

# Edgar Filing: CONSTELLATION BRANDS INC - Form 8-K

CONSTELLATION BRANDS INC

Form 8-K

August 24, 2001

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 23, 2001  
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COMMISSION FILE NUMBER 001-08495

DELAWARE	CONSTELLATION BRANDS, INC.	16-0716709
	and its subsidiaries:	
NEW YORK	BATAVIA WINE CELLARS, INC.	16-1222994
NEW YORK	CANANDAIGUA WINE COMPANY, INC.	16-1462887
NEW YORK	CANANDAIGUA EUROPE LIMITED	16-1195581
ENGLAND AND WALES	CANANDAIGUA LIMITED	98-0198402
NEW YORK	POLYPHENOLICS, INC.	16-1546354
NEW YORK	ROBERTS TRADING CORP.	16-0865491
NETHERLANDS	CANANDAIGUA B.V.	98-0205132
DELAWARE	FRANCISCAN VINEYARDS, INC.	94-2602962
CALIFORNIA	ALLBERRY, INC.	68-0324763
CALIFORNIA	CLOUD PEAK CORPORATION	68-0324762
CALIFORNIA	M.J. LEWIS CORP.	94-3065450
CALIFORNIA	MT. VEEDER CORPORATION	94-2862667
DELAWARE	BARTON INCORPORATED	36-3500366
DELAWARE	BARTON BRANDS, LTD.	36-3185921
MARYLAND	BARTON BEERS, LTD.	36-2855879
CONNECTICUT	BARTON BRANDS OF CALIFORNIA, INC.	06-1048198
GEORGIA	BARTON BRANDS OF GEORGIA, INC.	58-1215938
ILLINOIS	BARTON CANADA, LTD.	36-4283446
NEW YORK	BARTON DISTILLERS IMPORT CORP.	13-1794441
DELAWARE	BARTON FINANCIAL CORPORATION	51-0311795
WISCONSIN	STEVENS POINT BEVERAGE CO.	39-0638900
ILLINOIS	MONARCH IMPORT COMPANY	36-3539106
(State or other jurisdiction of incorporation)	(Exact name of registrant as specified in its charter)	(IRS Employer Identification No.)

300 WillowBrook Office Park, Fairport, New York 14450  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (716) 218-2169  
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(Former name or former address, if changed since last report)

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### ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE.

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The financial statements listed below of Ravenswood Winery, Inc. are being filed with this report. Ravenswood Winery, Inc. was acquired on July 2, 2001.

#### Financial Statements of Ravenswood Winery, Inc.

- 
1. Report of Independent Accountants
  2. Balance Sheet at June 30, 2000 and 1999
  3. Statement of Income for the Fiscal Years Ended June 30, 2000, 1999 and 1998
  4. Statement of Shareholders' Equity for the Fiscal Years Ended June 30, 2000, 1999 and 1998
  5. Statement of Cash Flows for the Fiscal Years Ended June 30, 2000, 1999 and 1998
  6. Notes to Financial Statements
  7. Balance Sheet at March 31, 2001 (unaudited) and June 30, 2000
  8. Unaudited Statement of Income for the Three Months Ended March 31, 2001 and 2000, and for the Nine Months Ended March 31, 2001 and 2000
  9. Unaudited Statement of Cash Flows for the Three Months Ended March 31, 2001 and 2000, and for the Nine Months Ended March 31, 2001 and 2000
  10. Notes to Financial Statements

RAVENSWOOD WINERY, INC.  
FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT ACCOUNTANTS

\* \* \* \* \*  
JUNE 30, 2000

August 11, 2000

To the Board of Directors and Shareholders of  
Ravenswood Winery, Inc.

#### REPORT OF INDEPENDENT ACCOUNTANTS

In our opinion, the accompanying balance sheet and the related statements

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of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Ravenswood Winery, Inc. at June 30, 2000 and 1999, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended June 30, 2000, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

ODENBERG, ULLAKKO, MURANISHI & CO. LLP  
San Francisco, California

## RAVENSWOOD WINERY, INC. BALANCE SHEET ASSETS

	June 30,	
	2000	1999
Current assets:		
Cash and cash equivalents .....	\$ 5,769,373	\$ 11,39
Accounts receivable, less allowance for doubtful accounts of \$10,000 at June 30, 2000 and 1999 .....	4,166,816	2,76
Inventories .....	20,521,284	14,58
Prepaid income taxes .....	277,500	1
Prepaid expenses .....	100,131	10
Deferred tax assets .....	--	16
Total current assets .....	30,835,104	29,02
Property, plant and equipment, net .....	14,787,553	9,00
Deferred tax assets .....	180,000	
Note receivable from shareholder .....	310,000	31
Other assets .....	60,433	18
	\$ 46,173,090	\$ 38,51

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt .....	\$ 83,597	\$ 10
Current portion of capital lease obligations .....	617,979	36
Short-term borrowings .....	500,000	1,70
Accounts payable .....	3,217,036	3,38

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Accrued commissions .....	514,379	39
Accrued liabilities .....	390,010	43
	-----	-----
Total current liabilities .....	5,323,001	6,38
Long-term liabilities:		
Long-term debt, net .....	6,453,407	4,52
Capital lease obligations, net .....	2,392,497	1,55
Convertible debentures .....	1,687,500	2,50
	-----	-----
Total liabilities .....	15,856,405	14,96
	-----	-----
Shareholders' equity:		
Preferred stock, no par value; 1 million shares authorized, none issued .....	--	
Common stock, no par value, 20 million shares authorized .....	15,054,373	14,21
Retained earnings .....	15,176,560	9,33
Unrealized gain on available-for-sale securities .....	85,752	
	-----	-----
Total shareholders' equity .....	30,316,685	23,54
	-----	-----
Commitments and contingencies (See Note 14)		
	\$ 46,173,090	\$ 38,51
	=====	=====

## RAVENSWOOD WINERY, INC. STATEMENT OF INCOME

	Year ended June 30,		
	2000	1999	1998
	-----	-----	-----
Gross sales .....	\$ 35,615,207	\$ 23,729,787	\$ 17,016,866
Less excise taxes .....	1,263,567	908,446	552,499
Less discounts, returns and allowances...	1,125,503	752,655	573,762
	-----	-----	-----
Net sales .....	33,226,137	22,068,686	15,890,605
Cost of goods sold .....	15,696,651	10,259,357	7,397,362
	-----	-----	-----
Gross profit .....	17,529,486	11,809,329	8,493,243
Operating expenses:			
Deferred compensation expense .....	--	--	2,206,096
Other operating expenses .....	7,735,493	5,238,493	4,033,747
	-----	-----	-----
Operating income .....	9,793,993	6,570,836	2,253,400
	-----	-----	-----
Other income (expense):			
Interest expense .....	(861,992)	(459,851)	(523,551)
Other, net .....	272,269	233,481	49,211
	-----	-----	-----

