

Crimson Wine Group, Ltd  
Form 10-K  
March 28, 2013

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-10153

CRIMSON WINE GROUP, LTD.  
(Exact Name of Registrant as Specified in its Charter)

Delaware 13-3607383  
(State or other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)  
Organization)

5901 Silverado Trail  
Napa, California 94558  
(800) 486-0503

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.01 per share  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Based on the average bid and asked prices of the Registrant's Common Stock as published by the OTC Market Service as of March 19, 2013, the aggregate market value of the Registrant's Common Stock held by non-affiliates was approximately \$187,984,000 on that date.

As of March 19, 2013, there were 24,458,368 outstanding shares of the Registrant's Common Stock, par value \$.01 per share.

Crimson Wine Group, Ltd. qualifies as an "emerging growth company" pursuant to the provisions of the Jumpstart Our Business Startups Act (the "JOBS Act"), enacted on April 5, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

None.

## EXPLANATORY NOTE

Crimson Wine Group, Ltd. qualifies as an “emerging growth company” pursuant to the provisions of the Jumpstart Our Business Startups Act (the “JOBS Act”), enacted on April 5, 2012. For as long as Crimson Wine Group, Ltd. remains an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other reporting companies which are not “emerging growth companies,” including reduced disclosure obligations regarding executive compensation in this Annual Report on Form 10–K (“Form 10–K”). Therefore, this Form 10–K does not include certain information regarding executive compensation that may be found in the annual reports of other reporting companies.

## PART I

Item 1. Business.

### THE COMPANY

#### Overview

Crimson Wine Group, Ltd. (“Crimson”) is a Delaware company whose business has been operating since 1991. As used herein, the term, “Company” refers to Crimson and its wholly-owned subsidiaries, except as the context may otherwise require. Prior to February 25, 2013, Crimson was a wholly-owned subsidiary of Leucadia National Corporation (“Leucadia”). On February 1, 2013, Leucadia declared a pro rata dividend of all of the outstanding shares of Crimson’s common stock in a manner that was structured to qualify as a tax-free spin-off for U.S. federal income tax purposes (the “Distribution”). Leucadia’s common shareholders received one share of Crimson common stock for every ten common shares of Leucadia, with cash in lieu of fractional shares, on February 25, 2013.

Crimson operates in one segment, the production and sale of premium, ultra premium and luxury wines (i.e., wines that retail for \$10 to \$14, \$14 to \$25 and over \$25 per 750ml bottle, respectively). Crimson is headquartered in Napa, California and through its subsidiaries owns four wineries: Pine Ridge Vineyards, Archery Summit, Chamisal Vineyards and Seghesio Family Vineyards. Pine Ridge Vineyards was acquired in 1991 and has been conducting operations since 1978, Crimson started Archery Summit in 1993, Chamisal Vineyards was acquired in 2008 and has been conducting operations since 1973, and Seghesio Family Vineyards was acquired in 2011 and has been conducting operations since 1895. Additionally, in 2005 and 2006 Crimson acquired Double Canyon Vineyards, an aggregate of 611 acres of land in the Horse Heaven Hills of Washington’s Columbia Valley. References to cases of wine herein refer to nine-liter equivalent cases.

#### Pine Ridge Vineyards

Pine Ridge Vineyards owns 156 acres, which reflects the sale of 12 plantable acres of a non-strategic vineyard in January 2013, and controls through leasing arrangements an additional 20 acres of estate vineyards in five Napa Valley appellations—Stags Leap District, Rutherford, Oakville, Carneros and Howell Mountain. Approximately 161 acres are currently planted and producing grapes. The winery and production facilities at Pine Ridge Vineyards have a permitted annual wine production capacity of up to 300,000 gallons, which equates to approximately 126,000 cases of wine; however, current fermentation and processing capacity is limited to approximately 80,000 cases without additional capital investment. The facility includes areas and equipment for traditional crush, fermentation, aging and bottling processes, and also has a tasting room, hospitality center and administrative offices. Built into the hillside for wine barrel storage are approximately 34,000 square feet of underground caves with a capacity to store over 4,000 barrels. In addition, there are special event dining areas both indoors and outdoors as well as in the underground caves.

The Pine Ridge Vineyards estate business is focused primarily on the production of high quality Cabernet Sauvignon and bordeaux-style blends sold by Crimson under the Pine Ridge Vineyards brand name. Pine Ridge Vineyards also produces Chenin Blanc + Viogner, a wine made from purchased grapes and processed at a third party custom winemaking facility, which is sold by Crimson under the Pine Ridge Vineyards brand name.

