother made numerous efforts to get them to work together," says Robert's younger brother, Peter Mondavi Sr., 89, who is still in touch with his sibling. "But there is just a difference of personality between Timmy and Michael -- just like the difference between my brother and myself."

Robert, who recently had surgery for a hearing problem, and his sons Michael and Timothy declined repeated requests to be interviewed for this account. The company's spokeswoman, Hilary Martin, answered some questions and provided written answers to others.

"Like any family, especially one that is in business together, at times there are differences in opinion," Ms.

Martin said in a written statement. "The family and company encourage a vibrant exchange of ideas and are receptive to divergent points of view -- this is an integral part of the company culture. At the end of the day, consensus is reached and the family moves on."

In recent years, Robert has castigated himself for creating tensions between his sons. His third child, a daughter, sits on the winery's board but isn't involved in management.

"In any business, grooming your successors, especially if they are your children, is an essential and very tricky task. And, frankly, I did not do a very good job at it, at least not at the outset," Robert wrote in his 1998 autobiography, "Harvests of Joy."

The family's problems stretch back to the 1960s, when Robert wanted to expand Charles Krug and improve the quality of its wines. Peter, whom Robert describes in his autobiography as "quiet, gentle and self-effacing," wanted to move more slowly. "No one ever accused me of being quiet or self-effacing," Robert wrote. In a recent interview, Peter said, "my brother wanted the whole company and he didn't want me in the company."

At a family gathering in 1965, Robert punched Peter in the heat of an argument over Robert's purchase of a \$2,500 mink coat for his wife, according to Robert's autobiography and Peter. At the time, Peter accused his brother of expensing the coat. After hiring McKinsey & Co. as advisers, the family forced Robert to go on a paid sabbatical. Robert later battled Peter and their mother to get his share of the company's profits. He won in court in 1976 in a trial that lasted 103 days.

Soon after his return, Robert set up a rival winery in nearby Oakville. He was determined to prove that Napa could produce wines to compete with the best from France. As early as the 1970s, Robert Mondavi's reserve cabernets were winning high marks from influential wine critics. Mondavi now sells about 9.7 million cases of wine a year. Famous brands include Opus One and Woodbridge.

The Mondavis became pillars of Napa society through sizable philanthropic donations. Among other gifts, Robert helped restore Napa's opera house. Peter and his sons still own Charles Krug, which remains a small, private winery.

Raised on the family compound in St. Helena, Calif., Robert's two sons, Timothy and Michael, used the winery's tanks and barrels as their jungle gym. In the summers, they worked as "cellar rats," moving barrels and scrubbing kegs. Both joined the family business straight out of college.

Michael, who rides Harley-Davidsons and pilots twin-engine planes, was a linebacker at Santa Clara University, where he studied business and learned to be an aggressive marketer. He belongs to the Bohemian Club, an all-male organization based in San Francisco, which counts prominent Republicans as members.

Timothy earned a degree in oenology, the study of winemaking, and viticulture, the study of growing grapes, from the University of California at Davis. At the bachelor party for his second marriage, Timothy held a five-course dinner and a formal wine tasting. In his official company biography, he counts as a key accomplishment saving relatively unproductive vines planted in 1945.

In building the company, Robert devised mechanisms to tackle the family's problems. He hired a team of family-business specialists, including a psychologist and a psychiatrist, which created an annual "family council." Once a year, the council invited family members to a retreat that usually took place in June or July.

Jerrold Lee Shapiro, a psychologist and professor at Santa Clara University and part of the team, says the goal was to keep the family together. "Because of the way Robert grew up and the tragic split with the family of his origin, he experienced an inexorable pull to repeat that experience," says Dr. Shapiro.

Friends of Robert and his second wife recall being invited to private tastings at Mondavi's Oakville winery. Robert, Michael and Timothy, hosting these events together, would interrupt each other or grab the microphone in order to get in the last word on the style or the taste of a wine. Usually, Robert won the battles. "You'd walk out of there and shake your head," recalls a longtime Mondavi friend.

In one of their first big disputes, the brothers took opposite sides in the debate over whether the company should seek an initial public offering, recalls Cliff Adams, a lawyer who worked for the family for 27 years. Mr. Adams was pushed out by Michael and Timothy in 1997, according to Robert's autobiography and Mr. Adams. Timothy worried the business would be forced to grow rapidly, undermining the quality of its wine. Michael supported the IPO to address the business's capital requirements. That included replanting 600 acres of diseased vines.