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	(589,723)	(226,370)	(474,340)
	-----	-----	-----
Income before tax provision .....	9,204,270	6,344,466	1,779,060
Provision for income taxes .....	3,366,100	2,441,000	1,592,169
	-----	-----	-----
Net income .....	\$ 5,838,170	\$ 3,903,466	\$ 186,891
	=====	=====	=====
Earnings per share:			
Basic .....	\$ 1.24	\$ 1.04	\$ 0.05
	=====	=====	=====
Diluted .....	\$ 1.19	\$ 0.96	\$ 0.05
	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic .....	4,712,478	3,763,765	3,512,069
	=====	=====	=====
Diluted .....	5,010,955	4,171,245	3,814,820
	=====	=====	=====

RAVENSWOOD WINERY, INC.  
STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock		Retained	Unreal
	Shares	Amount	Earnings	Gain
	-----	-----	-----	-----
Balance at June 30, 1997 .....	3,149,998	\$ 737,804	\$ 5,521,288	\$
Repurchase of common shares from former officer .....	(157,500)	(5,000)	(273,255)	
Compensation related to deferred compensation plan .....		2,206,096		
Net income .....			186,891	
	-----	-----	-----	-----
Balance at June 30, 1998 .....	2,992,498	2,938,900	5,434,924	
Common stock issued:				
Initial public offering, net .....	1,000,000	9,534,618		
Private placement .....	212,623	1,687,500		
Convertible debentures .....	17,500	50,000		
Deferred compensation .....	345,731			
Net income .....			3,903,466	
	-----	-----	-----	-----
Balance at June 30, 1999 .....	4,568,352	14,211,018	9,338,390	
Common stock issued:				
Convertible debentures .....	285,250	815,000		
Employee stock plan .....	3,177	28,355		
Unrealized gain on available-for-sale securities .....				8
Net income .....			5,838,170	
	-----	-----	-----	-----

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Balance at June 30, 2000 .....	4,856,779	\$ 15,054,373	\$ 15,176,560	\$ 8
	=====	=====	=====	=====

## RAVENSWOOD WINERY, INC. STATEMENT OF CASH FLOWS

	Year ended June 30,		
	2000	1999	
Operating activities:			
Net income .....	\$ 5,838,170	\$ 3,903,466	\$
Items not requiring the current use of cash:			
Depreciation and amortization .....	1,128,407	437,760	
Deferred income taxes .....	301,800	108,022	
Unrealized gain on available-for-sale securities .....	85,752	--	
Deferred compensation .....	--	--	
Changes in other operating items:			
Accounts receivable .....	(1,403,398)	(856,920)	
Inventories .....	(5,939,311)	(4,154,614)	(
Prepaid income taxes .....	(580,650)	57,999	
Prepaid expenses .....	5,170	(62,258)	
Other assets .....	126,488	(36,469)	
Accounts payable .....	(165,082)	1,051,151	
Accrued liabilities and accrued commission .....	75,020	201,872	
Cash provided by (used for) operations .....	(527,634)	650,009	
Investing activities:			
Additions to plant and equipment .....	(5,405,337)	(4,397,848)	
Officer receivables, net .....	--	(286,163)	
Cash used for investing activities .....	(5,405,337)	(4,684,011)	
Financing activities:			
Short-term borrowings, net .....	(1,200,000)	350,000	
Proceeds from long-term debt .....	2,097,234	2,818,464	
Repayment of long-term debt .....	(614,148)	(415,688)	
Issuance of common shares .....	28,355	12,091,489	
Stock offering costs .....	--	(965,382)	
Proceeds from convertible debentures .....	--	1,443,750	
Repurchase of common shares from former officer .....	--	--	
Cash provided by financing activities .....	311,441	15,322,633	
Increase (decrease) in cash and cash equivalents .....	(5,621,530)	11,288,631	
Cash and cash equivalents at beginning of period .....	11,390,903	102,272	
Cash and cash equivalents at end of period .....	\$ 5,769,373	\$ 11,390,903	\$

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## RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS

### NOTE 1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### ORGANIZATION

Ravenswood Winery, Inc. (the "Company") was founded in 1976, became a California Limited Partnership in 1979, and was subsequently incorporated in the State of California on December 23, 1986. The Company produces, markets, and sells premium California wines exclusively under the Ravenswood brand name.

#### CONCENTRATION OF RISK

The Company obtains its grapes from over eighty independent grape growers and bulk wine suppliers located primarily in Sonoma, Napa and other Northern California counties. These sources account for 95% or more of its annual wine production. The Company relies upon certain varietals, notably Zinfandel, which accounted for approximately 65% of the total dollar sales for the fiscal year ended June 30, 2000 (67% of the total dollar sales for the fiscal year ended June 30, 1999). In addition, the Company relies on the winemaking capacity of other companies and typically enters into one-year contracts with all custom crush facilities.

In fiscal 2000, approximately 75% of gross sales were made using brokers, with one broker accounting for 21% of gross sales. (In fiscal 1999, approximately 75% of gross sales were made using brokers, with one broker accounting for 22% of gross sales.)

The Company performs ongoing credit evaluations of its distributors and customers and generally does not require collateral. The Company's credit losses have been within the reserves provided.

The Company places its cash and temporary cash investments with financial institutions. At June 30, 2000 and periodically throughout the fiscal year, such investments were in excess of FDIC insurance limits.

A summary of significant accounting policies follows:

#### REVENUE RECOGNITION

Revenue is recognized when merchandise is shipped and title passes to the customer. Revenue from products sold at our tasting room location is recognized at the time of sale.

#### CASH AND CASH EQUIVALENTS

The Company considers all short-term, interest-bearing investments with original maturities of less than three months to be cash equivalents. These investments are currently held in U.S. Treasuries, commercial paper, government securities and money market funds.

#### INVENTORIES

Inventories are stated at the lower of cost or market (on the first-in, first-out basis), and include finished goods, raw materials, packaging materials and product merchandise. Finished goods include costs of raw

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materials (grapes and bulk wine), packaging, labor used in wine production, bottling, warehousing and overhead on winery facilities and equipment.