#### Archery Summit

Archery Summit owns 100 acres and controls through leasing arrangements an additional 20 acres of estate vineyards in the Willamette Valley, Oregon. Approximately 110 acres are currently planted and producing grapes. The winery and production facilities at Archery Summit have a permitted annual wine production capacity of up to 50,000 gallons, which equates to approximately 21,000 cases of wine; however, current fermentation and processing capacity is limited to approximately 15,000 cases. The facility includes areas and equipment for gravity flow of wine with quality oriented crush, fermentation, aging and bottling processes, and also has a tasting room, hospitality center and administrative offices. The facility has approximately 8,300 square feet of underground caves for wine barrel storage with a capacity to store over 600 barrels. In addition, there are special event dining areas indoors as well as in the underground caves.

Archery Summit is focused primarily on producing estate grown, expressive single vineyard Pinot Noir from tightly spaced vines sold by Crimson under the Archery Summit brand name.

### Chamisal Vineyards

Chamisal Vineyards owns 97 acres of vineyards in the Edna Valley, California, of which 74 acres are currently planted and producing grapes. The Chamisal Vineyard was the first vineyard planted in the Edna Valley in 1973. The winery and production facilities at Chamisal have a permitted annual wine production capacity of up to 100,000 gallons which equates to 42,000 cases of wine and expects to complete a project in 2013 that will increase permitted capacity to 238,000 gallons which equates to approximately 100,000 cases of wine. The facility includes areas and equipment for quality oriented modern crush, fermentation, aging and bottling processes, as well as a tasting room, hospitality center and administrative offices. There are special event dining areas outdoors.

Chamisal is focused on producing estate grown, expressive single vineyard Chardonnay and Pinot Noir as well as a Stainless Chardonnay produced from both purchased and estate grown grapes. The wines are sold by Crimson under the Chamisal Vineyards brand name.

### Seghesio Family Vineyards

Seghesio Family Vineyards owns 299 acres of estate vineyards in two Sonoma County, California appellations, the Alexander Valley and the Russian River Valley, of which approximately 267 acres are planted and producing grapes. Seghesio Family Vineyards has a long history of growing and producing Zinfandel and Italian varietal wines in the Sonoma region of California. The winery and production facilities at Seghesio Family Vineyards have a permitted annual wine production capacity of up to 404,000 gallons which equates to approximately 170,000 cases of wine; however, current fermentation and processing capacity is limited to approximately 120,000 cases. Crimson expects to complete a project in 2013 that will increase fermentation and processing capacity to 170,000 cases. The facility includes areas and equipment for traditional crush, fermentation, aging, bottling and warehousing processes, as well as a tasting room, private hospitality areas and administrative offices. There are indoor and outdoor special event dining areas. In Alexander Valley, Seghesio Family Vineyards also owns a historic non-operating winery, mansion and train station, which Crimson intends to convert into educational, tasting, hospitality and potentially incremental production facilities.

Seghesio Family Vineyards is focused on producing estate grown Zinfandel and Italian varietal wines as well as a Sonoma County Zinfandel produced from both purchased and estate grown grapes. The wines are sold by Crimson under the Seghesio Family Vineyards brand name.

### Double Canyon Vineyards

Double Canyon Vineyards owns 462 acres of vineyards in the Horse Heaven Hills, Washington, of which 87 acres are currently planted and producing grapes. Crimson continues to evaluate the best use of the remaining acres; currently most are leased to a farming company for growing vegetables. Currently, Double Canyon Vineyards sells the majority of its grapes to third parties and does not have any wine production facilities. Starting with the 2010 vintage, Double Canyon Vineyards produced and bottled, at an offsite custom crush winery, the first wine under the Double Canyon Vineyards brand name which was released in the Fall of 2012.

### Competition

The premium, ultra premium and luxury market segments of the wine industry are intensely competitive. Crimson's wines compete domestically and internationally, and premium or higher quality wines are produced in Europe, South America, South Africa, Australia and New Zealand, as well as in the United States. Crimson competes on the basis of quality, price, brand recognition and distribution capability, and the ultimate consumer has many choices of products

from both domestic and international producers. A result of the intense competition has been and may continue to be upward pressure on Crimson's selling and promotional expenses. Many of Crimson's competitors are significantly larger with greater financial, production, distribution and marketing resources. Wine production in the U.S. is dominated by three large California wineries that represent over 60% of the domestic U.S. case sales volume. Further, Crimson's wines may be considered to compete with all alcoholic and nonalcoholic beverages.

