

# **Halo Notch Estate**

Tennessee's Largest Vineyard

## **Investment Profile**

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### ***Introduction***

This business profile of Halo Notch Incorporated and the corresponding surveyed 91.67-acre estate will demonstrate that Halo Notch is a well established and rapidly growing unique business venture with guaranteed consumers, potential high revenue and consistent capital returns. The vineyard provides a controlling market share of a highly desired and required commodity for the wine industry. This prospectus will show the continued development potential is multifaceted and vast. It presents an exceptional investment opportunity to obtain one of a few large acreage tracts of land in a booming East Tennessee real estate market with a highly prized vineyard lifestyle. This profile will reflect that a tremendous amount of research, capital, enterprise and patience has already been expended to the benefit of a potential buyer.

### ***Background***

In September 2003, after two years of research, entrepreneurs Mike and Tina Frizzell began establishing the largest commercial vineyard in Tennessee, Halo Notch Vineyards, for the purpose of meeting a specific commodity shortage need within the Tennessee winery industry. Halo Notch Estate is located in Monroe County, one of East Tennessee's fastest growing counties. It is conveniently located approximately 8 miles off of Interstate 75, mid-way between Chattanooga and Knoxville, in the Cherokee Overhill Heritage Area. The property maintains over 1,800 feet of road frontage and is situated just off Scenic Highway 68. It has an average elevation of 1,150 feet boasting sweeping views of the mountains within the Cherokee National Forest and the Great Smoky Mountains National Park. Several large pasture and woodland tracts surround the estate. Thirty acres of the ninety-one acre estate are planted in vineyards with the remaining acreage currently yielding premium orchard-grass hay. There is also a brick dwelling, two barns, a pond and some wooded areas on the property. A detailed description of the property and assets is included as Attachment A.

Halo Notch founder, Mike Frizzell has an extensive background in business development and trend forecasting. He has owned several successful businesses in Florida, Georgia and Tennessee. He and his wife Tina, an Environmental Engineer with experience in geology and soil science, selected this particular venue for vineyard establishment due to: the high demand for wine grapes in the state; the location of the property with respect to tourism in the region; a climate, elevation and topography required for successful viticulture activities; and the excellent suitability of soils in the Sweetwater Valley area for wine grape production.

### ***Opportunity***

Research conducted by Mr. Frizzell in 2002 and 2003 indicated that there was a substantial and continued deficit of wine grapes grown in the Southeastern United States each year. Specifically, the steady growth in sales and production volume of Tennessee wineries was creating an extremely high demand for grapes as the need for the best fruit continued to outstrip the supply. Upon interviewing most of the owners and wine-masters of wineries in the state, as well as reviewing the Tennessee Department of Agriculture out-of-state-purchase waiver records, it was apparent that the wine industry in Tennessee was experiencing an average annual tonnage deficit of over 500 tons, or equivalent to at least 90 acres of total wine grapes. The single highest varietal deficit was credited to a lack of *vitis rotundifolia* (muscadine) grapes grown within the state with a consistent annual muscadine tonnage deficit of over 200 tons, or equivalent to at least 30 acres<sup>1</sup>.

The lack of muscadines available within the state coupled with a Tennessee State law which requires wineries to exhaust all of the in-state grown fruit supply prior to being granted waivers to purchase fruit from other states, led Mr. Frizzell to begin putting together a business model for the establishment of a large commercial vineyard in Tennessee. According to State Code, Section 57-3-207(5), wineries within the state “must utilize the supply of Tennessee products of any given variety it needs before being

granted a waiver authorizing it to import out-of-state products of that variety”. Further extensive research was then conducted concerning demographics, viticulture methodology, economic variables, legal factors, agricultural tax advantages, soil suitability, and the detailed status of the Tennessee winery industry.

### ***Regional Suitability and Fruit Selection***

The Frizzell’s learned that in 1880 there were at least 1,128 Tennessee acres planted in grapes and that Tennessee has a rich history of wine grape production prior to prohibition. The climate, soil conditions and elevation in certain areas of the state are very favorable for wine grape production, especially in the foothills and valley region of the southeastern part of the state. Potential sites in suitable areas were identified that had the following factors: slope and air drainage of the land, accessibility to major thoroughfares, location in close proximity to major wineries, suitability of soil conditions based on soil samples, suitability of topography and climate, desirability and natural beauty of area for prospective tourism development, desirability of area for prospective residential development, and availability of large land tracts.

The Frizzells selected a site in 2003 that met the aforementioned criteria. The site, which is now Halo Notch, is specifically well suited for viticulture as designated by The American Farmland Trust and the University of Tennessee, Department of Agriculture. The location of the vineyard provides the option for tourism development due to its’ proximity to the interstate and prominent area attractions such as The Lost Sea Adventure (2 miles), Tellico and Watts Bar lakes (20 miles), The Cherohala Skyway and the Cherokee National Forest (25 miles), The Great Smokey Mountain National Park (30 miles), world-class rafting on the Hiwassee and Ocoee rivers (25 and 35 miles), and the Pigeon Forge/Gatlinburg area (70 miles). Further, there is a strong opportunity for residential development with the vineyard being conveniently located less than 50 minutes from both West Knoxville and Northeast Chattanooga, 30 minutes from both Maryville and Cleveland, and 20 minutes from high-end golf and lake communities such

as Rarity Bay, Kahite, Tennessee National, Rarity Pointe and Tellico Village. Also noteworthy is that Knoxville is annually highlighted by Forbes Magazine as one of the top ten cities in America for business and that East Tennessee in general is becoming a retirement mecca.

According to data from 2001-2003, muscadine grapes were the most frequently purchased out-of-state wine grape variety, as well as being indigenous to the southeastern U.S., and was therefore the most logical grape variety choice in establishing a vineyard<sup>2</sup>. Mr. Frizzell researched all varieties of muscadines which are currently suitable for commercial production and selected the top varieties that were documented to be: self-fertile flowering, excellent cold-hardy and disease resistant, high yielding, highly vigorous, and highly desirable for wine production. Research revealed that muscadines yield 5 to 10 tons of fruit per acre and can produce for nearly a century.