Costs associated with growing crops are recorded as inventory and are recognized as inventory costs in the fiscal year in which the related crop is harvested.

In accordance with general practice in the wine industry, wine inventories are included in current assets, although a portion of such inventories may be aged for periods longer than one year.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. Costs incurred in developing vineyards, including interest costs, are capitalized until the vineyards become commercially productive.

### RAVENSWOOD WINERY, INC.

#### NOTES TO FINANCIAL STATEMENTS -- (Continued)

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

Depreciation is computed using both the straight-line and accelerated methods over the estimated useful lives of the assets, generally 7 years for vineyards, 39 years for building and improvements, 5 to 15 years for machinery and equipment and 3 to 7 years for office equipment. Leased equipment under capitalized leases is generally amortized over the shorter of the terms of the leases or their estimated useful lives. Leasehold improvements are amortized over the estimated useful lives of the improvements or the terms of the related lease, whichever is shorter.

Impairment of long-lived assets is measured on the basis of anticipated undiscounted cash flows for each asset. No impairment loss was recognized for the fiscal years ended June 30, 2000, 1999 and 1998.

### INCOME TAXES

Deferred income taxes are computed using the liability method. Under the liability method, taxes are recorded based on the future tax effects of the difference between the tax and financial reporting bases of the Company's assets and liabilities.

### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of accounts receivable, prepaid expenses, accounts payable, accrued liabilities, short-term borrowings, long-term debt, capital



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lease obligations and convertible debentures are reasonable estimates of the fair value of these financial instruments.

### EARNINGS PER SHARE

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the measurement period, after giving retroactive effect to: 1) shares issued under a deferred compensation arrangement in July 1998; and 2) common stock issued in December 1998 (using the "treasury stock method") at prices below the initial public offering price of \$10.50.

Diluted earnings per share represents the income available to common shareholders divided by: 1) the weighted average number of common shares outstanding during the measurement period, after giving retroactive effect to a) shares issued under a deferred compensation arrangement in July 1998; and b) common stock issued in December 1998 (using the "treasury stock method") at prices below the initial public offering price of \$10.50 per share; and 2) the potentially dilutive common shares issuable for convertible debt and stock options that were outstanding during the measurement period.

### STOCK-BASED COMPENSATION

The Company has adopted SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). As permitted by SFAS 123, the Company measures compensation cost in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"), and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including income tax benefits realized, are credited to equity.

### RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

#### RECLASSIFICATION OF FINANCIAL STATEMENT PRESENTATION

Certain prior period amounts have been reclassified in order to conform to the fiscal 2000 financial statement presentation.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" that establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that derivatives be recognized in the balance sheet at fair value and specifies the accounting for changes in fair value. In June 1999, the FASB issued SFAS No. 137, which defers the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 is not expected to have a material effect on the Company's financial statements.

#### NOTE 2. INVENTORIES:

Inventories are summarized as follows:

June 30,	
-----	
2000	1999

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Bulk wine .....	\$ 15,262,865	\$ 10,355,759
Bottled wine .....	4,716,701	3,870,548
Crop costs .....	137,051	88,725
Supplies .....	233,943	124,298
Tasting room merchandise .....	170,724	142,643
	-----	-----
	\$ 20,521,284	\$ 14,581,973
	=====	=====

Certain of the foregoing assets are pledged as security for certain indebtedness (see Notes 5 and 6).

## NOTE 3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are summarized as follows:

	June 30,	
	2000	1999
	-----	-----
Land .....	\$ 245,135	\$ 245,135
Vineyards .....	345,473	345,473
Buildings and improvements .....	1,647,637	1,647,637
Leasehold improvements .....	9,832,748	174,331
Machinery and equipment .....	1,080,251	1,020,007
Equipment held under capital leases ....	4,118,953	2,623,977
Office equipment .....	298,837	131,127
	-----	-----
	17,569,034	6,187,687
Less accumulated depreciation .....	2,781,481	1,653,074
	-----	-----
	14,787,553	4,534,613
Construction in progress .....	--	4,466,534
	-----	-----
	\$ 14,787,553	\$ 9,001,147
	=====	=====

## RAVENSWOOD WINERY, INC.

### NOTES TO FINANCIAL STATEMENTS -- (Continued)

Included in leasehold improvements are costs associated with the new Quarry facility including the following: building core and shell, equipment installation and related improvement costs and site improvements. Included in equipment held under capital leases are barrels and other equipment with net book values of \$2,874,654 and \$1,932,484, respectively, at June 30, 2000 and 1999.

Substantially all of the property, plant and equipment is pledged as security for certain indebtedness (see Notes 5, 6 and 7).

## NOTE 4. NOTE RECEIVABLE FROM SHAREHOLDER:

The note receivable from shareholder at June 30, 2000 and 1999 consists of a \$310,000 note bearing annual interest at 5.3%, payable in annual interest only installments commencing December 21, 1999 until maturity on December 21, 2008. The Company provided the loan to the officer to pay taxes related to his receipt of common stock under a deferred compensation plan.

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## NOTE 5. SHORT-TERM BORROWING ARRANGEMENTS:

At June 30, 2000, the Company has a \$2 million revolving line of credit with Pacific Coast Farm Credit Services (the "Association") that expires on June 1, 2001. The loan agreement provides that the principal advances under the facility cannot exceed certain percentages of eligible accounts receivable and wine inventories as defined in the agreement. The borrowings bear annual interest at a variable rate established by the Association (9.02% and 8.11% at June 30, 2000 and 1999, respectively). The borrowings are secured by the Company's accounts receivable, wine inventories and equipment. Borrowings under the line of credit at June 30, 2000 and 1999 were \$500,000 and \$1,700,000, respectively.

The revolving credit line and certain of the long-term debt contain various covenants which include, among other things, a requirement to maintain a minimum working capital of \$3.25 million, a ratio of liabilities to tangible net worth of not greater than 1.5 to 1, a current ratio of at least 1.75 to 1 and restrictions on the payment of dividends and distributions to shareholders.