Even though the patriarch supported the IPO, Mr. Adams and the company's investment bankers minimized

Robert's involvement in the company's 1993 investor roadshow because of his tendency to stray off the script. The bankers wanted to position the sons as capable successors and Robert had a tendency to criticize his sons in public.

"Bob liked to put the two boys in opposite corners," says Paul G. Smith, who spent 17 years at the company, in different roles, including overseeing construction projects.

Robert has acknowledged dressing down his sons in front of others if he thought they deserved it. "I was unaware, at the time, of what I now call the humiliation factor," he concedes in his autobiography. In the written statement, Ms. Martin says, "Robert is demanding, both as a father and as a leader, and holds everyone to a high standard."

The brothers served as co-CEOs following the IPO and sat on an operating committee to which all the department heads reported. Mr. Adams says the two fought so relentlessly about daily decisions -- such as whether to introduce a new wine or move ahead with construction -- that other executives "started meeting without them because we got a hell of a lot more done."

Nonetheless, the company's board didn't change the way the company ran. "Bob wanted both boys to run the company," says Harvey Posert, Robert's longtime public-relations adviser. Mr. Posert no longer works for the company but remains close to Robert.

By 1994, the company was gridlocked by the brothers' inability to make decisions, according to several former executives. One board member tried, unsuccessfully, to resolve their differences. Eventually, the brothers themselves asked their father to choose between them, according to Robert's autobiography. Robert picked Michael as President and CEO. Timothy stepped down to the role of "winegrower."

(MORE)

Under Michael's leadership, the company embarked on a period of rapid deal making. In 1995, it teamed up with Italy's Frescobaldi family and the following year created a joint venture in Chile. In 1998 Mondavi announced what would become the "Golden Vine Winery," a high-end restaurant and vineyard at Walt Disney Co.'s California Adventure in Anaheim, Calif., where guests could watch a film on the history of California winemaking. Mondavi also started to develop its own vineyards in the Languedoc region of France instead of working through local partners as it had in the past.

Just before Christmas 1996, Robert sent Mr. Adams and an accountant to tell the three stunned Mondavi siblings that their father planned to give away most of his money rather than leave it to them, Mr. Adams recalls.

As Robert's focus shifted away from business, the company ran into trouble. Timothy's winemaking style came under fire. Influential critic Robert Parker Jr. blasted the company's 1998 and 1999 vintages in his newsletter as, "indifferent, innocuous wines that err on the side of intellectual vapidness." Wine Spectator critic James Laube said the wines were "not terribly inspiring."

The market was changing as consumers became enamored of so-called cult wines from boutique vineyards and inexpensive foreign imports pushed by low-cost retailers such as Costco. It wasn't easy for Mondavi, which was caught between these two trends, to adapt.

"Michael's exuberance caused the company to bite off more than it could chew," says Gayle Dargan, a former senior vice president at the winery. Amid poor sales and heavy investments, the company's cash reserves sank to \$5 million for the year ended June 30, 2001, compared with \$32 million in the previous fiscal year. The company's four-year venture in France's Languedoc region ran into opposition from local officials. In May 2001, the company pulled the plug on the proposed \$8 million vineyards and winery project.

That same month, the company reshuffled the executive suite again. Michael handed over the role of CEO to Gregory M. Evans, a longtime Mondavi employee, and took the role of chairman. Robert became chairman emeritus. Timothy gave up the title of managing director and became vice chairman. "This new management structure will ensure that our greatest achievements are yet to come," Robert said in a news release announcing the changes.

After the switch, Michael decided he wanted to rebrand some of Mondavi's lower-priced wines as the Robert Mondavi Private Selection to take advantage of the family's reputation. Timothy and his father opposed the move, according to Martin Johnson, a former head of marketing, and several other former executives.

Timothy and Robert didn't want to use the Robert Mondavi name on their inexpensive wines. Michael wanted labels incorporating an arch and tower, images associated with the company's premium Oakville winery. His brother and father passionately opposed that move. Michael prevailed by pushing research

showing how consumers were confused by the existing low-price labeling. He got his way on the name, too.

The move was a disaster. The Robert Mondavi Private Selection was undercut by fast-growing bargain wines, such as Two-Buck Chuck, sold at Trader Joe's Co. stores, as well as competitively priced imports from Australia and Chile.