Based on the aforementioned criteria, five muscadine varieties were selected: Carlos, Doreen, Magnolia, Sterling and Nobel. These varieties were developed by the *vitis rotundifolia* breeding program at North Carolina State University. According to a survey of all Tennessee Wineries conducted in 2002, these same five varieties were preferred almost unanimously by commercial wine-masters. To further substantiate that these varieties would thrive in this area of East Tennessee, several well-established vineyards (2 – 3 acres in size) within 10 miles of the proposed Halo Notch site were visited in 2002 and 2003 and their owners interviewed. One non-commercial grower planted his 2-acre vineyard with these same varieties in 1980. Since 1985, he has consistently produced approximately 6 tons of fruit per acre and has never experienced a loss of plants due to cold temperatures, disease or pests. The few vines that have died did so due to damage from carelessness with mowing equipment. Another local grower with several acres of muscadines has continued to experience high yields and thriving vines which were planted in 1965.

### ***Vineyard Establishment***

After six months of preparing the ground, the Frizzell's planted approximately 5,400 vines, encompassing over 30 acres, in February 2004. This established the largest vineyard in the state, regardless of grape variety. The Halo Notch business model shows that after maturity, Halo Notch vineyards will easily be able to meet most current deficits of muscadines within the entire Tennessee Winery Industry, providing 250 tons of fruit annually. Following the initial two years of research, the Frizzells have spent the last four years establishing a model vineyard. This was accomplished by utilizing the best viticulture strategies and vineyard management practices available. This includes the construction of an all-steel trellis system measuring over 20 linear miles, utilizing north-south oriented rows, as well as the effective use of greenhouse grow-tubes during the vine's first year. They have also spent this time acquiring all of the needed equipment required to establish and operate a large successful vineyard, including the purchase of one of only three mechanical grape harvesters in the state. A comprehensive list of vineyard assets is included as Attachment B.

### ***Vineyard Performance***

The vines at Halo Notch Vineyards were only 1 year old in 2005; at this age fruit is not normally expected. However, due to advanced growth, during 2005 Halo Notch harvested over 5 tons of muscadines and sold that fruit to four Tennessee Wineries. In 2006, Halo Notch produced over 53 tons of fruit which was sold to three Tennessee Wineries as well as to the general public at Halo Notch's first 'Pick-Your-Own' operation (Ref. Attachment C). An average yield for two year-old vines is about 1 ton per acre. Due to the use of the best available viticulture practices, Halo Notch vines yielded almost twice the normally expected amount.

In 2007 the vineyard produced almost 54 tons of fruit despite experiencing the worst recorded spring freeze event in 53 years. All primary shoots were burned back in the April freeze due to the vines achieving early bud break from record-breaking warm

temperatures in March. 2007 also brought an extreme regional drought and the driest growing season in 118 years as reported by the Tennessee Valley Authority. In spite of these two extreme meteorological anomalies, Halo Notch Vineyards still produced about 50% of its expected yield from 3 year old vines. In comparison, in 2007 most other fruit growers throughout the southeastern United States harvested less than 10% of their expected yield. The outstanding performance of Halo Notch Vineyards, even under the stress of not one but two rare weather anomalies, is attributed to continually utilizing the absolute best viticulture practices available in the establishment of Halo Notch Vineyard, beginning with site choice in 2003. Halo Notch was established with the following manifesto: grow the best quality grapes from the proper varieties at the correct terroir with the best proven practices (Ref. Attachment D).

Over 146 tons of muscadines, 40% beyond estimates, were grown at Halo Notch in 2008. It was expected to have a yield of 3-4 tons per acre for vines planted in 2004, however, the 2008 yield was almost 5 tons per acre. This reflects an extremely strong recovery from the 2007 vintage and is on pace for production levels exceeding 250 tons annually by 2011. Due to an overly conservative yield estimate of 100 tons for 2008, only 100 tons were contracted. Ultimately over 114 tons were sold to five wineries.

Vines commonly require 7 years to reach their full yield levels. Based on the advanced growth and quality health of the vines, the estimated yields and revenue have continued to accelerate toward their mature levels. Once fully mature yield levels are reached, it is not uncommon for muscadine vines to continue production at mature levels beyond 60 years. Although vine yields may decrease somewhat after 60-70 years, most oenologists consider the fruit produced from a 60-100 year old vine to have preferred wine qualities which command a premium price.

Although Halo Notch Vineyards were created to meet a specific need within the Tennessee winery industry, its' value could be greatly multiplied if Halo Notch

Vineyards were to establish its' own winery. For example, currently in Tennessee, the fruit from one mature acre of muscadines commonly sell for \$7,000 - \$9,500 per acre; if that fruit were turned into wine, that same one acre of fruit could be sold in the form of Tennessee wine for \$58,000 - \$80,000. Theoretically, if all fruit were made into wine at Halo Notch, it could generate 1.5 million to 2.2 million dollars in annual wine sales based on its current acreage alone, not to mention other potential winery related retail sales. Another secondary market includes a 'Pick-Your-Own' agri-tourism operation that in 2007, at Halo Notch, on average generated over \$2,500 per each day of operation. With minimal target marketing, this venture could easily generate \$40,000 annually. Other potential secondary markets for Halo Notch vineyards include; the juice/cider/jelly industry, farmers/fresh markets and groceries, pomace distribution, pressing grape seed oil for cooking or bio-fuel, live vine nursery sales, nutraceutical industry, health/dietary food industry, vine clippings for wreath making, wedding site, event venue, and educational and agri-tourism tours to name a few.

### ***Growth Potential***

Without any further development, Halo Notch is currently a successful and viable business, selling fruit to commercial wineries. However, there are many logical avenues for potential growth. It can easily be developed into a winery, which with value-added products could exponentially grow revenue. Even then, it would still provide ample land for further vineyard expansion to grow other grape varieties, which could be utilized directly by a Halo Notch Winery with the excess fruit being contracted and sold to other wineries. The additional unimproved 60 acres is a very versatile investment and can be developed into an exclusive vineyard residential neighborhood. *The New York Times* touts vineyard living as the new preferred lifestyle over golf course communities, and profiles this emerging trend<sup>3</sup>. Or the entire estate could be developed into a spectacular resort destination anchored by a vineyard experience, winery, rental villas, retail shop, café, bed and breakfast or lodge. It could include an event pavilion for weddings, reunions, and receptions. The development potential is limited only by one's

imagination. The additional land, currently in quality hay production, can also simply be an excellent long-term investment, which includes a current, viable business. Halo Notch, coupled with a buyers dream-home blueprint, also provides an opportunity for someone to own a truly one of a kind exquisite private vineyard estate.