Demand for wine in the premium, ultra premium and luxury market segments can rise and fall with general economic conditions, and is also significantly affected by grape supply. Based on industry wide volume increases in this wine category, Crimson believes more people are drinking wine than in the past; however, in the current economic climate, consumer demand has shifted away from the higher priced luxury segment to wines in the lower priced premium and ultra premium categories. Currently, the fastest growing segment in the domestic wine market is for wines priced in the \$14 to \$25 retail price range. Crimson has adjusted its strategy to address lower consumer spending levels, and has been successful in selling its wine at price points in the fast growing \$14 to \$25 price range. However, if conditions worsen and Crimson is forced to reduce prices further, it may not be able to do so profitably.

## Sales and Marketing

During the past few years Crimson has focused on brand development and distribution to increase revenues and profitability, which has included acquisitions of vineyards and wineries and the development of new brands with existing assets.

Crimson's sales and marketing team coordinates the sales and distribution of its various brands, is responsible for maintaining domestic and export distributor relationships and oversees the timing and allocation of new releases. The sales team has employees in certain key markets in the U.S. and internationally as well as brokers in certain markets. Its wines are available through many principal retail channels for premium table wines, including fine wine restaurants, hotels, specialty shops, supermarkets and club stores, in all states domestically and in over 40 countries throughout the world.

Generally, Crimson will enter into agreements with brokers for those markets where it would not be cost effective to have an employee, or if the products are being sold to a customer who usually purchases products from brokers. Crimson may also use brokers if they represent the best distribution channel after considering local regulatory requirements. On an on-going basis the Company continues to evaluate the use of brokers in its various markets; during 2012, brokers were used by Crimson in 10 states in the U.S. and in certain export markets. Revenues generated through broker relationships represented approximately 7% of wine revenues during 2012. Agreements with brokers are generally terminable by either party upon notice.

Crimson's wines are primarily sold to distributors, who then sell to retailers and restaurants. Domestic sales of Crimson's wines are made through more than 70 independent wine and spirits distributors. International sales are made through independent importers and brokers.

As permitted under federal and local regulations, Crimson has been placing increasing emphasis on direct sales to consumers, which it is able to do through the Internet, wine clubs, and at the wineries' tasting rooms. During 2012, direct sales to consumers represented 14% of case sales and 40% of wine revenues. Approximately 58% of the direct to consumer sales were through wine clubs, 28% were through the wineries' tasting rooms and the balance from the Internet. Members typically join our wine clubs after visiting our tasting rooms at our various facilities, or after hearing about our wine clubs from other members. Our tasting rooms are located in vacation areas that typically attract consumers interested in wine making and touring the area. Direct sales to consumers are more profitable for Crimson as it is able to sell its products at a price closer to retail prices rather than the wholesale price received from distributors.

Crimson's wines are distributed in California, Illinois, Colorado, Oregon, Hawaii, New Mexico, Arizona, Washington and Nevada predominantly by Southern Wine and Spirits. During 2012, sales to Southern Wine and Spirits accounted for 19% of case volume and 14% of wine sales. Sales for the top ten distributors accounted for 64% of volume and 48% of wine sales. These distributors also offer premium table wines of other companies that directly compete with Crimson's products.

Domestic distributor wine sales are concentrated in certain states, with California accounting for 17% of case volume and 13% of wine sales during 2012. Other major domestic markets include New Jersey, Texas, Florida, Massachusetts, Illinois, Minnesota and Virginia where sales represented 34% of case volume and 25% of wine sales during 2012. The acquisition of Seghesio Family Vineyards significantly increased Crimson's export sales. Historically, Seghesio's export sales were 20% of case volume and 15% of its wine sales and Crimson is currently expanding the export of products from its other wineries through Seghesio's international distribution channels.

For the year ended December 31, 2012, export sales were 8% of case volume and 7% of wine sales as compared to the year ended December 31, 2011, when exports sales were 2% of case volume and 2% of wine sales, an increase that reflects the acquisition of Seghesio Family Vineyards in May 2011.