Mondavi was able to paper over the family's problems during the booming 1990s. But when the market for fine wine soured, the family's problems became more pressing. In 2002, revenue fell 8% to \$441.4 million and net income plunged 41% to \$25.5 million, the first time the company posted a fall in profit since its IPO. Mondavi took a \$12.2 million write-off relating to the Disney project and another \$10.2 million in inventory write-downs prompted by an industrywide glut. The company's financial performance continued to slide in 2003.

During a series of planning meetings at Mondavi's Napa headquarters in the spring of 2003, Timothy strongly criticized the company's marketing strategies, recalls Clay Gregory, Mondavi's general manager at the time. The company also planned to lay off 90 employees. Robert, who did not attend the meeting, later told Mr. Gregory that Timothy's behavior was "inappropriate," says Mr. Gregory.

Timothy was under financial strain and his second marriage was falling apart. According to testimony given by William G. Essig, a forensic accountant hired by Timothy's second wife during their divorce, Timothy had "insufficient income to support the Mondavis' lifestyle," after making payments to his first wife. Mr. Essig testified that Timothy borrowed heavily to close the gap between his spending and income.

Timothy quit the company and told Mr. Gregory he had been forced to take a six-month sabbatical, Mr. Gregory says. Timothy went to Hawaii and as a lark shaved his head, following his son's lead, Mr. Gregory says Timothy told him. Mondavi's stock touched an eight-year low of \$18.53 in March 2003. Just four months earlier, it had traded as high as \$40.

Leading up to his 90th-birthday celebrations, Robert gave several interviews in which he criticized his sons. "We could have promoted our high-end wine, but no, we were too busy looking at dollars and cents and not realizing we were losing the image," the elder Mr. Mondavi told the St. Helena Star, a local newspaper.

In January, the family and outside directors voted to replace Michael as chairman of the company. In his place, they installed Ted Hall, a former McKinsey consultant who owned a nearby farm and had been recruited to the board just one month earlier. The company says the vote was unanimous.

Robert played a role in the ouster of his eldest son. According to Robert's nephew Mr. Ventura, and friends of the family, Robert sided with the company's advisers who argued the business needed to be run by professionals and that the two sons should be given time off.

Mr. Ventura says his uncle wanted Mr. Hall as chairman to serve as "master referee" for Michael and Timothy and to provide direction to a stymied organization. "Bob's goal is to unite Tim and Michael in a unified vision for the company," says Mr. Ventura. Their respective sabbaticals are "giving them time to get there."

Michael, however, was blindsided by the board's decision to replace him, according to three people close to the family. He stormed around Mondavi's offices and left the company in a fury. Two weeks later, Mondavi downgraded its second-quarter earnings guidance following a decision to sell its disappointing Chilean Caliterra brand.

"My father has not got an ounce of malice in him," Michael is quoted as saying in his father's 1998 autobiography. "If he did, that might make it much easier for the people closest to him. No, what my father has are terrible blind spots. He focuses so tightly on the goals he has set for himself and his business that he remains totally oblivious to everything around him. And to everyone around him."

It's unclear if Michael will return to the winery. After his ouster, the company says, he made plans to tour Italy with his wife and enrolled in cooking classes. Heidi Peterson Barrett, a Napa Valley winemaker, and other people familiar with the matter, say Michael and his son have started crushing their own grapes at a local facility, the first step toward coming out with their own wine label. Timothy, meanwhile, is back at the company but isn't significantly involved in daily operations.

Michael's sister, Marcia Mondavi Borger, said in a brief interview that her brother will return to the winery.

Michael and Timothy have sold stock recently. After converting some of their Class B shares, which each carry 10 votes, into regular voting A stock, Timothy sold shares valued at \$2.7 million in February, according to data compiled by Thomson Financial. Michael has sold about \$2 million in stock since he went on sabbatical. The family controls the company through owning 82% of the Class B voting shares and Michael

has the largest holding of any family member. Both brothers are still on the board and hold the titles of vice chairmen.

The company is selling part of its Byron winery in Santa Barbara county, says Byron's founder, Ken Brown, who works for Mondavi. That's prompted speculation the family is getting ready for a bigger sale, perhaps even of its Woodbridge brand. There would be no shortage of eager buyers. Dr. Shapiro, one of the family's psychologists, says the family is starting to make key decisions about its future.

"The company got to be too big of a deal for the sons to carry on, with stockholders clamoring for this and that," says Robert's brother Peter, who attended a Christmas gathering with Robert's family. "Let's face it: Brothers always have differences. Some are able to work it out. Some are not."

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