



**Notice of the Annual Meeting of Stockholders**

**To be held: Sunday, July 16, 2017**

Dear Shareholders,

You are cordially invited to the 2017 Annual Meeting of Shareholders (“Annual Meeting”) of Willamette Valley Vineyards, Inc., which will be held at our winery at 8800 Enchanted Way S.E., Turner, Oregon 97392, on Sunday, July 16, 2017, beginning at 1:00 p.m., local time. The Annual Meeting will be held for the following purposes:

1. To consider and vote upon a proposal to elect three members to our Board of Directors with terms ending at the annual meeting in 2020;
2. To ratify the appointment by the Board of Directors of Moss Adams LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2017;
3. To conduct a non-binding advisory vote on the Company’s executive compensation; and
4. To transact such other business as may properly come before the meeting or any postponements or adjournments of the meeting.

The foregoing items of business are more fully described in the proxy statement (the “Proxy Statement”) that accompanies this Notice.

Our Board of Directors fixed **May 16, 2017** as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments of the meeting, and only shareholders of record at the close of business on that date are entitled to this notice and to vote at the Annual Meeting. A list of shareholders entitled to vote at the Annual Meeting will be available at the meeting and at our offices for ten days prior to the meeting.

We hope that you will use this opportunity to take an active part in our affairs by voting on the business to come before the Annual Meeting, either by executing and returning the enclosed proxy ballot or by casting your vote in person at the meeting. An electronic version of the 2017 Proxy and Annual Report is available at this web address: [wvv.com/annualmeeting](http://wvv.com/annualmeeting). Whether or not you plan to attend in person, please sign, date and return your Proxy using one of the methods outlined in the Proxy Statement – internet, regular mail, or telephone. The prompt return of your proxy card will assist us in preparing for the Annual Meeting. If you receive more than one proxy card because you own shares registered in different names or addresses, each proxy card should be completed and returned.

**BY ORDER OF THE BOARD OF DIRECTORS**

**/s/ Jim Bernau**  
**Jim Bernau**  
**President and Chairperson of the**  
**Board of Directors**

**Turner, Oregon**  
**May 23, 2017**

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**PROXY STATEMENT  
for the  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JULY 16, 2017**

**1. INTRODUCTION**

**1.1 General**

This proxy statement (the “Proxy Statement”) and the accompanying proxy ballot are being furnished to the shareholders of Willamette Valley Vineyards, Inc., an Oregon corporation (the “Company”), as part of the solicitation of proxies by the Company’s Board of Directors (the “Board” or the “Board of Directors”) from shareholders of record of outstanding shares of the Company’s common stock, no par value (the “Common Stock”), for use in voting at the Company’s Annual Meeting of Shareholders to be held on July 16, 2017 at 1:00 PM at Willamette Valley Vineyards, 8800 Enchanted Way SE, Turner, Oregon 97392 and at any adjournments or postponements thereof (the “Annual Meeting”).

**Important Notice Regarding the Availability of Proxy Materials  
for the Shareholder Meeting to be Held on July 16, 2017**

Pursuant to rules of the Securities and Exchange Commission (the “SEC”), we have elected to provide internet access to our proxy statement and annual report rather than distributing hardcopies of the meeting materials. This reduces postage, printing expense and paper waste and is part of our efforts to eliminate unnecessary expenses and conserve the environment. This Proxy Statement is available at [wvv.com](http://wvv.com) by clicking on the “Investor Relations” tab or [wvv.com/annualmeeting](http://wvv.com/annualmeeting). In accordance with SEC rules, our proxy materials posted on our website under the “Investor Relations” tab do not contain any cookies or other tracking features.

At the Annual Meeting, shareholders will be asked to consider and vote upon the following:

- (i) To elect three members of the Board of Directors with terms ending at the annual meeting in 2020;
- (ii) To ratify the appointment by the Board of Directors of Moss Adams LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2017;
- (iii) To conduct a non-binding advisory vote on the Company’s executive compensation; and
- (iv) To transact such other business as may properly come before the meeting or any adjournments thereof.

The Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting (the “Notice of Internet Availability”), which contains information as to how shareholders can access this Proxy Statement and a proxy ballot, is first being mailed to the Company’s shareholders on or about May 23, 2017.

Your vote is important. Accordingly, whether or not you plan to attend the Annual Meeting, please sign and return the proxy ballot as soon as possible. Shares can be voted at the Annual Meeting only if the holder is present in person or by proxy. If you receive more than one proxy card because your shares are registered in different names or at different addresses, please sign and return each such proxy so that all of your shares will be represented at the Annual Meeting.