Crimson believes that the quality and locations of its wineries and tasting facilities help to create demand for its brands at the consumer level which positively impacts sales to distributors as well. Crimson participates in many wine tasting and other promotional events throughout the country in order to increase awareness and demand for its products. Many of Crimson's brands are issued ratings or scores by local and national wine rating organizations, and higher scores will usually translate into greater demand and higher pricing. Although some of Crimson's brands are or have been highly rated in the past, and Crimson believes its farming and winemaking activities are of a quality to generate good ratings in the future, Crimson has no control over ratings issued by third parties which may not be favorable in the future.



## Grape Supply

Crimson controls approximately 1,166 acres of vineyards in the Napa Valley, Sonoma County and Edna Valley in California, the Willamette Valley in Oregon and Horse Heaven Hills in Washington; approximately 709 acres of these vineyards are planted, with the majority of the unplanted acres in Washington. While Crimson does not have any immediate plans to plant the additional Washington acres, it does expect to continue vineyard development plans for the non-producing California and Oregon properties. Additionally, on an annual basis, excluding the Washington property, Crimson has typically had 4% to 6% development of vineyard acreage. Newly planted vines take approximately four to five years to reach maturity and vineyards can be expected to have a useful life of 25 years before replanting is necessary. Depending on the site, soil and water conditions and spacing, Crimson's experience has been that it costs approximately \$30,000 to \$65,000 per acre over a three to four year period to develop open land into a producing premium wine grape vineyard, before taking into account the cost of the land. With over 700 acres of planted estate holdings, Crimson could have annual capital investment requirements of \$800,000 to \$1,000,000 to replace existing vineyard sites as their economic useful life expires.

In 2012, approximately 39% of Crimson's total grape supply came from Crimson controlled vineyards; however, substantially all of the grape supply for Pine Ridge Vineyards Napa and Archery Summit is from Crimson controlled vineyards. Crimson purchases the balance of its California supply from approximately 65 independent growers. The grower contracts range from one-year spot market purchases to intermediate and long term-agreements. No one grower represents more than 10% of Crimson's grape supply. The top ten growers represent 37% of Crimson's total grape supply.

Winemaking and grape growing are subject to a variety of agricultural risks. Various diseases, pests and certain weather conditions can materially and adversely affect the quality and quantity of grapes available to Crimson thereby materially and adversely affecting the supply of Crimson's products and its profitability.

The table below summarizes Crimson's wine grape supply and production from the last three harvests:

	Harvest Year		
	2012	2011	2010
Estate Grapes (1):			
Producing acres	622	616	339
Tons harvested	2,554	1,655	1,039
Tons per acre	4.1	2.7	3.1
All grapes and purchased juice (in equivalent tons):			
Estate grapes	2,554	1,655	1,039
Purchased grapes and juice	3,921	3,051	1,250
Total	6,475	4,706	2,289
Total cases produced	277,000	257,000	124,000

(1) Excludes acres and tons produced from Double Canyon Vineyards.

Cases sold were 260,000, 212,000 and 111,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Cases sold are disclosed for informational purposes, but do not necessarily correspond to the vintage year the grapes are grown and crushed. Depending on the wine, the production cycle to bottled sales is anywhere from one to three years. The large increase in production in 2012 was due to a much larger crop in 2012 as well as

planned production increases for certain brands. The large increase in 2011 as compared to 2010 was due to the acquisition of Seghesio Family Vineyards.

#### Winemaking

Crimson's winemaking philosophy includes both the use of the latest in current industry winemaking advances to complement making wine in the traditional manner by starting with high quality fruit and handling it as gently and naturally as possible all the way to the bottle. Each of Crimson's wineries is equipped with modern crush, fermentation and storage equipment as well as technology that is focused on producing the highest quality wines for each of the varietals it produces.

## Government Regulation

Wine production and sales are subject to extensive regulation by the Federal Trade and Tax Bureau, the California Department of Alcohol Beverage Control and other state and federal governmental authorities that regulate interstate sales, licensing, trade and pricing practices, labeling, advertising and other activities. In recent years, federal and state authorities have required warning labels on beverages containing alcohol. Restrictions or taxes imposed by government authorities on the sale of wine could increase the retail price of wine, which could have an adverse effect on demand for wine in general. New or revised regulations or increased licensing fees or excise taxes on wine, if enacted, could reduce demand for wine and have an adverse effect on Crimson's business, negatively impacting Crimson's results of operations and cash flows.

Crimson is subject to a broad range of federal and state regulatory requirements regarding its operations and practices. Crimson's operations are subject to regulations governing the storage and use of fertilizers, fungicides, herbicides, pesticides, fuels, solvents and other chemicals. These regulations are subject to change and conceivably could have a significant impact on operating practices, chemical usage, and other aspects of Crimson's business.

