

WILLAMETTE VALLEY VINEYARDS INC  
Form 10-K  
March 29, 2013

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, 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: 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in its charter)

Oregon  
(State or other jurisdiction of  
incorporation or organization)

93-0981021  
(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: None

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

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: Yes  No

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, 2012 was approximately \$15,084,080.

The number of outstanding shares of the registrant's Common Stock as of March 29, 2013 was 4,800,008.

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DOCUMENTS INCORPORATED BY REFERENCE

None

WILLAMETTE VALLEY VINEYARDS, INC.  
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WILLAMETTE VALLEY VINEYARDS, INC.  
FORM 10-K

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,” “forecast,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or the negative of these terms or other comparable terminology, which when used are meant to signify the statement as forward-looking. These 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.”

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 varietal wines (i.e., wine which sells at retail prices of \$7 to \$14, \$14 to \$20 and over \$20 per 750 ml bottle, respectively). Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company is headquartered South of Salem, near Turner, 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 “Winery”) and the wines are sold principally under the Company’s Willamette Valley Vineyards label. Willamette Valley Vineyards is the owner of Tualatin Estate Vineyards and Winery, located near Forest Grove, Oregon.

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 2012, \$22 to \$100 per bottle; Chardonnay, \$25 to \$35 per bottle; Pinot Gris, \$15 to \$18 per bottle; Riesling and Oregon Blossom (blush blend), \$10 to \$12 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, \$38 per bottle; Merlot, \$38 per bottle; Cabernet Sauvignon, \$38 per bottle; Cabernet Franc, \$38

per bottle; The Griffin (a Bordeaux style), \$60 per bottle; and Viognier, \$25 per bottle. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Oregon.

ITEM 1. BUSINESS - continued

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, GRIFFIN CREEK, WILLAMETTE, SIP.SAVE and IT'S WILLAMETTE, DAMMIT marks.

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 2011, U.S. wineries grew in number from 1,817 to 7,116. In addition, wineries are classified as one of the fastest growing segments in agriculture with an average annual growth of 10–15 percent.

In spite of the sluggish economy, the United States is also experiencing growth in the revenue generated from the sale of wine. United States wine consumption registered its 17th consecutive annual gain in 2010 with a 2 percent increase (30 percent increase in the past decade). According to the Gomberg-Fredrikson 2010 Annual Wine Industry Review, America is the No. 1 wine consuming country in the world, surpassing France.

More than ever, Americans are seeking value. With a few minor exceptions, the biggest increases in volume among each of the fastest-growing varietals are coming from wines priced between \$3 and \$7 per bottle. Pinot Noir is one of the highest-priced varietals on the market, yet its sales have nearly tripled in the U.S. since the movie *Sideways* was released in 2004. Yet inexpensive Pinot Noir brands, which are those brands priced below the industry average, are now outpacing the higher-end of the spectrum, by roughly twice the rate for both domestic and imported wines, according to Impact Databank, a provider of data on the wine industry owned by M. Shanken Communications, the parent company of *Wine Spectator*.

A larger portion of the U.S. population is drinking wine too – 57 percent in 2007, compared to 43 percent in 2000. Unlike previous generations, which typically did not drink wine regularly until they reached their 40s, younger consumers are discovering wine in their 20s and 30s. The proportion of consumers who drink wine at least once a week has also risen, reaching 55 percent. Much of the increase can be attributed to the Millennial generation, those people between ages 23 and 30, who make up 26 percent of the population and account for about 70 million people, second only to the baby boomer generation with 77 million people.

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. In 2010 there were 419 commercial wineries licensed in Oregon and 20,500 acres of wine grape vineyards, 16,900 acres of which are currently producing. Total production of Oregon wines in 2010 is estimated to be approximately 1.9 million cases, down from 2.3 million cases in 2009. The reduction in cases produced is mainly due to the lower harvest yields in 2010 versus 2009. Oregon's entire 2010 production has an estimated retail value of approximately \$380 million, assuming a retail price of \$200 per case, and a FOB value of approximately one-half of the retail value, or \$190 million.

Because of climate, soil and other growing conditions, 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.

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 were with non-resistant rootstock. As of December 31, 2012, the Company has not detected any phylloxera at its Turner site. Beginning with the Company's plantings in May 1992, only phylloxera-resistant rootstock is used. In 1997, the Company purchased Tualatin Vineyards, which has phylloxera at its site. All plantings are with, and all future planting will be with phylloxera-resistant rootstock. The Company takes commercially reasonable precautions in an effort to prevent the spread of phylloxera to its Turner site.

ITEM 1. BUSINESS - continued

As a result of these factors, subject to the risks and uncertainties identified above, 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.

2011 Oregon harvest – The National Agricultural Statistics report states that the total grape production in Oregon rose 33 percent to a record high of 41,500 tons. Planted acres dipped 100 acres, but fewer acres were left unharvested in 2011 than in 2010. Yield increased 28 percent to an average 2.37 tons per acre from 17,500 harvested acres.

2012 Oregon harvest – There is no official data available on the 2012 Oregon harvest as of the date of this report.

Company Strategy

The Company, one of the largest wineries 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; and (4) effectively distribute and sell its products nationally. The Company's goal is to continue as one of Oregon's largest wineries, and establish 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 a 12,784 square foot state-of-the-art Winery and 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 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 its Winery next to Interstate 5, Oregon's major north-south freeway, significantly increases direct sales 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. The Company's Hospitality Center has further increased the Company's direct sales and enhanced public recognition of its wines.

Vineyards

The Company owns and leases approximately 592 acres of land, of which 471 acres are currently planted to 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 75% of the grapes needed to meet the Winery's ultimate production capacity of 297,000 gallons (125,000 cases).



## ITEM 1. BUSINESS - continued

The following table summarizes the Company's acreage:

Vineyard Name	ACRES					TONS Harvest 2012
	Total	Producing	Pre-Production	Plantable	Non-Plantable	
<b>Owened Vineyards</b>						
WVV Estate	107	48	12	6	41	140
Tualatin Estate Vineyards	107	51	9	-	47	129
Ingram Vineyards	86	-	-	68	18	-
<b>Leased Vineyards</b>						
Peter Michael Vineyards	79	69	-	-	10	167
Meadowview Vineyards	45	45	-	-	-	114
Elton Vineyards	59	54	-	-	5	108
Ingram Vineyards	109	-	-	109	-	-
<b>Contracted Vineyards*</b>						
Various	268	268	-	-	-	670