**1.2 Solicitation, Voting and Revocability of Proxies**

The Board of Directors has fixed the close of business on May 16, 2017 as the record date for the determination of the shareholders entitled to notice of and to vote at the Annual Meeting. Accordingly, only holders of record of Common Stock at the close of business on such date will be entitled to vote at the Annual Meeting, with each such share entitling its owner to one vote on all matters properly presented at the Annual Meeting. On the record date, there were 2,269 registered holders holding 5,000,629 shares of Common Stock. The presence, in person or by proxy, of a majority of the total number of outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

Shareholders can vote on matters that properly come before the Annual Meeting in one of four ways:

*Voting by mail:*

Shareholders may vote by marking, signing and dating the proxy card and mailing it in the enclosed, prepaid and addressed envelope or otherwise mailing it to the Company at our mailing address on the cover page of this Proxy Statement prior to the Annual Meeting.

*Voting in person at the meeting.*

Shareholders may also vote in person at the meeting. However, shareholders who hold their shares in street name (in the name of a bank or some other nominee), must request and receive a legal proxy from the record owner prior to the meeting in order to vote at the meeting.

*Voting on the Internet.*

Shareholders may vote their shares of Common Stock by going to [otrtransfer.com/olink](http://otrtransfer.com/olink) and following the instructions. Shareholders should have their proxy card in hand when accessing the website.

*Voting by Telephone.*

Shareholders may vote by calling the toll-free number listed on the proxy card from any touch-tone telephone and following the instructions. Shareholders should have your proxy card in hand when calling.

Shareholders, who own their shares through a brokerage account or in other nominee form, should follow the instructions received from the record holder to see which voting methods are available.

Each enclosed proxy gives discretionary authority to the persons named therein with respect to any amendments or modifications of the Company proposals and any other matters that may be properly proposed at the Annual Meeting. The shares represented by all valid unrevoked proxies returned in time to be voted at the Annual Meeting will be voted in accordance with the instructions marked therein. EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS NAMED IN THE PROXY, FOR THE RATIFICATION OF THE COMPANY'S AUDITORS AND FOR ADVISORY APPROVAL OF THE COMPANY'S EXECUTIVE COMPENSATION`. If any other matter(s) properly comes before the Annual Meeting, the proxies solicited hereby will be exercised in accordance with the reasonable judgment of the proxy holders named therein. If the meeting is adjourned or postponed, your shares will be voted by the proxy holders on the new meeting date as well, unless you have revoked your proxy instructions before that date. Under Oregon law, shareholders are not entitled to dissenters' rights with respect to any of the proposals set forth in this Proxy Statement.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder's proxy. A shareholder may, however, revoke a proxy at any time prior to its exercise by filing a written notice of revocation with, or by delivering a duly executed proxy bearing a later date to: Company Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392, or by attending the Annual Meeting and voting in person. Attending the Annual Meeting in and of itself will not revoke previously given proxies. In order to be effective, all revocations and later-filed proxies not delivered in person at the Annual Meeting must be delivered to the Company at the address listed above not later than 5:00 p.m. local time, on Friday, July 14, 2017. A shareholder who attends the meeting need not revoke a previously executed proxy and vote in person unless the shareholder wishes to do so. All valid, unrevoked proxies will be voted at the Annual Meeting.

A proxy marked as abstaining will be treated as present for the purpose of determining whether there is a quorum for the Annual Meeting, but will not be counted as voting on any matter as to which abstinence is indicated. If a quorum exists, directors are elected by a plurality of the votes cast by the shares entitled to vote, while action on a matter other than the election of directors is approved if the votes cast by the shares entitled to vote favoring the action exceed the votes cast opposing the action. Consequently, assuming the presence of a quorum, abstentions will not affect the results of the matters to be affected at the Annual Meeting.

A Broker "non vote," which occurs when a broker or other nominee holder, such as a bank, submits a proxy representing shares that another person actually owns, and that person has not given voting instructions on a non-routine matter or matters to the broker or other nominee holder, will be treated as present for purposes of determining whether there is a quorum for the Annual Meeting. Pursuant to applicable regulations if a shareholder does not give voting instructions to his/her broker, such broker will not be permitted to vote the shareholder's shares of Common Stock with respect to Proposals 1 and 3 described in this Proxy Statement. We expect that banks and brokers will be allowed to exercise discretionary authority for beneficial owners who have not provided voting instructions with respect to the vote to ratify the Company's selected independent registered public accounting firm in Proposal 2.