## Seasonality

There is a degree of seasonality in the growing cycles, procurement and transportation of grapes. The wine industry in general historically experiences seasonal fluctuations in revenues and net income. Typically, Crimson has lower sales and net income during the first quarter and higher sales and net income during the third and fourth quarters. Crimson expects this trend to continue. Sales can also fluctuate significantly between quarters depending on the timing of certain holidays and promotional periods, timing of wine club shipments and on the rate at which distributor inventories are depleted through sales to wine retailers.

## Employees

At December 31, 2012, Crimson employed approximately 143 regular, full-time employees. Crimson also employs part-time and seasonal workers for its vineyard, production and hospitality operations. None of Crimson's employees are represented by a collective bargaining unit and Crimson believes that its relationship with its employees is good.

## Trademarks

Crimson maintains federal trademark registrations for its brands, proprietary products and certain logos, motifs and vineyard names. International trademark registrations are also maintained where it is appropriate to do so. Each of the United States trademark registrations is renewable indefinitely so long as the Company is making a bona fide usage of the trademark.

## Investor Information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Accordingly, the Company files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding the Company and other issuers that file electronically.

The Company's website is <http://www.crimsonwinegroup.com>. The Company also makes available through its website without charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are filed with or furnished to the SEC.

#### Cautionary Statement for Forward-Looking Information

Statements in this Report may contain forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to current or historical facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "forecast," "plan," "intend," "believe," "may," "should," "would," "could," "like" or similar expression.

Forward-looking statements give our expectations about the future and are not guarantees. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements to materially differ from any future results, performance and achievements expressed or implied by such forward-looking statements. We caution you, therefore, not to rely on these forward-looking statements.

Factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted or may materially and adversely affect the Company's actual results include, but are not limited to, those set forth in Item 1A. Risk Factors and elsewhere in this Report and in the Company's other public filings with the SEC.

These forward-looking statements are applicable only as of the date hereof. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this Report.

#### Item 1A. Risk Factors.

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this Report, before you decide whether to purchase our common stock. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Current economic conditions have adversely affected our sales and profitability. A worsening of current economic conditions could cause a decline in estimated future cash flows, potentially resulting in impairment charges for long-lived assets. Since 2008, economic conditions have resulted in reduced demand and lower revenues for certain of our products, resulting in lower operating cash flows. As required, we have reviewed our long-lived assets for potential impairment and have recorded adjustments to the book value of long-lived assets as appropriate. If operating revenues deteriorate in the future, and/or we lower our estimates of future cash flows, significant impairment charges might have to be recorded.

We are dependent on certain key personnel. Our success depends to some degree upon the continued service of Erle Martin, our President and Chief Executive Officer, and Patrick DeLong, our Chief Financial & Operating Officer, and our winemakers at our various facilities. The loss of the services of one or more of our key employees could harm our business and our reputation and negatively impact our profitability, particularly if one or more of our key employees resigns to join a competitor or to form a competing company.

We could experience significant increases in operating costs and reduced profitability due to competition for skilled management and staff employees. We compete with other entities for skilled management and staff employees, including entities that operate in different market sectors than us. Costs to recruit and retain adequate personnel could adversely affect results of operations.

We will initially rely on Leucadia to meet certain financial reporting requirements of a public company, and should Leucadia cease to provide these functions, we would have to build our own capability to meet these requirements. In connection with our separation from Leucadia and the distribution of our common stock, we became subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act and are required to prepare and file our financial statements according to the rules and regulations required by the SEC. Historically, we have prepared our own financial and tax information and provided it to Leucadia so that Leucadia could meet its SEC and tax filing requirements, but do not currently have the ability to meet these reporting requirements on our own. Compliance with these rules may be costly, and failure to prepare and disclose required information or otherwise comply with applicable law could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing.

We rely on Leucadia for these and other services pursuant to the administrative services agreement that we entered into with Leucadia. The administrative services agreement has an initial term of one year, an evergreen renewal for

subsequent annual periods and will be terminable to either party on six months prior notice. For more information, see Item 13, Certain Relationships and Related Transactions and Director Independence. If Leucadia becomes unwilling or unable to provide the services in the future we will have to establish these functions in-house to ensure we meet the reporting requirements of a stand-alone public company.

