

WILLAMETTE VALLEY VINEYARDS INC
Form 10-K
March 22, 2018

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

FORM 10-K

(Mark One)

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

For the fiscal year ended
December 31, 2017

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: 000-21522

WILLAMETTE VALLEY VINEYARDS,
INC.
(Exact name of registrant as specified in its
charter)

Oregon 93-0981021
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

8800
Enchanted
Way, S.E.
Turner,
OR 97392
(Address
of
principal

executive
offices)

Registrant's
telephone
number,
including area
code: (503)
588-9463

Securities
registered
pursuant to
Section 12(b)
of the Act:
Series A
Redeemable
Preferred
Stock
(Title of
class)

Securities
registered
pursuant to
Section 12(g)
of the Act:
Common
Stock
(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

15(d) of the
Securities
Exchange
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
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 during
the preceding
12 months (or
for such
shorter period
that the
registrant was
required to
submit and
post such
files): Yes
No

1

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 statements 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer
Accelerated filer
Non-accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2017 was approximately \$35,501,897.

The number of outstanding shares of the registrant's Common Stock as of March 22, 2018 was 4,964,529.

DOCUMENTS INCORPORATED BY REFERENCE

None

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As used in this Annual Report on Form 10-K, “we,” “us,” “our” and “the Company” refer to Willamette Valley Vineyards, Inc.

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report on Form 10-K, including any information incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, referred to as the “Securities Act”, and Section 21E of the Securities Exchange Act of 1934, as amended, referred to as the “Exchange Act”. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “foresee,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “seeks,” “estimates” or the negative of these terms or other comparable terminology, which when used are meant to signify the statement as forward-looking. However, not all forward-looking statements contain these words. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements that are not historical facts. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and situations that are difficult to predict and that may cause our own, or our industry’s actual results, to be materially different from the future results that are expressed or implied by these statements. Accordingly, actual results may differ materially from those anticipated or expressed in such statements as a result of a variety of factors, including those set forth under Item 1A “Risk Factors” in this Annual Report on Form 10-K. We urge you to carefully review the disclosures we make concerning risks and other factors that may affect our business and operations. We caution you not to place undue reliance on forward looking statements, which speak only as of the date of this report. We do not intend, and we undertake no obligation, to update any forward information to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, unless required by law to do so.

Business

Introduction – Willamette Valley Vineyards, Inc. (“the Company” or “WVV”) was formed in May 1988 to produce and sell premium, super premium and ultra-premium varietals. The Company was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company is headquartered in Turner, Oregon, which is just south of the state capitol of Salem, Oregon. The Company’s wines are made from grapes grown in vineyards owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are harvested, fermented and made into wine at the Company’s Turner winery (the “Estate Winery” or “Winery”) and the wines are sold principally under the Company’s Willamette Valley Vineyards label, but also under the Griffin Creek, Tualatin Estate and Elton labels. The Company also owns the Tualatin Estate Vineyards and Winery, located near Forest Grove, Oregon (the “Tualatin Winery”).

Segments - The Company has identified two operating segments, direct sales and distributor sales, based upon their different distribution channels, margins and selling strategies. Direct sales includes retail sales in our tasting room and remote sites, wine club sales, on-site events, kitchen and catering sales and other sales made directly to the consumer without the use of an intermediary. Distributor sales include all sales through a third party where prices are given at a wholesale rate.

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Products – Under its Willamette Valley Vineyards label, the Company produces and sells the following types of wine in 750 ml bottles: Pinot Noir, the brand’s flagship and its largest selling varietal in 2017, \$24 to \$100 per bottle; Chardonnay, \$25 to \$45 per bottle; Pinot Gris, \$17 per bottle; Pinot Blanc, \$24 per bottle; Rose, \$18 to \$24 per bottle; Methode Champenoise Brut, \$55 per bottle; and Riesling, \$14 per bottle (all bottle prices included herein are the suggested retail prices). The Company’s mission for this brand is to become the premier producer of Pinot Noir from the Pacific Northwest.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following type of wine in 750 ml bottles: Semi-Sparkling Muscat, \$19 per bottle.