## RAVENSWOOD WINERY, INC.

### NOTES TO FINANCIAL STATEMENTS -- (Continued)

## NOTE 6. LONG-TERM DEBT:

Long-term debt is summarized as follows:

	June 30,	
	2000	
Note payable to Pacific Coast Farm Credit Services ("Association") with annual interest at a variable rate established by the Association (8.56% and 6.9% at June 30, 2000 and 1999, respectively), payable in quarterly interest installments until December 1, 1999 and commencing March 1, 2000 in quarterly principal and interest installments of \$34,795 through December 1, 2024, secured by property, plant and equipment (see Note 3) .....	\$ 1,543,775	\$
Construction mortgage loan payable (\$4.58 million commitment) to the Association with annual interest at a variable rate established by the Association (8.56% and 6.9% at June 30, 2000 and 1999, respectively), payable in quarterly interest installments until January 1, 2001; and commencing April 1, 2001 in quarterly principal and interest installments of \$98,117 through January 1, 2026, secured by property, plant and equipment (see Note 3) .....	4,125,000	
Construction revolving equity line of credit payable to the Association with annual interest at a variable rate established by the Association (8.56% and 6.9% at June 30, 2000 and 1999, respectively), payable in quarterly interest only installments until December 1, 1999 and commencing March 1, 2000 in equal quarterly principal and interest installments of \$19,284 through December 1, 2024, secured by property, plant and equipment (see Note 3) .....	829,550	
Note payable to the Association with annual interest at a variable rate		

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established by the Association (8.11% at June 30, 1999), payable in quarterly principal and interest installments of \$17,390 through June 1, 2002, secured by accounts receivable and wine inventories.

Paid in full during fiscal 2000 ..... --

Other notes payable with annual interest ranging from 10% to 11%, payable in monthly principal and interest installments as defined to November 2000 through June 2001 .....	38,679	
	-----	
	6,537,004	
Less current portion .....	83,597	
	-----	
	\$ 6,453,407	\$
	=====	==

Scheduled annual maturities of long-term debt are as follows:  
 \$83,597--fiscal 2001; \$121,609--fiscal 2002; \$121,505--fiscal 2003;  
 \$127,509--fiscal 2004; \$137,508--fiscal 2005; and \$5,945,276 thereafter.

### RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

#### NOTE 7. CAPITAL LEASE OBLIGATIONS:

The Company leases barrels and other equipment that are accounted for as capital leases. Minimum future lease payments under the capital leases are as follows:

Fiscal Year		
-----		
2001 .....	\$ 864,744	
2002 .....	787,123	
2003 .....	708,322	
2004 .....	597,150	
2005 .....	424,587	
Thereafter .....	282,967	
	-----	
Net minimum lease payments .....	3,664,893	
Less--amount representing interest (weighted average--8.4%) .....	654,417	
	-----	
Present value of net minimum lease payments .....	3,010,476	
Less--current portion .....	617,979	
	-----	
	\$ 2,392,497	
	=====	

The net book value of leased barrels and equipment included in property, plant and equipment at June 30, 2000 is \$2,874,654 (see Note 3).

Subsequent to June 30, 2000, the Company has obtained a \$2 million lease line commitment for the acquisition of oak barrels, various stainless steel cooperage and wine production equipment.

#### NOTE 8. CONVERTIBLE DEBENTURES:

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Convertible debentures are summarized as follows:

	June 30,	
	2000	1999
1998 convertible debentures .....	\$ 1,687,500	\$ 1,687,500
1994 convertible debentures .....	--	815,000
	\$ 1,687,500	\$ 2,502,500

In December 1998, the Company completed a sale of \$1,687,500 in convertible debentures due December 31, 2008. Each \$10,000 debenture is convertible into 900 shares of common stock at any time prior to December 31, 2003 upon request of the holder. If the debentures are not converted, the Company may redeem them at face value at any time during the period from January 1, 2004 until the maturity date. The Company pays interest quarterly on the debentures in an amount equal to the prime interest rate quoted by Bank of America NT & SA plus 1% (10% and 8.75% at June 30, 2000 and 1999). The interest rate is adjusted every 18 months, except that in no period may the interest rate adjustment exceed 2% or the maximum interest rate exceed 11%.

In December 1994, the Company completed a sale of \$865,000 in convertible debentures due December 31, 2004. Each \$10,000 debenture was convertible into 3,500 shares of common stock at any time prior to December 31, 1999 upon request of the holder. If the debentures were not converted, the Company could redeem them at face value at any time during the period from January 1, 2000 until the maturity date. The Company paid interest quarterly on the debentures in an amount equal to a floating index tied to prime bank rates for a five-year period (9.25% at June 30, 1999). The interest rate was adjusted every 18 months, except that in no period could the interest rate adjustment exceed 2%, or the

### RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

maximum interest rate exceed 11%. During the fiscal year ended June 30, 2000, the remaining 1994 debentures (\$815,000) were converted into 285,250 shares of common stock.

#### NOTE 9. INCOME TAXES:

The provision for income taxes is as follows:

	Fiscal Year Ended June 30,		
	2000	1999	1998
Current tax expense:			
Federal .....	\$ 2,815,000	\$ 1,831,000	\$ 1,306,069
State and local .....	576,100	502,000	363,968
	3,391,100	2,333,000	1,670,037
Deferred tax expense (benefit):			
Federal .....	260,000	55,000	(71,875)
State and local .....	(285,000)	53,000	(5,993)

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-----	-----	-----
(25,000)	108,000	(77,868)
-----	-----	-----
\$ 3,366,100	\$ 2,441,000	\$ 1,592,169
=====	=====	=====

Deferred income taxes are provided for the temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Deferred tax assets and liabilities are comprised of the following:

	June 30,	
	2000	1999
	-----	-----
Deferred tax assets:		
Basis difference in inventory .....	\$ 190,000	
California manufacturer's tax credit carryover ..	210,000	
State taxes .....	205,000	\$ 170,000
	-----	-----
	605,000	170,000
Deferred tax liabilities:		
Depreciation and amortization .....	(425,000)	(7,200)
	-----	-----
Net deferred tax asset (liability) .....	\$ 180,000	\$ 162,800
	=====	=====

## RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

A reconciliation of income tax computed at the federal statutory corporate tax rate to the provision for income taxes follows (in thousands):

	Fiscal Year Ended June			
	2000		1999	
	Amount	%	Amount	%
	-----	-----	-----	-----
Income taxes at federal statutory rate .....	\$ 3,130	34.0%	\$ 2,157	3
Increase (decrease) in income taxes resulting from:				
State and local income taxes, net of federal benefit .....	534	5.8%	369	
Permanent differences:				
Deferred compensation .....	--	--	--	--
California manufacturer's tax credit .....	(329)	-3.5%	(6)	--
Other .....	31	0.3%	(79)	--
	-----	-----	-----	-----
	\$ 3,366	36.6%	\$ 2,441	3
	=====	=====	=====	=====

The Company has California manufacturer's tax credit carryforwards

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available to offset future taxable income for California income tax purposes of approximately \$320,000, which do not expire.