All of the market trends, both within Tennessee and nationally, for wineries and vineyard production indicate incredible future growth potential. The industry provides an affordable luxury that consumers are finding increasingly interesting. About ten new commercially licensed wineries have opened in Tennessee over the past five years, and several others are in the planning and permitting stages. Vineyards and adjoining properties are highly desired and considered an exceptionally sound and unique investment. Historically, the winemaking industry is not affected by any general economic, political or social factors. A national study as reported by *USA Today* calls wine “the most sought after consumer good of this era”<sup>4</sup> and even specifically mentions muscadine wine by name. *The Wall Street Journal* considers Tennessee an emerging vineyard and winery “hotspot”<sup>5</sup>. In 2007, MKF Research LLC reported that “the Tennessee wine industry and related services is experiencing rapid growth and is poised to capitalize on the increased consumer consumption of table wine and agri-tourism” and that “the United States will be the world’s largest wine market by 2010”. The Tennessee Farm Wine Growers Association research shows that “grapes are the highest value fruit crop in the nation” and that “wine across the US has enjoyed the most positive image it has had in years, from the public, the media, and government”.

The international, national and state vineyard industries, as well as the highly desired vineyard experience and lifestyle are increasingly highlighted in all media platforms. Moreover, muscadines are quickly becoming the most popular grape variety available because of its preferred flavor and exceptional health attributes. The California Rare Fruit and Nut Association states, “The muscadine is poised to be as popular and well known as the Concord, and is only limited by its marketing and public awareness”.

### ***Market Comparison***

A comparison between Halo Notch and vineyards with similar business models was performed in order to show the extraordinary value of Halo Notch. The study compared the value of Halo Notch Vineyards to similar vineyards, which recently sold in California and Colorado. As seen in Attachment E, Halo Notch will generate four times more fruit (upon maturity), provides three times the total estate acreage, and 50% greater vineyard acreage for a significantly less investment than the purchase price of the California vineyard. The California vineyard held only a miniscule amount of the total market share of vineyard acreage in the state, where Halo Notch commands a huge market share of vineyard acreage in Tennessee. It currently makes up over 35% of the total muscadine vineyard acreage in Tennessee and represents an incredible 6% of all productive Tennessee commercial vineyard acreage, regardless of grape variety. The vineyard at Halo Notch is more than 10 times larger than the average Tennessee vineyard, which is less than 3 acres. All market comparisons and valuations expose the exceptional investment value of Halo Notch Estate.

If someone today were able to conceptualize, identify, establish and replicate a vineyard of this size on a similar estate it would require much more capital than the purchase price of Halo Notch. Supporting the comparative market value analysis, the 2008 replacement value of Halo Notch Estate is calculated to be in excess of \$3 million. Still then, an investor would have to wait at least five years to reach the current potential that Halo Notch has already obtained<sup>6</sup>. Further, a guaranteed consumer would not be secured for the new endeavor, in that the vast majority of the Tennessee muscadine market has been met and satisfied by the establishment of Halo Notch Vineyards (Ref. Attachment F). It would be impossible to replicate the timing to capture the market which Halo Notch has succeeded in doing. A portion of the market worth of Halo Notch lies within its ability to generate consistent large profits within a well-established niche market. Although it is now in a lucrative position to simply continue to supply a highly desired agricultural

commodity, the future development of a winery, value-added products, and real estate development would exponentially increase an already high position of profitability and appreciation.

Several additional reasons that Halo Notch is considered a very wise investment include the fact that long-term grape purchase agreements are available from most wineries. State law protects a vineyard-business investment in addition to the naturally fast appreciating land investment. The Tennessee winery environment is in excellent condition for grape-future gains. The current and future competitive position for Halo Notch is phenomenal in the fact that it alone can satisfy most of the muscadine deficit within the state<sup>7</sup>. Most financial and business model risks have already been taken, tried and removed by the original founders. The business earning potential for a vineyard and/or winery is much greater than a similar capital cost endeavor. In addition, the romantic and prosperous vineyard lifestyle is highly desired.

### ***Conclusion***

Halo Notch Estate currently provides a business opportunity where the consumer, being the 37 Tennessee wineries, is clearly identified and established therefore no marketing is required. Also, due to the shortage of Tennessee grown muscadines there is no competition for your product. And, one enjoys the confidence of a guaranteed consumer mandated by state law. Halo Notch is positioned to be the premier vineyard, and possible winery in the state. Halo Notch Vineyards provide a wonderful opportunity for both a successful business and a unique real estate investment<sup>8</sup>. It provides a well-established business with remarkable returns if it were to simply continue as a vineyard supplying fruit to commercial wineries and as an agri-tourism venue (Ref. Attachment G). In summary, the need for a large commercial vineyard in Tennessee was obvious and Halo Notch Vineyards met this need. Further, State Law provides an impervious level of protection for the investment in a commercial vineyard in that wineries are required to exhaust all in-state supplies before going out of state to obtain fruit for commercial wine

production. Halo Notch Vineyards will generate consistent cash and subsequent profits for its owners (Ref. Attachment H).

This business and estate profile has clearly demonstrated that Halo Notch is a highly valuable investment possessing enormous earning power and appreciation with a guaranteed consumer. It provides extraordinary goodwill and intangible value compared to most other business models. It has shown that it can produce about \$300,000 in annual fruit sales alone and potentially can produce over \$2 million in wine products annually with its current vine acreage. All forecasting trends provide a high positive business growth prospect on a uniquely attractive opportunity<sup>9</sup>. For the buyer of Halo Notch, the degree of risk is extremely low, the potential profitability is high, the location is good, the industry growth history is solid, there are no competitors, the future potential growth for the industry is high, and the customer base is proven and sure. It will provide someone a powerful monopoly environment on a highly prized commodity, producing quick returns on the investment and high tangible dividends. Halo Notch Estate truly possesses an innovative product, process, position and paradigm (Ref. Attachment I).