Under its Griffin Creek label, the Company produces and sells the following types of wine in 750 ml bottles: Syrah, the brand's flagship, \$45 per bottle; Merlot, \$40 per bottle; Cabernet Sauvignon, \$45 per bottle; Grenache, \$45 per bottle; Cabernet Franc, \$45 per bottle; The Griffin (a Bordeaux style blend), \$65 per bottle; and Viognier, \$30 per bottle. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Southern Oregon.

Under its Elton label, the Company produces and sells the following types of wine in 750 ml bottles: Pinot Noir, \$75 per bottle and Chardonnay, \$75 per bottle.

Under its Made in Oregon Cellars label, the Company produces and sells the following type of wine in 750 ml bottles: Oregon Blossom (blush blend), \$12 per bottle.

The Company holds U.S. federal and/or Oregon state trademark registrations for the trademarks material to the business, including but not limited to, the WILLAMETTE VALLEY VINEYARDS, BIO-CASK, DAEDALUS CELLARS, OREGON'S LANDMARK WINERY, GRIFFIN CREEK, GRIFFIN, ELTON, WILLAMETTE, WVV, SIP.SAVE, WHOLE CLUSTER, MADE IN OREGON CELLARS, OREGON BLOSSOM, INGRAM ESTATE and IT'S WILLAMETTE, DAMMIT marks. Additionally, the Company has allowed use on PAMBRUN, PIERRE PAMBRUN and PINOT BLACK.

Market overview – The United States wine industry has seen a rapid increase in the number of wineries that are being established throughout the country. From 1995 to 2017, U.S. wineries grew in number from 1,817 to 9,654, according to Todorov, and are one of the fastest growing segments in agriculture with an annual growth of 9% from 2016 to 2017. U.S. wineries increased production in 2016, the most recent year such data is available, by 5% and produced approximately 339 million cases according to The Wine Institute.

The United States is the largest wine market in the world in terms of revenues and volume representing 13.4% of world consumption in 2015, the last year in which data is available. In 2017 U.S. wine sales reached \$41.8 billion, according to Wines and Vines, a 2% increase from 2016. According to Gomberg Fredrickson Associates, U.S. wine shipments reached 403 million cases in 2017 with total US wine sales, domestic and import, revenue of \$62.7 billion, according to Wines and Vines. U.S. wine sales have grown for 25 consecutive years and there were 550,000 locations that sell wine in 2016, the last year in which such data is available, an increase of 120,000 locations over the past 10 years according to Nielsen.

According to the Wine Marketing Council U.S. consumers continue to enjoy wine with 120 million Americans, approximately 40% of the adult population, drinking wine in 2017. Of U.S. wine consumers 59% are female and 41% male with 35% of consumers drinking wine more than once per week according to the Wine Marketing Council. Domestic wine accounted for 66.7% of U.S. sales according to Wines and Vines. The five most popular wines are chardonnay, cabernet sauvignon, red blends, pinot gris and pinot noir, according to Wine Business Monthly. Additionally, sparkling wines have seen double digit growth.

In 2017, off-premise sales accounted for roughly 78% of the U.S. market with an average bottle price of \$10 according to Nielsen. Although direct to consumer (DTC) sales represented less than 2% of the U.S. volume in 2017, such sales increased by 15.5% in 2017 from 2016 according to Sovos.

In a 2015 American Wine Consumer Preference Survey, by Sonoma State University and the Wine Business Institute, American wine consumers from all 50 states were sampled regarding their wine consumption. Of those sampled, 56% reported they consume wine daily or several times per week making them "High Frequency Wine Drinkers" with the

remaining 44% being occasional drinkers. Respondents demonstrated a preference for red wine, with 74% listing it as one of their favorites, and 78% considered themselves to have intermediate or advance knowledge of wine. Price and brand topped the list of decision making reasons when purchasing wine for home consumption with 32% listing the most common price being \$10 to \$15, 19% being \$15 to \$20 and 14% being more than \$20. Additionally, 89% of respondents thought red wine was most healthy.