Due to our separation from Leucadia, we will experience increased costs as a stand-alone company. The Company will incur certain new and incremental costs as a stand-alone public company including director fees and expenses for its new board of directors, stand-alone Delaware franchise tax, increased legal and accounting fees for reviews of the Company's publicly filed financial statements, proxy and other filings and other services. The Sarbanes-Oxley Act requires that we, among other things, establish and maintain effective internal controls and procedures for financial reporting and disclosure purposes. Establishing and monitoring these controls will result in additional costs to us and require us to divert important resources, including management time, from other activities. Increased costs that we incur as a stand-alone public company will reduce our profitability.

Various diseases, pests and certain weather conditions could affect quality and quantity of grapes. Various diseases, pests, fungi, viruses, drought, frosts and certain other weather conditions could affect the quality and quantity of grapes, decreasing the supply of our products and negatively impacting our operating results. Future government restrictions regarding the use of certain materials used in grape growing may increase vineyard costs and/or reduce production. We cannot guarantee that our grape suppliers will succeed in preventing disease in their existing vineyards or that we will succeed in preventing disease in our existing vineyards or future vineyards we may acquire. For instance, Pierce's disease is a vine bacterial disease which kills grapevines and there is no known cure. Small insects called sharpshooters spread this disease. A new strain of the sharpshooter was discovered in Southern California and is believed to be migrating north. If our vineyards become contaminated with this or other diseases, operating results would decline, perhaps significantly.

We may not be able to grow or acquire enough quality fruit for our wines. While we believe that we can secure sufficient supplies of grapes from a combination of our own production and from grape supply contracts with independent growers, we cannot be certain that grape supply shortages will not occur. Grape supply shortages resulting from a poor harvest can be caused by a variety of factors outside our control, resulting in reduced product that is available for sale. If revenues decline as a result of inadequate grape supplies, cash flows and profitability would also decline.

We face significant competition which could adversely affect our profitability. The wine industry is intensely competitive and highly fragmented. Our wines compete in several wine market segments with many other domestic and foreign wines. Our wines also compete with popular priced generic wines and with other alcoholic and, to a lesser degree, non-alcoholic beverages. A result of this intense competition has been and may continue to be upward pressure on our selling and promotional expenses. Many of our competitors have greater financial, technical, marketing and public relations resources than we do. There can be no assurance that in the future we will be able to successfully compete with our competitors or that we will not face greater competition from other wineries and beverage manufacturers.

We compete for shelf space in retail stores and for marketing focus by our independent distributors, most of whom carry extensive product portfolios. Nationwide we sell our products primarily through independent distributors and brokers for resale to retail outlets, restaurants, hotels and private clubs across the U.S. and in some overseas markets. Sales to distributors are expected to continue to represent a substantial portion of our net revenues in the future. A change in our relationship with any of our significant distributors could harm our business and reduce our sales. The laws and regulations of several states prohibit changes of distributors, except under certain limited circumstances, making it difficult to terminate a distributor for poor performance without reasonable cause, as defined by applicable statutes. Any difficulty or inability to replace distributors, poor performance of our major distributors or our inability to collect accounts receivable from our major distributors could harm our business. There can be no assurance that the distributors and retailers we use will continue to purchase our products or provide our products with adequate levels of promotional support. Consolidation at the retail tier, among club and chain grocery stores in particular, can be expected to heighten competitive pressure to increase marketing and sales spending or constrain or reduce prices.

Contamination of our wines would harm our business. We are subject to certain hazards and product liability risks, such as potential contamination, through tampering or otherwise, of ingredients or products. Contamination of any of our wines could cause us to destroy our wine held in inventory and could cause the need for a product recall, which could significantly damage our reputation for product quality. We maintain insurance against certain of these kinds of risks, and others, under various insurance policies. However, our insurance may not be adequate or may not continue to be available at a price or on terms that are satisfactory to us and this insurance may not be adequate to cover any resulting liability.

A reduction in consumer demand for wines could harm our business. There have been periods in the past in which there were substantial declines in the overall per capita consumption of wine products in our markets. A limited or general decline in consumption in one or more of our product categories could occur in the future due to a variety of factors, including: a general decline in economic conditions; changes in consumer spending habits; increased concern about the health consequences of consuming alcoholic beverage products and about drinking and driving; a trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices and water products; the increased activity of anti-alcohol consumer groups; and increased federal, state or foreign excise and other taxes on alcoholic beverage products. Reductions in demand and revenues would reduce profitability and cash flows.

