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How the Mondavis Lost an Empire --- Clan Gives Up Control As Father's Donations Add Financial Strain

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After Robert Mondavi punched his younger brother Peter during an argument over a mink coat in 1965, he was banished from the family winery. He started over with virtually nothing but eventually became the biggest name in the California wine industry, taking his empire public in 1993. During the stock-market boom of the late 1990s, he overextended himself as a philanthropist, and by early 2003, faced the threat of becoming insolvent. That gave the Robert Mondavi Corp.'s outside directors a source of leverage with the family. In this adaptation from her new book, "The House of Mondavi: The Rise and Fall of an American Wine Dynasty," **Julia Flynn Siler** chronicles how the Mondavis lost control of the company.

In January 2004, Wall Street's demands were about to collide with the Mondavi family's dynastic dreams. Michael Mondavi, who had succeeded his famous father as chairman of the publicly traded Robert Mondavi Corp., got a morning phone call from his younger brother, Timothy.

"Heads up," his sibling warned him. "You're about to get your a- handed to you in a sling."

Michael was scheduled to have lunch with two of the company's outside directors, whom he planned to lobby to rein in Mondavi's nonfamily chief executive. His bravado faded as he walked through the Oakville, Calif., winery's famous arch. After some small talk, the directors told him that they thought it best if he'd step down. Michael asked what the terms of his new job would be in his new role as vice chairman.

"We'll figure it out," they said.

Then 60, Michael picked at his chicken breast. He'd spent decades working under his father's shadow. The small winery his father and he had founded in 1966 was now the heart of America's pre-eminent wine empire, spanning four continents. Robert Mondavi Corp., which was controlled by the Mondavi family through a dual-class share structure, would sell more than 10 million cases of wine that year, including some of the world's most recognizable brands: Robert Mondavi, Woodbridge and Opus One, a joint venture with France's Rothschild family.

Over the two-hour lunch, Michael was fired as chairman of the only company where he'd ever worked. His sister Marcia, who lived in New York and served as a director, backed his ouster. When Michael learned this from the directors, waves of anguish and disbelief washed over him.

Sporting a short ponytail in the early 1990s and known for roaring through the Napa Valley on a Harley Davidson with other winery owners, Michael had long struggled to make his mark in an industry shaped by his father. For more than half a century, Robert Mondavi had praised the benefits of fine wine to a nation that preferred Coca-Cola and cocktails. He had tirelessly sermonized that, in an age of fast food, wine was a healthy and civilizing force and that Napa Valley wines belonged in the company of the world's best.

His passion had paid off: In time, Napa wines took their place alongside those from Bordeaux as the world's finest, and a new wine-and-food culture leapfrogged from America's coastal cities to the heartland. Along the way, this son of an Italian peasant became the patriarch of America's fine-wine trade, and he and his children had become fabulously wealthy by selling stock in the family business.

But by early 2004, Robert Mondavi Corp.'s reputation for high-quality wines had eroded, and the House of Mondavi was rent by conflict. His hand-picked successor, son Michael, had been removed as chairman, and the Mondavi family was on the brink of losing control of the company. Indeed, behind Michael's ouster was a closely guarded secret: Robert faced a personal financial crisis that threatened to embarrass him and destroy his legacy.

The roots of the problem lay in the late 1990s, when Mondavi stock was trading near the top of its range. During those halcyon days, as Michael ran the company as CEO, Robert's focus shifted to philanthropy. He promised to give the University of California at Davis $35 million, the largest single private gift received by the school at that time. The gift would help build an institute for wine and food science as well as a new cultural center, both named after Robert. The final paperwork was completed just after Sept. 11, 2001, and the gift itself was backed by Robert's stock in the family company.

But his generosity began causing him and his advisers anxiety as the share price plummeted, as the market for premium wine began to sour and competition from such brands as Australia's Yellow Tail and Trader Joe's Charles Shaw, nicknamed "Two Buck Chuck," hurt Mondavi's sales. When the stock dropped below $20 a share, Robert was underwater -- the value of his shares couldn't cover his many philanthropic pledges, which by then had swelled to include his most pressing financial commitments to the new wine-and-food center in Napa called Copia, U.C. Davis and Stanford University's Cantor Arts Center, which named a gallery after him.

If the stock continued to fall, he faced insolvency. His lawyer tried to renegotiate the terms of the gift to U.C. Davis, but the university had already set aside the site, drawn up the building design and included Robert's contribution in its financial plans, which had wound their way through the state legislature. The university also made it clear that it would be forced to drop the Mondavi name from the institute if Robert reneged on his pledge.

Well aware that Robert faced a potentially dire financial situation, the company's outside directors seized the chairmanship from Michael, a move that neither his father nor his sister opposed because they hoped a change in leadership might boost the stock price and help Robert save face. Yet the backdrop to the move was concern by some outside directors that the company, under Michael's watch, had made a quarter of a billion dollars or so of virtually unproductive capital investments during the late 1990s and early 2000s, including failed joint ventures with Disney and Chile's Chadwick family, and a thwarted push into the south of France. Several of these independent directors felt the solution was to oust Robert's successor, paving the way to ultimately force America's most powerful wine family to sell out.

The board coup that began in January 2004 with Michael's firing reached its climax eight months later at St. Helena's Harvest Inn. The new, nonexecutive chairman, a former McKinsey & Co. partner named Ted Hall, presided. Mr. Hall entered the meeting leaning heavily on crutches. He had been walking at his 650-acre ranch when he slipped on a cow patty and fractured his shin.