Over the last six years of research, planning, establishment and management, all the elements of success have been innovatively combined and the prosperity equation has been completed for a grand opportunity seeker. The potential for Halo Notch Estate is indeed multifaceted and vast. Its availability presents an exceptional investment opportunity. This chance to acquire the largest vineyard in Tennessee and experience its corresponding distinct lifestyle first-hand is truly a rare and unequalled occasion.

## End Notes:

<sup>1</sup> According to a 2002 Tennessee Department of Agriculture report entitled ‘Evaluating Production and Market Opportunities for Tennessee’s Grape and Wine Industry’ there was an immediate need by state wineries for at least 90 additional acres of total fruit in the state, at least 33% of which was for muscadine varieties. In 2001 there were 22 wineries in Tennessee that produced at least one variety of muscadine wine. Of these 22, only 4 produced enough muscadines to meet their own needs. The remaining wineries obtained their product from small non-commercial growers in the state or from out-of-state suppliers.

The Tennessee Farm Winegrowers Association reports that in 2003 muscadine varieties were the most frequently purchased out-of-state grape variety. It shows that the average Tennessee winery acquired 21% of its grapes from out-of-state sources. It also reflects that 43% of its grapes were acquired from Tennessee vineyards that were not part of its own operations. The same report noted that one-acre of grapes on average produces between 600 to 1000 gallons of wine and in 2003 Tennessee wineries sold over 138,000 gallons of wine. The sales of wine in the US increased by 19% from 1998-2003. The sales of wine in Tennessee grew by 32% during the same timeframe.

The TN Dept of AG reported that in 2006, Tennessee wineries requested they be allowed to purchase a total of over 174 tons (or the juice equivalence) of muscadines from outside the state.

The TN Dept of AG reported that in 2007, Tennessee wineries requested they be allowed to purchase a total of over 104 tons (or the juice equivalence) of muscadines from outside the state.

The TN Dept of AG reported that in 2008, Tennessee wineries requested they be allowed to purchase a total of over 196 tons (or the juice equivalence) of muscadines from outside the state. The increase was due to the increase in commercial wineries in the state (37 as of 11/2008) and the overall increase in popularity and sales volume for muscadine wines.

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<sup>2</sup> In 1584, Sir Walter Raleigh said, “*they were as wild and untamed as the land they covered...on the sand and on the green soil, on the hills as on the plains, as well as on every little shrub...also climbing towards the tops of tall cedars...in all the world the like abundance is not to be found*”.

This early English explorer had landed on the coast of North Carolina and was describing muscadine grapes, *vitis rotundifolia*, the bronze or purple-black fruit that was growing profusely throughout what is now the southeastern United States. Today, more than 420 years later, scientists with USDA’s Agriculture Research Service and Mississippi State University have even more reason to be excited about the muscadine. Their research

predicts that the muscadine will not only be an alternative crop for growers in the Southeast, but a new health food as well. Due to the increasing demand for products that are known to have high health benefits, especially in the area of cancer-fighting agents such as the resveratrol found in muscadine grapes, it is easy to foresee the success of a commercial muscadine vineyard. Although muscadines were growing in the United States long before the first colony was settled, their full potential as a profitable crop has yet to be realized. With effective marketing and product development, ARS and Mississippi State believe muscadine production could easily become a major industry throughout the Southeast.

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<sup>3</sup> Selected quotes from *The New York Times*, (Thursday, September 13, 2007) “Where the Good Life Demands Grape Views”

“The novelty of the golf course community may have begun to fade in recent years, but now vineyard living is emerging as an alternative. The American fascination with wine has never been more intense – wine consumption increased by 25 percent or 142 million gallons between 2001 and 2006, according to the San Francisco-based Wine Institute – and new housing developments are appearing alongside or right in the middle of vineyards across the country, even in areas not well known for their wine production.”

“In the last three years, at least 10 of these developments have opened or broken ground in California, Washington, Idaho, Arizona, Texas, North Carolina, Virginia, Ohio, New York and Rhode Island, and several more are in advanced planning stages. Some are built on or around existing vineyards.”

“The properties aren’t cheap. “Vineyards allow us to charge a 20 to 25 percent premium on the price of the land”

“The developments are one the latest versions of leisure-focused, master-planned communities, which were first built in the 1980s around activities like golf, swimming and skiing. A few years ago, industry observers say, developers began to recognize a desire on the part of consumers for a wider range of leisure-theme options, and that was when vineyards started taking off.”

“Vineyard communities also exploit the cachet – and the snob appeal- of wine. Like a golf course, “a vineyard is a very high-prestige, social-capital amenity,” said Adam Ducker, a senior principal at Robert Charles Lesser & Co., a real-estate consulting firm that has been involved in the development and marketing of several vineyard communities. (Unlike a golf course, he added, it’s an amenity “that effectively pays for itself.”)

Mr. Mahaffey, the Idaho developer and vintner and former Apple executive, relocated to Eagle, Idaho, from Silicon Valley in 2004... he bought 46 acres for approximately \$4

million. He named it Vigne d'Aquila and subsequently divided it into nine five-acre parcels, or "vineyettes," each consisting of a one-acre lot intended to be occupied by a villa of at least 4,000 square feet, along with four acres of vineyard. He has already sold one parcel for about \$2 million."

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<sup>4</sup> Selected Quotes from *USA Today*, Life Section Cover Story (Friday, July 14, 2006; ppg. D1- D12) "Vineyards, wineries are pouring it on"

"America's new wave of wine lovers no longer trek just to the west coast to vacation in the vineyards. Nestled among the Appalachian foothills...are wine communities that showcase the bounty and hospitality of the region."

"In a majority of states nationwide, entrepreneurs are planting vineyards, building wineries and opening tourist-friendly tasting rooms at a pace that's unprecedented since the end of prohibition. As a result they're ushering in a new era of grass-roots wine appreciation that finally is erasing the stigmas of mystery and elitism."

"... the number of U.S. wineries has grown to roughly 4,000 from about 2,100 in 1995."