A decrease in wine score ratings by important rating organizations could have a negative impact on our ability to create greater demand and pricing. Many of Crimson's brands are issued ratings or scores by local and national wine rating organizations, and higher scores usually translate into greater demand and higher pricing. Although some of Crimson's brands have been highly rated in the past, and Crimson believes its farming and winemaking activities are of a quality to generate good ratings in the future, Crimson has no control over ratings issued by third parties which may not be favorable in the future.



Climate change, or legal, regulatory or market measures to address climate change, may negatively affect our business, operations or financial performance, and water scarcity or poor quality could negatively impact our production costs and capacity. Our business depends upon agricultural activity and natural resources, including the availability of water. There has been much public discussion related to concerns that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. Severe weather events and climate change may negatively affect agricultural productivity in our vineyards. The quality and quantity of water available for use is important to the supply of grapes and our ability to operate our business. Adverse weather, measures enacted to address climate change, and other environmental factors beyond our control could reduce our grape production and adversely impact our cash flows and profitability.

Environmental issues or hazardous substances on our properties could result in us incurring significant liabilities. We are subject to environmental regulations with respect to our operations, including those related to wastewater, air emissions, and hazardous materials use, storage and disposal. In addition, we own substantial amounts of real property that are critical to our business. If hazardous substances are discovered on any of our properties and the concentrations are such that the presence of such hazardous substances presents an unreasonable risk of harm to public health or the environment, we may be held strictly liable for the cost of investigation and remediation of hazardous substances. The cost of environmental remediation could be significant and adversely impact our financial condition, results of operations and cash flows.

Our indebtedness could have a material adverse effect on our financial health. In March 2013, we entered into a revolving credit facility with American AgCredit, FLCA and CoBank, FCB as joint lenders that is secured by substantially all of our assets. We plan to rely upon the revolving credit facility for working capital funding and in the future may use it for acquisitions. The revolving credit facility includes covenants that require the maintenance of specified debt and equity ratios, limit the incurrence of additional indebtedness, limit dividends and other distributions to shareholders and limit certain mergers, consolidations and sales of assets. If we are unable to comply with these covenants, outstanding amounts could become immediately due and/or there could be a substantial increase in the rate of borrowing.

Changes in domestic laws and government regulations or in the implementation and/or enforcement of government rules and regulations may increase our costs or restrict our ability to sell our products into certain markets. Government laws and regulations result in increased farming costs, and the sale of wine is subject to taxation in various state, federal and foreign jurisdictions. The amount of wine that we can sell directly to consumers outside of California is regulated, and in certain states we are not allowed to sell wines directly to consumers and/or the amount that can be sold is limited. Changes in these laws and regulations could have an adverse impact on sales and/or increase costs to produce and/or sell wine. The wine industry is subject to extensive regulation by the Federal Alcohol Tobacco Tax and Trade Bureau (“TTB”) and various foreign agencies, state liquor authorities, such as the California Alcoholic Beverage Control (“CABC”), and local authorities. These regulations and laws dictate such matters as licensing requirements, trade and pricing practices, permitted distribution channels, permitted and required labeling, and advertising and relations with wholesalers and retailers. Any expansion of our existing facilities or development of new vineyards or wineries may be limited by present and future zoning ordinances, environmental restrictions and other legal requirements. In addition, new regulations or requirements or increases in excise taxes, income taxes, property and sales taxes or international tariffs, could affect our financial condition or results of operations. Recently, many states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. New or revised regulations or increased licensing fees, requirements or taxes could have a material adverse effect on our financial condition, results of operations or cash flows.

We may not be able to insure certain risks economically. We may experience economic harm if any damage to our properties is not covered by insurance. We cannot be certain that we will be able to insure against all risks that we desire to insure economically or that all of our insurers will be financially viable if we make a claim.

We may be subject to litigation, for which we may be unable to accurately assess our level of exposure and which if adversely determined, may have a significant adverse effect on our consolidated financial condition or results of operations. Although our current assessment is that there is no pending litigation that could reasonably be expected to have a significant adverse impact, if our assessment proves to be in error, then the outcome of litigation could have a significant impact on our financial condition or results of operations or cash flows.

The payment of dividends in the future is subject to the discretion of our board of directors. We do not have a regular dividend policy and whether or not to pay any dividends will be determined each year by our board of directors.