Mr. Hall wasn't the only one in pain. The stress of the past few months was apparent in Timothy Mondavi's tottering frame. Robert's fair-haired son arrived leaning on a cane. He had been suffering from muscle spasms for several weeks.

As the family sat around a U-shaped table, the outside directors presented a plan to end Mondavi's dual-class structure, which gave the family control over about 85% of the votes. The family would get a 15% premium for converting their B shares into A shares, worth a total of about $30 million at the time to them as a group. Besides dramatically easing Robert's financial crisis, the plan would preserve the possibility they could bid for their beloved Oakville winery. In return, they'd have to sign a voting agreement that would lower the family's combined votes to about 40%, which meant they'd relinquish control, allowing the independent directors to explore selling all or parts of the company.

Timothy and his older sister Marcia balked. "How did you come up with these numbers?" Marcia angrily asked. She and Timothy were figuratively in one corner of the ring, while Michael was in the other. One or another of the siblings stomped out of the room several times. Then the outside directors wielded their most powerful weapon: They told them they would quit en masse unless the Mondavis agreed to get rid of their supervoting shares. If the outside directors resigned, the news almost certainly would have sent Mondavi's shares falling further, increasing the chance that Robert would face insolvency.

Still seething over his dismissal as chairman, Michael had by then channeled his sense of betrayal into a focused desire to sell his shares for as much as he could. He had already negotiated his severance package and was well into making plans for his new company. To keep up his energy and reduce stress, Michael exercised and ate voraciously, pumping an elliptical trainer at his home gym.

His siblings, on the other hand, initially opposed the plan for what were at root emotional reasons: It threatened to wipe out their birthright. Their responses were layered with feelings that stretched back to childhood, where discussions of wine and the family business dominated every meal. By stripping their control, Mr. Hall and the outside directors threatened not only their identity as America's first family of wine but also threatened to fracture what had long held them together.

They also clung to the hope that they might be able to start again, either by buying the Robert Mondavi Winery in Oakville or at least some of its historic To Kalon vineyards, which surrounded it. But nonetheless, fearing lawsuits from other shareholders and hoping to save their father from further financial strain, they concluded they had no choice but to sign the papers that would mean they relinquished voting control.

"We felt the directors were holding a gun to our father's head and asked us to pull the trigger," says Timothy. "I could not run the risk of his bankruptcy, even if he would have."

On Tuesday Aug. 10, Robert's three children signed the agreement which effectively put an end to their reign at the Robert Mondavi Corp. Robert had been in Italy when Mr. Hall explained the plan at Harvest Inn, so four days after his children had signed it, he rode in the back of a chauffeur-driven car up the narrow, winding road to Mr. Hall's Longmeadow Ranch, where Mr. Hall and Robert's long time legal adviser, Frank Farella, would further describe it to him.

The three men met at the thick wood conference table in Mr. Hall's office above the winery. On Mr. Hall's bookshelf was "Blood and Wine," a saga of the Gallo family's problems. Over the course of their conversation that Saturday morning, Mr. Hall was struck by Robert's practical acceptance of the situation as well as his admission that his own sons weren't capable of running the business. Mr. Hall believed that going along with the plan was Robert's best hope of escaping the embarrassing possibility of defaulting on his pledges. "I never thought I'd have to be making these kinds of decisions at age 91," Robert said.

Mr. Farella, who had known Robert for decades, was glad he was having one of his more lucid days. Robert had struggled with mental confusion over the past year. Although Robert flew to the Mayo Clinic for a full workup, he didn't return home with a clear diagnosis of his problem. A neurologist at University of California at San Francisco eventually put him on Namenda, a drug prescribed for the treatment of moderate to severe dementia associated with Alzheimer's disease.

Robert was convinced that day that somehow the situation would work out, and perhaps his offspring would find a way to buy back the Oakville winery.

Twenty seven hundred miles away from Napa Valley, as the leaves on the grapevines began to redden, the upheaval at Mondavi had caught the attention of another pair of brothers who were on the prowl for acquisitions: Richard and Robert Sands, who were, respectively, chairman and president of Constellation Brands Inc.

Sitting behind his modern green desk in Fairport, N.Y., Richard Sands monitored the Mondavi news as it arrived on his flat-panel screen that fall. Most intriguing to the Sandses and their advisers was that Michael, unlike his siblings, seemed to be signaling the market that he, for one, hoped to cash out. Michael had his investment banker at Perseus Group reach out to the Sandses and other potential buyers through back channels to drum up interest in a sale. True to the Mondavi history of palace intrigues, Michael's action came at a time when his brother and sister were desperately hoping to buy back the Oakville winery where it had all begun, and particularly a portion of the To Kalon vineyards, where their mother's ashes had been scattered.

In coming months, the Sandses orchestrated a billion-dollar purchase of America's most famous wine brand. The deal meant an enormous payday for the family. Michael's take was worth more than $100 million, while Timothy's was somewhat less than $59 million and Marcia's was the highest at about $107 million. Robert himself would net around $70 million -- most of which would be needed to get him out of his bind with his philanthropies. Yet Timothy and Marcia, along with many Mondavi employees, were in tears as the legacy of America's first family of wine was sold off to the highest bidder.