### NOTE 10. DEFERRED COMPENSATION AGREEMENT:

On August 25, 1992, the Company entered into a deferred compensation agreement with its chairman and chief executive officer, W. Reed Foster. The agreement established an account with 5,487.8 units. Each unit was the equivalent value of one share of common stock and contained an equivalent right to cash and common stock dividends and all stock splits and other benefits paid to the shareholders of the Company. Compensation expense relating to this agreement was \$2,206,096 for fiscal 1998, and is included in operating expenses in the accompanying statement of income.

As of July 1, 1998, the deferred compensation agreement was terminated and the Company issued 345,731 shares of common stock to Mr. Foster. No compensation expense was incurred for the fiscal years ended June 30, 2000 or 1999.

### NOTE 11. VOTING TRUST:

On August 25, 1992, the Board of Directors authorized the creation of a Voting Trust for certain shares of the common stock of the Company. On November 1, 1993, the shareholders approved the terms and conditions contained in the Trust which provided for four trustees (Joel Peterson, W. Reed Foster, Justin Faggioli and Callie S. Konno). The original Voting Trust Agreement was amended by a Voting Trust Agreement dated May 27, 1998 that extended the term to May 26, 2008. During fiscal 2000 the trustees voted to terminate the Voting Trust.

### NOTE 12. SHAREHOLDERS' EQUITY:

In December 1998, the Company completed a sale of 212,623 shares of common stock, resulting in proceeds to the Company of \$1,687,500. In April 1999, the Company completed a public offering of 1,000,000 shares of common stock, resulting in net proceeds, after deducting underwriting fees and other costs, to the Company of \$9,534,618. In December 1999, the remaining 1994 debentures (\$815,000) were converted into 285,250 shares of common stock.

## RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

### NOTE 13. STOCK OPTION AND EMPLOYEE STOCK PURCHASE PLANS:

#### STOCK OPTION PLAN

On February 1, 1999, the Company's Board of Directors established the 1999 Equity Incentive Plan to provide for the grant of incentive stock options, non-qualified stock options, restricted stock awards and other stock-based awards to the Company's officers, employees, directors, independent contractors, consultants, vendors and suppliers. No awards may be granted under the Plan after January 2009, but the vesting of awards previously granted may extend beyond that date.

Under the Equity Incentive Plan, the Company is authorized to grant incentive stock options, non-qualified stock options, restricted stock awards and other stock based awards for a total of 750,000 shares of common stock. The stock options may not be granted for less than the fair market value of the

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common stock at the date of grant. The stock options are exercisable over a period determined by the Board at the time of grant, but not to exceed ten years after the date they are granted. These options generally vest over a five-year period from the date of grant and expire five to ten years after the date of grant.

The per share weighted average fair value of stock options granted during the fiscal years ended June 30, 2000 and June 30, 1999 were \$5.31 and \$4.86 respectively. These amounts were determined using the Black-Scholes option-pricing model, which values options based on the stock price at the date of grant, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The assumptions used in the Black-Scholes model for fiscal 2000 and 1999 were as follows: a weighted average expected life of 5 years; an expected volatility of common stock of 43.7% and 46.4% respectively; and weighted average risk-free interest rate of 5.24% and 5.08% respectively. No dividend yield was used, as the Company has not paid dividends in the past and does not anticipate paying dividends in the future.

The Company applies APB No. 25 in accounting for its stock plan and, accordingly, no compensation costs have been recognized in the Company's financial statements for incentive or non-qualified stock options granted. If, under SFAS 123, the Company determined compensation costs based on the fair value at the grant date for its stock options, the net income of \$5,838,170 as reported for fiscal 2000 would compare to a pro forma net income of \$5,424,716. (Fiscal 1999 net income of \$3,903,466 would compare to a pro forma net income of \$3,846,173). Basic and diluted earnings per share as reported for fiscal 2000 of \$1.24 and \$1.19, respectively, would compare to pro forma basic and diluted earnings per share of \$1.15 and \$1.11, respectively. (Basic and diluted earnings per share as reported for fiscal 1999 of \$1.04 and \$0.96, respectively, would compare to pro forma basic and diluted earnings per share of \$1.02 and \$0.94, respectively). The Equity Incentive Plan was established in fiscal 1999 and had no effect on fiscal 1998 net income or earnings per share.

### RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

A summary of the status of the Equity Incentive Plan as of June 30, 2000 and changes during the fiscal year then ended are presented below:

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at June 30, 1998 .....	--	\$ --
Granted (weighted average fair value of \$4.86) ...	280,000	10.88
Exercised .....	--	--
Forfeited .....	(500)	10.50
	-----	
Outstanding at June 30, 1999 .....	279,500	10.88
Granted (weighted average fair value of \$5.31) ...	204,750	11.63
Exercised .....	--	--
Forfeited .....	(1,000)	10.50
	-----	
Outstanding at June 30, 2000 .....	483,250	11.20
	-----	
Options exercisable at June 30, 2000 .....	55,700	\$ 10.88



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The Company granted 100,000 options in fiscal 2000 whose exercise price was greater than its market price on the date of grant. The weighted average fair value of these options was \$5.16. No option was granted in fiscal 2000 whose exercise price was less than its market price on the date of grant.

The following table summarizes information about stock options outstanding at June 30, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10.50 - \$12.23	483,250	7.1 years	\$ 10.88	55,700	\$ 10.88

At June 30, 2000, the outstanding stock options expire as follows: 100,000 in April 2004; 178,500 in April 2009; 100,000 in February 2005; 10,750 in August 2009; 93,000 in February 2010; and 1,000 in June 2010.

## EMPLOYEE STOCK PURCHASE PLAN

On February 1, 1999, the Company's Board of Directors adopted and the Company's shareholders approved the Employee Stock Purchase Plan with 50,000 shares of common stock available for issuance thereunder. The Plan, which is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code, provides that all employees of the Company, including directors of the Company who are employees, whose customary employment is more than 20 hours per week for more than five months in any calendar year, are eligible to participate in the Plan. Employees who would immediately after the grant own 5% or more of the total combined voting power or value of the stock of the Company or any subsidiary are not eligible to participate. Eligible employees may elect to have up to 10% of their earnings withheld and applied to the purchase of common stock at a price equal to a minimum of 85% of the average market price per share (as defined in the Plan) of the common stock on either the first day or the last day of the relevant offering period, whichever is lower. An employee may not purchase more than 500 shares in any one offering period. The Company issued 3,177 shares of common stock under the Plan in fiscal 2000 (no shares of common stock were issued in fiscal 1999).