If our intangible assets or goodwill become impaired, we may be required to record significant charges to earnings. We have substantial intangible assets and goodwill on our balance sheet as a result of acquisitions we have completed, in particular the acquisition of Seghesio Family Vineyards. We review intangible assets and goodwill for impairment annually or more frequently if events or circumstances indicate that these assets might be impaired. Application of impairment tests requires judgment. A significant deterioration in a key estimate or assumption or a less significant deterioration to a combination of assumptions or the sale of a part of a reporting unit could result in an impairment charge in the future, which could have a significant adverse impact on our reported earnings.

Our common stock will not be listed on any securities exchange; as a result there may be a limited public market for our common stock. Prices for our common stock are quoted on the Over-The-Counter (OTC) Link. Securities whose prices are quoted on the OTC Bulletin Board do not have the same liquidity as securities that trade on a recognized market or securities exchange. An active trading market for our common stock may not be sustained in the future. As a result, stockholders may find it more difficult to dispose of or obtain accurate quotations as to the market value of our common stock.

Our common stock price may experience volatility. The stock market has from time to time experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of particular companies. Changes in earnings estimates by analysts, if any, and economic and other external factors may have a significant effect on the market price of our common stock. Fluctuations or decreases in the trading price of our common stock may also adversely affect the liquidity of the trading market for our common stock.

Future sales of our shares could depress the market price of our common stock. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Any disposition by any of our large shareholders of our common stock in the public market, or the perception that such dispositions could occur, could adversely affect prevailing market prices of our common stock.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses. Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, are creating uncertainty for companies such as ours. We are committed to maintaining appropriate corporate governance and public disclosure. As a result, we may see an increase in general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities, which could harm our business prospects.

We are an “emerging growth company” and we cannot be certain if we will be able to maintain such status or if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors. We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”) and have taken advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirement of holding a nonbinding stockholder advisory vote on executive compensation, frequency of approval of executive compensation and any golden parachute payments not previously approved. We will retain emerging growth company status until the earliest of: (1) the last day of the fiscal year following the fifth anniversary of the date we first sold securities pursuant to an effective registration statement under the Securities Act; (2) the last day of the fiscal year in which we first had total annual gross revenues of \$1 billion or more (indexed pursuant to the JOBS Act); (3) the date on which we are deemed to be a “large accelerated filer” as defined in Exchange Act Rule 12b-2 (i.e., an SEC registered company with a public float of at least \$700 million that satisfies other tests); or (4) the date on which we have, within the previous three years, issued more than \$1 billion of nonconvertible debt. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have irrevocably elected not to avail ourselves of this extended transition period for complying with new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Additionally, we cannot predict if investors will find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result of our reduced disclosures, there may be less active trading in our common stock and our stock price may be more volatile.

We may not be able to engage in certain corporate transactions after the Distribution. Under the tax matters agreement that we have entered into with Leucadia, we covenant not to take actions that would jeopardize the tax-free nature of the Distribution. Additionally, we are required to indemnify Leucadia and its affiliates against all tax-related liabilities caused by the failure of the Distribution to qualify for tax-free treatment for U.S. federal income tax purposes (including as a result of events subsequent to the Distribution that caused Leucadia to recognize gain under Section 355(e) of the Code) to the extent these liabilities arise as a result of actions taken by us or our affiliates (other than Leucadia) or as a result of changes in ownership of our Common Stock. If the Distribution is taxable to Leucadia, Leucadia would recognize gain, if any, equal to the difference between Leucadia's tax basis in our Common Stock distributed in the distribution and the fair market value of our Common Stock. Leucadia does not expect that there would be significant gain, if any, recognized on the Distribution even if it were found to be taxable. This covenant (and, to some extent, this indemnification obligation) may limit our ability to pursue certain strategic transactions, including being acquired in a transaction for cash consideration or from engaging in certain tax-free combinations in which our shareholders do not ultimately possess a majority ownership interest in the combined entity.

Significant influence over our affairs may be exercised by our principal stockholders. As of March 19, 2013, the significant stockholders of our company are our Chairman, Ian M. Cumming (approximately 8.7% beneficial ownership, including ownership by certain family members, but excluding Mr. Cumming's charitable foundation) and one of our directors, Joseph S. Steinberg (approximately 9.6% beneficial ownership, including ownership by trusts for the benefit of his respective family members, but excluding Mr. Steinberg's private charitable foundation). Accordingly, Messrs. Cumming and Steinberg could exert significant influence over all matters requiring approval by our stockholders, including the election or removal of directors and the approval of mergers or other business combination transactions.

Item 1B. Unresolved Staff Comments.

Not applicable.