"The emerging 70-million-strong millennial generation – the first to prefer wine over beer and spirits, according to a recent survey – is viewed as a potentially lucrative market that is showing great interest in local produce and food products...there is a lot of buzz about regional wines'."

"... wine appreciation is taking on a more casual, down-home flavor, and it's reaching audiences that previously never glanced at grapes."

"Advocates in emerging wine-producing states have known that agri-tourism can generate big bucks, though until recently few had the hard data to support their view."

"...the national study calls wine 'the most sought after consumer good of this era'."

"'People don't want to just taste wine, they want an experience, and entrepreneurs have seized upon that.' At the same time, 'governments at various levels are coming to realize that the wine industry is a really good thing for the economy, for image and consumer health. It's all coming together.'"

"Sample the lesser-knowns...muscadine...a hearty genus of grapes that are normally turned into sweet, musky-tasting, white, red or blush wines. They're especially popular in the South."

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<sup>5</sup> *The Wall Street Journal* Comments on Tennessee Muscadines

On Friday May 25, 2007 *The Wall Street Journal* ran the article, “The United States of Wine”. In this one-plus page article, Tennessee is highlighted, along with Colorado, Connecticut, Illinois and Arizona, as one of the five states considered to be an emerging vineyard and winery hotspot in the race to become the next Napa Valley. It discussed various wine varieties and mentioned that, “popular choices include sweet wine made from golf-ball sized Muscadine grapes...”. It pointed out that Country music star Kix Brooks (of Brooks & Dunn fame) opened a new winery just south of Nashville in 2007. It commented that governments and chambers were encouraging vineyard development, stating that “States are pushing wine tourism hard to boost the local economy”.

The article went on to say that, “last year (2006) wine tourists spent \$3 billion sniffing, swirling and spitting in buckets across the U.S.”. It noted that there are a total of 5,110 wineries in the U.S. and that 1,173 of those wineries are outside the top four wine producing states of California, Washington, Oregon and New York.

The article shows that North Carolina added 18 new wineries in 2006. It went on to say, “In North Carolina, a 2006 study found that the states’ wineries were attracting 800,000 tourists annually and generates \$122 million a year”.

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<sup>6</sup> Farm Management Specialist John Campbell, with the University of Tennessee Agriculture Extension, recently presented a report for vineyard marketing success. That report reflected that an expected muscadine yield for a Tennessee vineyard should be 4.0 tons per acre in year 3, then 6.0 tons per acre in year 4, then 8.0 tons per acre in year 5 and forward. It also showed that the 2006 cost to establish a vineyard in Tennessee, just through year 1, was at least \$9,767 per acre, plus the additional cost of the land.

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<sup>7</sup> To view a short professional video that was shot by the University of Tennessee at and about Halo Notch Vineyards in September 2006, visit the following website and click on ‘muscadines’. [www.agriculture.utk.edu/news/videoreleases/0611\\_muscadines.htm](http://www.agriculture.utk.edu/news/videoreleases/0611_muscadines.htm). This video has been shown on network and cable television by numerous news and agricultural organizations in all major television markets across the state on multiple occasions since it first aired in November 2006.

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<sup>8</sup> The owner of Halo Notch may consider selling separately either (1) approximately 45 total acres which includes 30+ trellised vineyard acres, business, residence, barns and equipment for \$1,440,000 or (2) approximately 46 acres of adjoining undeveloped mountain-view land for \$10,000 per acre. The seller may also consider owner-financing options of up to 25% of the sell price and/or an equity/stock offering.

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<sup>9</sup> Professor Charles R. Hall, with the University of Tennessee Agriculture Extension, recently presented the report *'The Grape and Wine Market: Consumer trends and Analysis'*. The report provided the following data: there are about 175 private and commercial vineyards in Tennessee (as of 2005); over 1.5 million gallons of wine have been produced in the state since 1980; the average price of grapes grown in the state is up to \$1,200 per ton (2006); 21% of all grapes used by Tennessee wineries came from outside the state (2001); muscadine varieties make up 20% of the total fruit used by Tennessee wineries (2002); national and state consumption trends are steadily increasing and consumption trends are a positive indicator of future demand; and vineyard production in Tennessee has grown significantly in the last two decades.

In 2006, Dole Foods announced that they are investing \$65 million in research and development in the muscadine industry. (Peter Gilmore, Dole foods, 704.273.1195)

In 2006, Del Monte Foods purchased muscadines (from N. Carolina) at \$2,500 per ton.

The labeling of the muscadine as “nature's healthiest grape” has led to the development of dietary supplements, or nutraceuticals, by such firms as Nutragon and the Blue Water Company.

## Attachment A Property Description

The estate and business package available includes:

- 91.67 total surveyed acres
- Halo Notch Incorporated, a privately held Tennessee corporation including 100,000 shares of stock, contracts, inventory, and assets
- Over 30 acres of trellised vineyards
- Approximately 1,828 feet of road frontage
- 1,620 square foot brick residence, circa 1957
- 4,670 square foot barn, circa 1970
- 2,982 square foot barn, circa 1990
- Over \$ 200,000 worth of vineyard equipment and assets (see Attachment B)
- Approximately 60 acres of undeveloped land with incredible mountain views

Over 100 photographs of the estate are available for viewing at [HaloNotch.com](http://HaloNotch.com).