## RAVENSWOOD WINERY, INC.

### NOTES TO FINANCIAL STATEMENTS -- (Continued)

#### NOTE 14. COMMITMENTS AND CONTINGENCIES:

The Company leases certain warehouse space under noncancellable operating leases that terminate on dates ranging from September 2000 to January 2003. Under the terms of certain of the leases, rent is contingent on the amount of

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bulk wine and/or case goods stored at any given time and is adjusted annually for increases in building operating costs.

In January 1999, the Company entered into an agreement to lease approximately 20 acres of land in Sonoma County, California from Sandra D. Donnell and Bruce B. Donnell, the wife and brother-in-law, respectively, of Justin M. Faggioli, the Company's Executive Vice President. The Company has built a new winery facility (the "Quarry Facility") on the leased property, to expand its production capacity. The lease provides for monthly payments that are adjusted annually for inflation (as defined) and for a lease term ending December 31, 2032. In addition, the lease provides the Company with a right of first refusal to purchase a portion of the property and a first option to rent upon its expiration if specific conditions are met.

Rental expense (including contingent rent) was \$920,571, \$701,889, and \$468,616 for fiscal 2000, 1999, and 1998, respectively. Minimum future rental payments for each of the next five fiscal years and thereafter are as follows: \$445,000--fiscal 2001; \$448,000--fiscal 2002; \$248,000--fiscal 2003; \$107,000--fiscal 2004; \$101,000--fiscal 2005; and \$1,203,000 thereafter.

The Company typically contracts with various growers and certain wineries to supply its grape and bulk wine requirements. While most of these contracts call for prices to be determined by market conditions, several long-term contracts provide for minimum grape or bulk wine purchase prices.

The Company has exposure to legal actions arising in the ordinary course of business. In the opinion of management, the Company has adequate legal defenses or insurance coverage with respect to any such actions and does not believe that they will materially affect the Company's results of operations or financial position.

### NOTE 15. 401(k) SAVINGS PLAN:

The Company has a 401(k) savings plan that is available to eligible employees. Employer contributions to the plan are at the discretion of the Board of Directors and amounted to \$65,762, \$67,866, and \$53,089 for fiscal 2000, 1999, and 1998 respectively.

### NOTE 16. EARNINGS PER SHARE:

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the measurement period, after giving retroactive effect to: 1) shares issued under a deferred compensation arrangement in July 1998 (see Note 10); and 2) common stock issued in December 1998 (using the "treasury stock method") at prices below the initial public offering price of \$10.50 (see Note 12).

Diluted earnings per share represents the income available to common shareholders divided by: 1) the weighted average number of common shares outstanding during the measurement period, after giving retroactive effect to a) shares issued under a deferred compensation arrangement in July 1998; and b) common stock issued in December 1998 (using the "treasury stock method") at prices below the initial public offering price of \$10.50; and 2) the potentially dilutive common shares issuable for convertible debt and stock options that were outstanding during the measurement period.

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## NOTES TO FINANCIAL STATEMENTS -- (Continued)

	Fiscal Year Ended June 30,		
	2000	1999	1998
BASIC			
Average shares outstanding .....	4,712,478	3,696,801	3,005,625
Shares issued under deferred compensation arrangement[A] .....	--	--	345,731
Shares issued in December 1998[B] .....	--	66,964	160,713
Weighted average number of common shares outstanding .....	4,712,478	3,763,765	3,512,069
Net income .....	\$ 5,838,170	\$ 3,903,466	\$ 186,891
Per share amount .....	\$ 1.24	\$ 1.04	\$ 0.05

	Fiscal Year Ended June 30,		
	2000	1999	1998
DILUTED			
Average shares outstanding .....	4,712,478	3,696,801	3,005,625
Shares issued under deferred compensation arrangement[A] .....	--	--	345,731
Shares issued in December 1998[B] .....	--	66,964	160,713
Net effect of potentially dilutive common stock issuable for convertible debentures .....	293,752	407,480	3,005,625
Net effect of potentially dilutive common stock issuable for stock options .....	4,725	--	--
Weighted average number of shares and equivalents outstanding .....	5,010,955	4,171,245	3,818,409
Net income .....	5,838,170	\$ 3,903,466	\$ 186,891
Interest on convertible debt, net of tax benefit ...	114,374	112,836	--
Net income, after adding interest on debentures ....	\$ 5,952,544	\$ 4,016,302	\$ 186,891
Per share amount .....	\$ 1.19	\$ 0.96	\$ 0.05

### NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest, net of amounts capitalized, was \$875,265, \$542,127, and \$484,670 for the fiscal years ended June 30, 2000, 1999, and 1998, respectively. Cash paid for income taxes was \$3,645,000, \$2,275,000, and

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\$1,660,344 for the fiscal years ended June 30, 2000, 1999, and 1998, respectively.

## RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

A summary of non-cash investing and financing information is as follows:

	Fiscal Year Ended June 30,		
	2000	1999	1998
Plant and equipment purchased with capitalized leases and notes payable .....	\$ 1,509,476	\$ 1,778,569	\$ 241,000
Construction in progress acquired by issuing convertible debentures and common shares to related parties .....	\$ --	\$ 283,511	\$ --
Convertible debentures redeemed for common shares .....	\$ 815,000	\$ 50,000	\$ --
Convertible debentures issued by reclassifying note and interest payable to shareholder .....	\$ --	\$ 56,250	\$ --

### NOTE 18. COMPREHENSIVE INCOME:

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - Reporting Comprehensive Income ("SFAS 130"). SFAS 130 requires the additional reporting of a new measure of income which takes into account certain elements otherwise recorded as part of equity. For all years presented, the difference between net income and comprehensive income consists of the changes in the unrealized gain in securities available-for-sale included as part of the Company's equity.