The Oregon wine industry – Oregon is a relatively new wine-producing region in comparison to California and France. In 1966, there were only two commercial wineries licensed in Oregon. According to the Southern Oregon University Research Center (SOURCE) in 2016, the most recent year such data is available, there were 725 commercial wineries licensed in Oregon, an increase of 3.3% from 2015, and 30,435 planted acres of wine grape vineyards, 27,658 acres of which were harvested. Oregon wine grapes produced a 2016 crop with a total value of \$168 million, a decrease of 4.6% from 2015 according to SOURCE. Pinot Noir leads all varieties accounting for 64% of planted acreage. According to SOURCE Oregon case sales in 2016 are estimated at 3.4 million, up from 3.1 million in 2015, a 10% increase helped by a 14% increase in national sales. SOURCE estimated case sales in dollars for 2016 to be approximately \$529 million, a 12.4% increase from 2015.

Because of climate, soil and other growing conditions, we believe the Willamette Valley in western Oregon is ideally suited to growing superior quality Pinot Noir, Chardonnay, Pinot Gris and Riesling wine grapes. Some of Oregon's Pinot Noir, Pinot Gris and Chardonnay wines have developed outstanding reputations, winning numerous national and international awards. Though Oregon contributed only 1% of domestic wine production, it accounted for 21% of domestic wines that garnered a score of 90 points or higher by Wine Spectator in 2015.

Oregon does have certain disadvantages as a new wine-producing region. Oregon's wines are relatively little known to consumers worldwide and the total wine production of Oregon wineries is small relative to California and French competitors. Greater worldwide label recognition and larger production levels give Oregon's competitors certain financial, marketing, distribution and unit cost advantages.

Furthermore, Oregon's Willamette Valley has an unpredictable rainfall pattern in early autumn. If significantly above-average rains occur just prior to the autumn grape harvest, the quality of harvested grapes is often materially diminished, thereby affecting that year's wine quality.

Finally, phylloxera, an aphid-like insect that feeds on the roots of grapevines, has been found in several commercial vineyards in Oregon. Contrary to the California experience, most Oregon phylloxera infestations have expanded very slowly and done only minimal damage. Nevertheless, phylloxera does constitute a significant risk to Oregon vineyards. Prior to the discovery of phylloxera in Oregon, all vine plantings in the Company's Estate Vineyard, in Turner, Oregon, were with non-resistant rootstock. In 1997, the Company purchased Tualatin Vineyards at the Tualatin Winery, which has phylloxera at its site. All current plantings are with, and all future planting will be with phylloxera-resistant rootstock at that location. The Company takes commercially reasonable precautions in an effort to prevent the spread of phylloxera to its Turner site.

As a result of these factors, subject to the risks and uncertainties identified in this Annual Report, the Company believes that long-term prospects for growth in the Oregon wine industry are excellent. The Company believes that over the next several years the Oregon wine industry will grow at a faster rate than the overall domestic wine industry, and that much of this growth will favor producers of premium, super premium and ultra-premium wines such as the Company's Estate, Elton and Griffin Creek brands.

2016 Oregon harvest – The Oregon Vineyard and Winery Census Report states that 2016 saw increases in domestic sales for Oregon wine alongside reduced vineyard production. Pinot Noir continued to lead statewide production representing 64% of planted acreage and 57% of production. The overall number of wineries increased from 702 in 2015 to 725 in 2016 with the North Willamette Valley continuing to lead the state with 73% of total tons crushed.

2017 Oregon harvest – There is no official data available on the 2017 Oregon harvest as of the date of this report.

Company Strategy

The Company, one of the largest wine producers in Oregon by volume, believes its success is dependent upon its ability to: (1) grow and purchase high quality vinifera wine grapes; (2) vinify the grapes into premium, super premium and ultra-premium wine; (3) achieve significant brand recognition for its wines, first in Oregon and then nationally and internationally; (4) effectively distribute and sell its products nationally; and (5) continue to build on its base of direct to consumer sales. The Company's goal is to continue to build on a reputation for producing some of Oregon's finest, most sought-after wines.