## Attachment B Halo Notch Inc. Equipment and Asset List

- Approximately 21 Miles (30 Acres) of Trellis System [Constructed from 5,000 8' Galvanized 1.33 lb/ft Studded; T-posts, 460 Schedule 40/Schedule 20 Concreted 'H' Terminal Braces, 21 Miles Galvanized 9 Gage High Tinsel Wire, 916 Tension Bands, 916 End Caps and 230 Ratchets]
- Approximately 5,450 Muscadine Vines (Five Varieties)
- Mechanical Grape Harvester, Braud, Euro Machines, model 524
- Specialty Vineyard Tractor, Kubota, 2005 M8200 Narrow, 4WD
- Utility Tractor, Zetor, 6245, 4WD
- Front End Loader/Bucket, Westendorf, TA26
- Finish Mower, Woods, 2005 RM990V
- Sprayer, Fimco, ATVTS60
- Rotary Tiller, 4' King Kutter II
- Front Tine Tiller, Yard Machines, 21A
- Fork Lift, Westendorf, FL48
- (2) Hedge Trimmers, Troy Built, Gas Articulating
- Rotary Cutter, Kodiak, 8' HD
- Pressure Washer, Troy Built, 01903
- (40) 1,200 pound capacity Harvest Bins, MacroBin, 24-A
- (10) Harvest Lugs, Norseman, 683
- (50) Harvest Buckets
- (9) Pruning Shears, Felco
- (4) Tape Guns, Max HTB2
- (100) Grow Tubes, Queiden, 4'
- Tool Box, Kobalt
- Fruit Scales, Mettler Toledo, XRT-3710
- Extra Trellis Components; Wire, T-Posts, Schedule 20, etc.
- Domain names, [www.HaloNotch.com](http://www.HaloNotch.com) and [www.HaloNotchVineyards.com](http://www.HaloNotchVineyards.com)
- Brix Hydrometer

## Attachment C “Pick-Your-Own” Press Release

### ***Experience Halo Notch, Tennessee’s Largest Vineyard, Where Mayberry Meets Napa***

With their distinctive rich flavor and delectably sweet skins, muscadines are an old southern favorite with newly discovered outstanding health benefits. For many, the taste of the muscadine grape brings back fond childhood memories of a visit to Grandma’s vine for this delightful treat. Native to Tennessee, muscadines are a treasure other regions envy. And now, during each September, local fresh muscadines are readily available to the public at one of the largest “Pick-Your-Own” vineyards in the entire southeast. Halo Notch Vineyards, located near Sweetwater and The Lost Sea, boasts an incredible 30 acres of deliciously healthy Tennessee muscadines on a tranquil 91-acre estate.

Muscadines are indigenous to the southeastern United States and have been cultivated for over 400 years. Native Americans preserved muscadines as dried fruit long before the Europeans came to this continent. Legend has it that the Cherokee cherished the savory muscadine as an aphrodisiac. The muscadine was also one of the first grape varieties in the United States from which wine was made and has been traditionally popular for making jelly and sauces for generations. It is truly America’s wholesome native grape. Halo Notch Vineyards are glad to help preserve the muscadine heritage for you and your family.

The name ‘muscadine’ (*Vitis Rotundifolia*) historically referred only to the dark-colored varieties of the grape, but technically includes all varieties regardless of the berry color. The bronze varieties were generally referred to as scuppernongs, although ‘scuppernong’ is actually only one specific bronze-colored variety. There are several dozen muscadine cultivars, but only a few varieties account for the commercial production acreage. These sweet Tennessee native grapes, often described as having a “fruity”, “earthy”, and “jazzy” taste must really be experienced rather than explained. Researchers at Florida A&M University say, “Blind taste tests found that consumers preferred fresh muscadines over the white bunch varieties from California that dominates the market”. Halo Notch Vineyards grow four popular bronze varieties and one dark variety.

Not only are muscadines celebrated for their unique pungent flavor but are now also considered one of the most healthful foods in the world. Recent scientific analysis conducted independently by the University of Georgia, Mississippi State University, North Carolina State University, and The U.S. National Institute of Health, all concur that the muscadine provides remarkable health benefits. Muscadines contain the highest levels of antioxidants and polyphenolic compounds such as resveratrol and ellagic acid of any fruit tested. Antioxidants protect the body from damage caused by free radicals and

are considered to be effective in helping prevent abnormal cells, degenerative diseases, and to slow the aging process. Resveratrol is an anticarcinogenic agent and proven to be effective in reducing cholesterol levels and the risk for coronary heart disease. Ellagic acid is known to inhibit the start and growth of cancer cells. The research found that muscadine wines contain up to 7 times more resveratrol than other wines. Fresh muscadines are also higher in fiber, zinc, iron, and calcium than most fruits. The search was on to find nature's best source of antioxidants and the rare grape that is native only to the southeastern U.S., known as the muscadine, was the superlative.

The new discovery of potent and powerful antioxidants naturally found in muscadines has led to a renewed demand for one of nature's healthiest and most flavorful foods. The Institute of Agriculture at The University of Tennessee estimates there are currently 85 acres of commercial muscadine production in Tennessee. Halo Notch Vineyards maintain 30 scenic acres of refreshing muscadines, which provide over 20 linear miles of vines to pick from. Most of the 5,400+ vines were planted in 2004. The vineyards are located just fifteen minutes off Interstate 75, halfway between Chattanooga and Knoxville and provide views of the Cherokee National Forest and The Great Smoky Mountain National Park.

Each September Halo Notch Estate Vineyards opens to the public for "Pick-Your-Own" muscadines. In early October all remaining muscadines are picked by one of only three mechanical grape-harvesters in the state and sold to Tennessee wineries. Don't miss your chance this September to experience a taste of Heaven at the largest vineyard in the state. You are cordially invited to stroll through the serene vineyards as you pick your fill of scrumptious muscadines. Halo Notch Vineyards, where Mayberry meets Napa, are pleased to share with you the healthiest and most delightful fruit nature has to offer. Ah, the muscadine!

## Attachment D Harvest Summary

2005:

- Tennessee Valley Winery purchased 6,100 pounds of fruit for \$ 3,050.00
- Beans Creek Winery purchased 500 pounds of fruit for \$ 250.00
- Holly Ridge Winery purchased 1,371 pounds of fruit for \$ 754.05
- Keg Springs Winery purchased 2,300 pounds of fruit for \$ 1,150.00

The overall fruit sale price averaged about \$ 1,013 per ton.

**The 2005 total amount of fruit harvested was 10,271 pounds (5.1355 tons) and sold for a total of \$ 5,204.05.**

2006:

- The general public purchased 11,040 pounds of fruit over a ten day period from the 'Pick-Your-Own' operation for \$ 13,803.03, or about \$1,380 per each day of operation. Over 900 people attended.
- Tennessee Valley Winery purchased 88,391 pounds of fruit for \$ 44,560.65
- Mountain Valley Winery/ The Apple Barn Winery purchased 6,960 pounds of fruit for \$ 3,480.00

The overall fruit sale price averaged about \$ 1,163 per ton.