The following is a reconciliation of net income and comprehensive income:

	Fiscal Year Ended June 30,		
	2000	1999	1998
Net income .....	\$ 5,838,170	\$ 3,903,466	\$ 186,891
Change in unrealized gain on available-for-sale securities .....	85,752	--	--
Comprehensive income .....	\$ 5,923,922	\$ 3,903,466	\$ 186,891

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## RAVENSWOOD WINERY, INC. NOTES TO FINANCIAL STATEMENTS -- (Continued)

### NOTE 19. QUARTERLY HIGHLIGHTS (UNAUDITED):

Selected highlights for each of the fiscal quarters during the years ended June 30, 2000 and 1999 (in thousands, except per share data):

	1st Quarter -----	2nd Quarter -----	3rd Quarter -----	4th Quarter -----
Year ended June 30, 2000:				
Net sales .....	\$ 7,692	\$ 9,924	\$ 8,127	\$ 7,484
Gross profit .....	4,229	5,110	4,230	3,961
Net income .....	1,498	1,780	1,317	1,243
Earnings per share--Basic .....	0.33	0.39	0.27	0.26
Earnings per share--Diluted .....	0.31	0.36	0.27	0.25
Year ended June 30, 1999:				
Net sales .....	\$ 5,962	\$ 5,621	\$ 4,961	\$ 5,525
Gross profit .....	3,433	3,083	2,556	2,737
Net income .....	1,217	1,068	756	862
Earnings per share--Basic .....	0.35	0.31	0.22	0.19
Earnings per share--Diluted .....	0.32	0.28	0.21	0.18

Earnings per share calculations for each of the quarters are based on the weighted average common and common share equivalents outstanding for each period, and the sum of the quarters may not necessarily be equal to the full-year earnings per share amount.

## RAVENSWOOD WINERY, INC. PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### RAVENSWOOD WINERY, INC. BALANCE SHEET

	March 31, 2001 ----- (unaudited)	June 30, 2000 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,074,776	\$ 5,769,373
Accounts receivable, less allowance of \$10,000	5,392,293	4,166,816
Inventories	26,640,342	20,521,284
Prepaid expenses	411,511	377,631
Total current assets	38,518,922	30,835,104

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Property, plant and equipment, net	14,382,850	14,787,553
Note receivable from shareholder	310,000	310,000
Deferred tax assets	273,000	180,000
Other assets	72,802	60,433
	-----	-----
	\$ 53,557,574	\$ 46,173,090
	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 73,118	\$ 83,597
Current portion of capital lease obligations	723,177	617,979
Short-term borrowings	-	500,000
Accounts payable	4,834,431	3,217,036
Accrued commissions	624,498	514,379
Accrued liabilities	899,775	390,010
	-----	-----
Total current liabilities	7,154,999	5,323,001
Long-term liabilities:		
Long-term debt, net	6,850,869	6,453,407
Capital lease obligations, net	2,282,857	2,392,497
Convertible debentures	1,562,500	1,687,500
Deferred tax liability	124,000	-
	-----	-----
Total liabilities	17,975,225	15,856,405
	-----	-----
Shareholders' equity:		
Preferred stock, no par value; 1 million shares authorized, none issued	-	-
Common stock, no par value; 20 million shares authorized, 4,876,067 and 4,856,779 issued and outstanding	15,262,226	15,054,373
Retained earnings	20,215,120	15,176,560
Unrealized gain on available-for-sale securities	105,003	85,752
	-----	-----
Total shareholders' equity	35,582,349	30,316,685
	-----	-----
	\$ 53,557,574	\$ 46,173,090
	=====	=====

## RAVENSWOOD WINERY, INC. STATEMENT OF INCOME (UNAUDITED)

Three Months Ended March 31,		Nine Months E
2001	2000	2001
-----	-----	-----

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Gross Sales	\$ 9,720,088	\$ 8,692,139	\$ 30,686,303
Less excise taxes	(201,757)	(325,967)	(774,033)
Less discounts, allowances and returns	(289,115)	(239,319)	(1,075,551)
	-----	-----	-----
Net sales	9,229,216	8,126,853	28,836,719
Cost of goods sold	4,233,459	3,897,343	13,187,659
	-----	-----	-----
Gross profit	4,995,757	4,229,510	15,649,060
Operating expenses	2,212,408	1,831,691	6,833,304
	-----	-----	-----
Operating income	2,783,349	2,397,819	8,815,756
Interest expense	(253,267)	(237,883)	(755,626)
Other income (expenses)	(4,628)	32,514	224,430
	-----	-----	-----
	(257,895)	(205,369)	(531,196)
Income before income taxes	2,525,454	2,192,450	8,284,560
Provision for income taxes	960,000	875,000	3,246,000
	-----	-----	-----
Net income	\$ 1,565,454	\$ 1,317,450	\$ 5,038,560
	=====	=====	=====
Earnings per share:			
Basic	\$ 0.32	\$ 0.27	\$ 1.04
	=====	=====	=====
Diluted	\$ 0.31	\$ 0.27	\$ 1.00
	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic	4,870,896	4,855,053	4,866,206
	=====	=====	=====
Diluted	5,105,914	5,008,985	5,100,828
	=====	=====	=====

## RAVENSWOOD WINERY, INC. STATEMENT OF CASH FLOWS (UNAUDITED)

Three months ended March 31,  
-----  
2001 2000

Nine  
-----  
2

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Operations:			
-----			
Net income	\$ 1,565,454	\$ 1,317,450	\$ 5,
Items not requiring the current use of cash:			
Depreciation and amortization	428,940	268,649	1,
Unrealized gain on available - for-sale securities	15,600	33,694	
Deferred income taxes	(84,000)	-	
Changes in other operating items:			
Accounts receivable	166,202	108,649	(1,
Inventories	422,840	716,304	(6,
Prepaid expenses	(67,576)	(34,052)	
Other assets	(3,805)	(4,107)	
Accounts payable	(2,521,119)	(1,883,809)	1,
Accrued liabilities	205,154	99,962	
Accrued commissions	(62,046)	(70,788)	
	-----	-----	-----
Cash provided by (used for) operations	65,644	551,952	1,
	-----	-----	-----
Investing:			
Additions to plant & equipment	(159,140)	(1,127,413)	(
	-----	-----	-----
Cash used for investing activities	(159,140)	(1,127,413)	(
	-----	-----	-----
Financing:			
Short-term borrowings, net	-	-	(
Proceeds from long-term debt	-	-	
Proceeds from issuance of stock	43,574	-	
Proceeds from sale of securities	-	-	
Repayments of long-term debt	(213,465)	(118,251)	(
	-----	-----	-----
Cash provided by (used for) financing activities	(169,891)	(118,251)	(
	-----	-----	-----
Change in cash & cash equivalents	(263,387)	(693,712)	
Balance at beginning of period	6,338,163	7,585,695	5,
	-----	-----	-----
Balance at end of period	\$ 6,074,776	\$ 6,891,983	\$ 6,
	=====	=====	=====
Cash paid during the period for:			
Interest	\$ 261,128	\$ 274,229	\$
	=====	=====	=====
Taxes	\$ 1,160,000	\$ 740,000	\$ 3,
	=====	=====	=====
Noncash investing and financing:			
Plant and equipment purchased with long-term liabilities	\$ -	\$ 185,759	\$
	=====	=====	=====
Conversion of convertible debentures to common stock	\$ 62,500	\$ -	\$
	=====	=====	=====



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RAVENSWOOD WINERY, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION:

The financial statements included herein for Ravenswood Winery, Inc. (the "Company") have been prepared by the Company, without audit pursuant to the rules and regulations of the Securities and Exchange Commission. In management's opinion, the interim financial data presented includes all adjustments (which include only normal recurring adjustments) necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

The results of operations for the three-month and nine-month periods ended March 31, 2001 are not necessarily indicative of the operating results expected for the entire fiscal year. The financial statements included herein should be read in conjunction with other documents the Company files from time to time with the Securities and Exchange Commission, including the Company's Form 10-KSB for the fiscal year ended June 30, 2000.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates.