Based upon several highly regarded surveys of the U.S. wine industry, the Company believes that successful wineries exhibit the following four key attributes: (i) focus on production of high-quality premium, super premium and ultra-premium varietal wines; (ii) achieve brand positioning that supports high bottle prices for its high quality wines; (iii) build brand recognition by emphasizing restaurant sales; and (iv) develop strong marketing advantages (such as a highly visible winery location, successful support of distribution, and life-long customer service programs).

To successfully execute this strategy, the Company has assembled a team of accomplished winemaking professionals and has constructed and equipped the Estate Winery into a 12,784 square foot state-of-the-art winery that includes a 12,500 square foot outdoor production area for the harvesting, pressing and fermentation of wine grapes.

The Company's marketing and selling strategy is to sell its premium, super premium and ultra-premium cork-finished-wine through a combination of direct sales at the Estate Winery, the McMinnville Tasting Room in McMinnville, Oregon and Tualatin Estate Winery and sales through independent distributors and wine brokers who market the Company's wine in specific targeted areas.

The Company believes the location of the Estate Winery next to Interstate 5, Oregon's major north-south freeway, significantly increases direct sales opportunities to consumers. The Company believes this location provides high visibility for the Winery to passing motorists, thus enhancing recognition of the Company's products in retail outlets and restaurants. We also believe the Company's remodeled Hospitality Center, at the Estate Winery, has further increased the Company's direct sales and enhanced public recognition of its wines.

To remain competitive in the premium, super premium and ultra-premium market, the Company has embarked on a brand expansion project and is in the process of developing a brand and future winery in the Walla Walla AVA under the name Pambrun. This future winery is expected to produce small vintages of Cabernet Sauvignon and other Bordeaux-varietals to compete in the ultra-premium wine market. The Company intends to release wines under the Pambrun label beginning with the 2015 vintage year. Additionally, the Company has developed a single vineyard brand near Hopewell, Oregon adjacent to the current site of Elton Vineyards to produce wine under the Elton label. This brand is expected to produce primarily Pinot Noir and Chardonnay, also for sale in the ultra-premium space. The Company has recently released wines under the Elton label beginning with the 2015 vintage year and plans to complete facility construction in 2020. In June 2016 the Company purchased 53 acres in the Ribbon Ridge AVA and is in the process of planning vineyard development and a small single vineyard brand offering. In December 2016 the Company purchased approximately 40 acres in the Dundee, Oregon area, purchased another 17 acres in January 2017 and is in the process of developing a plan for the use and development of that property.

Vineyards

The Company owns and leases approximately 913 acres of land, of which 691 acres are currently planted as vineyards or is suitable for future vineyard planting. The vineyards the Company owns and leases are all certified sustainable by LIVE (Low Input Viticulture and Enology) and Salmon Safe. At full production, the Company anticipates these vineyards would enable the Company to grow approximately 63% of the grapes needed to meet the winery's current production capacity, of 442,000 gallons (186,000 cases), at its Estate Winery.

The following table summarizes the Company's acreage:

| Vineyard Name | ACRES | | | | | TONS | |
|-----------------------------|-------|-----------|----------------|-----------|---------------|--------------|--------------|
| | Total | Producing | Pre-Production | Plantable | Non-Plantable | Harvest 2017 | Harvest 2016 |
| Owned Vineyards | | | | | | | |
| WVV Estate | 107 | 60 | 5 | - | 42 | 321 | 197 |
| Tualatin Estate Vineyard | 107 | 46 | 14 | - | 47 | 241 | 162 |
| Ingram Vineyard | 86 | 40 | 22 | - | 24 | 40 | 5 |
| Pambrun Vineyard | 87 | - | 15 | 35 | 37 | - | - |
| Loeza Vineyard | 62 | - | 32 | 26 | 4 | - | - |
| Louisa Vineyard | 53 | - | - | 25 | 28 | - | - |
| Rocks Vineyard | 37 | - | - | 36 | 1 | - | - |
| Bernau Estate | | | | | | | |