**The 2006 total amount of fruit harvested was 106,391 pounds (53.1955 tons) and sold for a total of \$ 61,843.68.**

2007: \*note: freeze and drought anomalies\*

- The general public purchased 7,801 pounds of fruit over a four day period from the 'Pick-Your-own' operation for \$ 10,032.12, or about \$ 2,508 per each day of operation. Over 500 people attended.
- Tennessee Valley Winery purchased 55,230 pounds of fruit for \$ 30,376.50
- Mountain Valley Winery purchased 42,280 pounds of fruit for \$ 23,254
- Shady Grove Meadery purchased 2,240 pounds of fruit for \$ 1,232

The overall fruit sale price averaged about \$ 1,200 per ton.

**The 2007 total amount of fruit harvested was 107,551 pounds (53.77 tons) and sold for a total of \$ 64,894.62.**

- 2008: \*note: Due to grossly underestimating the 2008 yield, 114 tons were sold out of a 146 ton yield\*
- The general public purchased 5,531 pounds of fruit over a six day period from the 'Pick-Your-own' operation for \$ 6,543.41, or about \$ 1,090 per each day of operation. Over 300 people attended.
  - Tennessee Valley Winery purchased 56,082 pounds of fruit for \$ 31,966.74
  - Mountain Valley Winery purchased 140,760 pounds of fruit for \$ 72,885.60
  - Shady Grove Meadery purchased 1,124 pounds of fruit for \$ 640.68
  - Ocoee Winery purchased 9,932 pounds of fruit for \$ 5,661.24
  - Amber Falls Winery purchased 15,520 pounds of fruit for \$ 8,846.40

The overall fruit sale price averaged about \$ 1,105 per ton.

**The 2008 total amount of fruit harvested was 228,949 pounds (114.475 tons) and sold for a total of \$ 126,543.41.**

### **Conservative Future Yield and Sales Estimates**

Using standard muscadine yield equations for Tennessee (see End Note 7)  
Sold at \$1,200/ton (see End Note 9)

\*note: wholesale to wineries only – **no** PYO sales included in estimates\*

**2009 = 190 tons with \$ 228,000 in wholesale fruit sales**

**2010 = 230 tons with \$ 276,000 in wholesale fruit sales**

**2011 (and following) = 250 tons with \$ 300,000 in wholesale fruit sales**

## Attachment E Comparable Vineyard-Business's and Estate's

(1) Windsor Vineyard in Northern California recently sold for \$ 2.65 million. It has only 30 total estate acres with 20 of those acres in vineyard and no dwelling. The established vineyard produced an average of 60 tons of Old Vine Zin grapes each year. It had an annual contract to sell its fruit for \$2,900 per ton, with average annual sales of \$ 174,000.

Windsor Vineyard, although with different variables, presents an exact business concept and model as Halo Notch Vineyards. All value adjustments to this comparable are made in the favor of Halo Notch. Additional value must be given to Halo Notch due to its four-time greater fruit yield (upon maturity) and the corresponding greater sales revenue. Also reflecting its inherent value, Halo Notch also provides 10 more vineyard acres and 60 additional total estate acres than the comparison, as well as the improvements on the Halo Notch property.

(2) Grande River Vineyards in Colorado sold for \$ 2.8 million in 2006 at absolute auction. The property consisted of 91 total acres with 78 acres in vineyard and a winery. It should be noted that absolute auctions, on average, bring about 75% of market valuation. Thus, if this wouldn't have been a 'stressed' property, it would have sold for over \$ 3.7 million.

Industry standard valuation equations and market appraisal models demonstrate that Halo Notch Estate, when compared to the above properties, at 1.9 million, is currently discounted 20% below its realized market comparable value of **\$ 2,280,000.**

## Calculated Value

The exceptional value of Halo Notch is further substantiated when compared to other similar businesses within the industry. Using calculations provided by Oregon-based valuation company, Business Valuation Resources, a leading provider of data about private company transactions, the worth of Halo Notch Estate "as is", exclusively as a wholesale agricultural activity, is revealed to be **\$ 2,285,000.** This value is reached when calculating the vineyards current and projected figures such as Book Value of Invested Capital (BVIC), Discretionary Earnings, Net Sales, EBIT, EBITDA, and Gross Profit against standard valuation multiples established for the agricultural wholesale trade industry. When consideration is given that Halo Notch is now an established foundation for a winery business-plan and by adding a small volume 'boutique' winery on the property its valuation would increase to almost \$ 4 million. After comparing Halo Notch to over 3,000 transactions within the industry, this extensive and comprehensive analysis concluded that the list price for Halo Notch Estate is well below its comparable fair market valuation and intangible worth, reflecting an exceptional investment opportunity.

Attachment F  
2008 Tennessee Vineyard Data Collection Document Summation

Exclusively for Research and Statistical Use by the Tennessee Dept. of Agriculture, The University of Tennessee, and the Tennessee Farm Winegrowers Association

Halo Notch Vineyards Inc., Madisonville, Tennessee

Muscadine <i>Vitis Rotundifolia</i>	Acreage	Number of Vines	2006 Tonnage	2007 Tonnage	2008 Tonnage	2009 Tonnage (est.)	2010 Tonnage (est.)	2011 (and following) Tonnage (est.)
<b>Vineyard total (all varieties)</b>	<b>30.11</b>	<b>5,450</b>	<b>53</b>	<b>53*</b>	<b>146</b>	<b>190</b>	<b>230</b>	<b>250</b>
Carlos (white)	8.34	1,510 28%	15	15	40	52	64	68
Magnolia (white)	6.91	1,250 23%	12	12	34	44	53	58
Doreen (white)	6.96	1,260 23%	12	12	34	44	53	58
Sterling (white)	3.98	720 13%	7	7	19	25	30	33
Noble (dark)	3.92	710 13%	7	7	19	25	30	33

Notes:

Seventy-five percent (75%) of all vines for each variety were planted February 2004

Twenty percent (20%) of all vines for each variety were planted February 2005

Four percent (4%) of all vines for each variety were planted February 2006

One percent (1%) of all vines for each variety were planted February 2007 or after