RECLASSIFICATION

Certain prior period amounts have been reclassified in order to conform to the current period presentation.

NOTE 3. EARNINGS PER SHARE

Basic EPS represents the income available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS represents the income available to common shareholders divided by the weighted average of common shares outstanding while also giving effect to the potential dilution that could occur if securities or other contracts to issue common stock (e.g. stock options and convertible debentures) were exercised and converted into stock. For all periods presented, the difference between basic and diluted EPS for the Company is due to the dilutive effect of stock options and convertible debentures. This effect is calculated using the treasury stock method.

During the nine month period ended March 31, 2001, 6,450 shares of common stock were purchased under Ravenswood's 1999 Equity Incentive Plan; 1,586 shares of common stock were issued under the Company's Employee Stock Purchase Plan and debentures with a face value of \$125,000 were converted into 11,251 shares of the Company's common stock.

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## NOTE 4. INVENTORIES:

Inventories are summarized as follows:

	March 31, 2001	June 30, 2000
	-----	-----
	(Unaudited)	
Bulk wine	\$ 21,500,213	\$ 15,262,865
Bottled wine	4,487,664	4,716,701
Crop costs	82,807	137,051
Supplies	415,195	233,943
Tasting room merchandise	154,463	170,724
	-----	-----
	\$ 26,640,342	\$ 20,521,284
	=====	=====

## NOTE 5. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are summarized as follows:

	March 31, 2001	June 30, 2000
	-----	-----
	(Unaudited)	
Land	\$ 245,135	\$ 245,135
Vineyards	345,473	345,473
Buildings and improvements	1,647,634	1,647,637
Leasehold improvements	9,844,563	9,832,748
Machinery and equipment	1,211,580	1,080,251
Equipment held under capital leases	4,605,465	4,118,953
Office equipment	336,768	298,837
Construction in progress	145,435	-
	-----	-----
	18,382,053	17,569,034
Less-accumulated depreciation	3,999,203	2,781,481
	-----	-----
	\$14,382,850	\$14,787,553
	=====	=====

## NOTE 6. COMPREHENSIVE INCOME:

Comprehensive income includes unrealized gain on available-for-sale securities. The following is a reconciliation of net income and comprehensive income (unaudited):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	-----	-----	-----	-----
	2001	2000	2001	2000
	-----	-----	-----	-----
Net income	\$1,565,454	\$1,317,450	\$5,038,560	\$4,787,450

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Change in unrealized gain on available-for-sale securities	15,600	5,649	19,251	-----
	-----	-----	-----	-----
Comprehensive income	\$1,581,054	\$1,323,099	\$5,057,811	\$4
	=====	=====	=====	=====

### NOTE 7. SUBSEQUENT EVENT:

On April 10, 2001, Ravenswood entered into an Agreement and Plan of Merger with Constellation Brands, Inc., pursuant to which Ravenswood would be merged with a wholly-owned indirect subsidiary of Constellation Brands, Inc.

### ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

#### Exhibits:

23.1 - Consent of Odenberg, Ullakko, Muranishi & Co. LLP

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSTELLATION BRANDS, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Executive Vice  
President and Chief Financial  
Officer

### SUBSIDIARIES

BATAVIA WINE CELLARS, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Treasurer

CANANDAIGUA WINE COMPANY, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Treasurer

CANANDAIGUA EUROPE LIMITED

Dated: August 23, 2001

By: /s/ Thomas S. Summer

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-----  
Thomas S. Summer, Treasurer

CANANDAIGUA LIMITED

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Finance Director  
(Principal Financial Officer and  
Principal Accounting Officer)

POLYPHENOLICS, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President  
and Treasurer

ROBERTS TRADING CORP.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, President and  
Treasurer

CANANDAIGUA B.V.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Chief  
Financial Officer

FRANCISCAN VINEYARDS, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President  
and Treasurer

ALLBERRY, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President  
and Treasurer

CLOUD PEAK CORPORATION

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President  
and Treasurer

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M.J. LEWIS CORP.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President  
and Treasurer

MT. VEEDER CORPORATION

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President  
and Treasurer

BARTON INCORPORATED

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON BRANDS, LTD.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON BEERS, LTD.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON BRANDS OF CALIFORNIA, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON BRANDS OF GEORGIA, INC.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON CANADA, LTD.

Dated: August 23, 2001

By: /s/ Thomas S. Summer  
-----  
Thomas S. Summer, Vice President

BARTON DISTILLERS IMPORT CORP.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

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-----  
Thomas S. Summer, Vice President

### BARTON FINANCIAL CORPORATION

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President

### STEVENS POINT BEVERAGE CO.

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President

### MONARCH IMPORT COMPANY

Dated: August 23, 2001

By: /s/ Thomas S. Summer

-----  
Thomas S. Summer, Vice President

### INDEX TO EXHIBITS

(1) UNDERWRITING AGREEMENT

Not Applicable.

(2) PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION

Not Applicable.

(4) INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

Not Applicable.

(16) LETTER RE CHANGE IN CERTIFYING ACCOUNTANT

Not Applicable.

(17) LETTER RE DIRECTOR RESIGNATION

Not Applicable.

(20) OTHER DOCUMENTS OR STATEMENTS TO SECURITY HOLDERS

Not Applicable.

(23) CONSENTS OF EXPERTS AND COUNSEL

23.1 Consent of Odenberg, Ullakko, Muranishi & Co. LLP (filed herewith).

(24) POWER OF ATTORNEY

Not Applicable.

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(99) ADDITIONAL EXHIBITS

None.