\*freeze and drought weather anomalies

Attachment G  
 Halo Notch Inc. Income and Expenses (US\$)  
 Includes Wholesale and PYO

	2006	2007	2008	2011* and following (est)
Gross Annual Income	61,842	64,894	126,543	330,000
Annual Operating Expense**	23,184	30,254	32,000 (est)	36,000
Net Annual Income	38,659	34,640	94,000 (est)	294,000

\*Mature yielding vines

\*\*Operating Expenses

<u>2006</u>	<u>2007</u>	
9,307	11,367	labor/wages
2,020	4,621	repair/maintenance
150	356	farm utilities
534	1,522	truck expense
630	551	chemicals
1,797	105	fertilize
1,062	1,916	freight/trucking
4,763	7,250	gas, fuel, diesel, oil
<u>2,921</u>	<u>2,566</u>	miscellaneous farm supplies
23,184	30,254	

## Attachment H 2009 Harvest/Vintage Contract Summary

Halo Notch Estate is currently in the process of obtaining contracts for 200 tons of fruit for the 2009 Vintage. Although verbal agreements reach near that amount, many wineries prefer to wait until May or June of each year to more accurately assess their inventory and tank space prior to signing contracts with a specified tonnage.

In 2009 Halo Notch will most probably enter into multiple year contracts (3-5 years) with at least 3 wineries for 50 to 75 tons per winery.

## Attachment I Frequently Asked Questions

### ***Why are the owners selling Halo Notch Estate Vineyard?***

Halo Notch Estate Vineyard was established by entrepreneur Michael Frizzell whose 20-year passion and expertise has been new business starts. His vision for Halo Notch was to establish the largest vineyard in Tennessee, meeting a specific commodity niche, and he has accomplished this goal and is ready to pursue other interests. Mr. Frizzell has enjoyed the challenge of establishing Tennessee's largest vineyard from initial concept and design to a thriving, successful business. Now that the vineyard is fully established and self sufficient, Mr. Frizzell, as with many business starts in the past, is simply ready to explore other ventures.

Also, the original business plan for Halo Notch Vineyard provided an option to offer it for sale 3-5 years after establishment. The project was undertaken with this possible exit strategy. Therefore, the current offering of the vineyard for sale was planned in 2003.

In addition, Mr. Frizzell would like to make the vineyard available to someone whom has the passion and expertise to further develop the property into its full potential, possibly a premier winery, bed and breakfast, country inn/lodge, or exclusive vineyard neighborhood. Mr. Frizzell does not have an interest in those particular ventures, but he recognizes the vast potential and multifaceted possibilities that Halo Notch Estate offers. These are the reasons the owners have chosen to make the vineyard estate available for purchase.

### ***Can the undeveloped raw land produce income?***

Yes, the 50+ acres of 'meadowland' can be leased to area dairy farmers to produce hay (as it is currently) or planted for other commodities such as corn, soy or wheat (as previously done) as the market warrants. All of the land is very productive and specifically well suited for future vineyard expansion as well as residential/other development due to its exceptional mountain views.

### ***Is an operational transition period available to the new vineyard owner?***

The current owner will consider providing vineyard oversight, training, and operational management on a temporary consultation basis.

***What would new owners expect to pay for qualified on-site management of this operation?***

A vineyard manager for Halo Notch could be anyone from an experienced, degreed viticulture professional with an annual salary of approximately \$60K, to simply a vineyard foreman with a general background in agriculture and equipment maintenance with an annual salary of approximately \$25K. At this stage of the vineyards development, the latter would be the logical choice. Such an individual could be easily trained in viticultural practices especially since the vineyard is past the “establishment phase” and into the “maintenance phase”. It should be noted that the existing home on the property could easily be included as part of a vineyard manager compensation package, thus reducing the actual salary amount to be paid by the vineyard owner. This would also provide an off-site vineyard owner the stability and security of a 24-hour on-site presence.

In addition, the current owners have professional affiliations within the vineyard/wine industry for this region of the country and will be able to provide a list of qualified consultants for the establishment of a Tennessee commercial winery.

***Do the operating expenses grow proportionally from now on as the business expands?***

No. As seen on “Attachment H” of the Investment Profile, the annual operating expense is estimated to remain relatively steady at approximately \$36k/year upon full maturity of the vineyard. This number assumes an owner/operator and does not include the salary for a vineyard manager (approximately \$25k) but does include all needed seasonal workers and other operating expenses.

***Can a novice operate the vineyard?***

Yes, with the pivotal word being “operate”. Now that the most difficult tasks of research, preparation, vine-training and establishment have been completed, the vineyard can simply be managed. Currently, it is feasible that one full-time vineyard manager can operate all aspects of the vineyard. This individual could be trained in all aspects of Halo Notch operational procedures and schedules as well as Muscadine management techniques in about 3 months. It should be noted that the Tennessee Department of Agriculture as well as The University of Tennessee would be able to provide extensive resources for viticulture practices as well as information available from other private growers. An additional 3-4 ‘seasonal’ workers would be needed for approximately 3-4 weeks during the fall harvest and again during the winter pruning.

The benefit of finding an established vineyard available for purchase, over beginning one from concept, is that the required research, extensive capital, hard work, and patience has been expended for the benefit of a buyer. There is no 'waiting' (7 years to maturity) required by the buyer of an established vineyard. Equally valuable is that the vast majority of the associated risk has already been taken and removed. Halo Notch Vineyards are beyond the difficult point of preparation and establishment and are now simply at a point of maintenance. The vineyard is only 2 years from producing at a maximum yield of 5-10 tons per acre and will continue to provide mature harvest levels for more than a half century.

A novice can indeed successfully operate the vineyard because over the last six years of research, planning, establishment and management, all the elements of success have been innovatively combined and the prosperity equation has been completed for a grand opportunity seeker. Owning superlative Halo Notch Vineyard (the largest in the state), whether a novice or experienced viticulture and oenologist professional, will provide someone an exceptional investment opportunity. The potential for Halo Notch Estate is truly multifaceted and vast. This chance to purchase Tennessee's largest estate vineyard and experience its corresponding distinct romantic lifestyle first-hand is indeed a rare and unequalled occasion.