The Company will pay the cost of its proxy solicitation. In addition to the use of the mails, proxies may be solicited personally, by telephone or by email by directors, officers and employees of the Company, who will not be specially compensated for such activities. Your cooperation in promptly completing and returning the enclosed proxy to vote your shares of Common Stock will help to avoid additional expense.

If you are a shareholder of record and you plan to attend the Annual Meeting, please indicate this when you vote. If you are a beneficial owner of shares of Common Stock held by a bank, broker or other nominee, you will need proof of ownership to be admitted to the Annual Meeting. A recent brokerage statement or letter from the bank, broker, or other nominee, are examples of proof of ownership. If you want to vote in person your shares of Company's Common Stock held in street name, you will have to obtain a proxy, executed in your favor, from the holder of record. You may be asked to provide proof of identification to gain entry to the Annual Meeting.

### 1.3 Directors and Executive Officers

The following table sets forth the names of each of our executive officers, each of the members of the Board of Directors, and each such person's position with the Company and age. Our bylaws permit our Board of Directors to establish by resolution the authorized number of directors, which shall be between two and 11 directors. The Board is currently comprised of nine members. Three current directors are nominees for election as a director at the Annual Meeting.

<u>Name</u>	<u>Position(s) with the Company</u>	<u>Age</u>	<u>Group Number</u>	<u>Term Ends</u>
James W. Bernau (3)	Chairperson of the Board, President and Director	63	I	2017
Craig Smith (2)(3)(4)	Secretary and Director	70	II	2018
Richard F. Goward Jr.	Chief Financial Officer	62	NA	NA
James L. Ellis (3)	Director	72	III	2019
Sean M. Cary (2)	Director	44	I	2017
Christopher Sarles (1)(4)	Director	52	I	2017
Betty M. O'Brien (1)	Director	74	II	2018
Stan G. Turel (2)(3)(4)	Director	68	II	2018
Heather Westing (4)	Director	58	III	2019
Jonathan Ricci (1)	Director	49	III	2019

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee
- (3) Member of the Executive Committee
- (4) Member of the Capital Development Committee

All directors hold office until the end of their term's respective annual meeting of shareholders or until their successors have been elected and qualified. The Board is divided into three groups (I, II, and III). Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at

which such director was elected; provided, that each director initially appointed to Group II shall serve for an initial term expiring at our second annual meeting of stockholders following the 2016 Annual Meeting.

Except for Mr. Goward's stepdaughter who is married to Mr. Smith's son, there are no family relationships among any of our current directors or executive officers. Executive officers are appointed by the Board of Directors and serve at the pleasure of the Board of Directors. Set forth below is additional information as to each director and executive officer of the Company.

*James W. Bernau* – Mr. Bernau has been President of the Company and Chairperson of the Board of Directors of the Company since its inception in May 1988. Mr. Bernau, an Oregon winegrower, originally established Willamette Valley Vineyards as a sole proprietorship in 1983, and he co-founded the Company in 1988 with Salem grape grower, Donald Voorhies. From 1981 to September 1989, Mr. Bernau was Director of the Oregon Chapter of the National Federation of Independent Businesses ("NFIB"), an association of 15,000 independent businesses in Oregon. Mr. Bernau has served as the President of the Oregon Winegrowers Association and the Treasurer of the association's Political Action Committee (PAC) and Chair of the Promotions Committee of the Oregon Wine Advisory Board, the State of Oregon's agency dedicated to the development of the industry. In March 2005, Mr. Bernau received the industry's Founder's Award for his service. Mr. Bernau's qualifications to serve on the Company's Board of Directors include his more than 30 years of leadership of the Company and his industry experience and contacts.

*Craig Smith, MBA, JD* – Mr. Smith has served as a director on the Board since October 2007 and as Secretary of the Company since 2009. For over 20 years Mr. Smith served as the Vice President/Chief Financial Officer of Chemeketa Community College in Salem, Oregon. He was an Adjunct Professor at the Atkinson Graduate School of Management at Willamette University, as well as Managing Partner of Faler, Grove, Mueller & Smith, a large local CPA firm. He has served on many State of Oregon commissions and as the Board Chairperson for many of the local non-profit and educational institutions including the Salem Keizer School Board, Chemeketa Community College Board of Education, Oregon State Fair Council, State Fair Dismissal Appeals Board, Mid-Willamette Valley Council of Governments, Oregon School Boards Association and the United Way. Mr. Smith is a member of the Oregon State Bar and a retired Certified Public Accountant. Mr. Smith's qualifications to serve on the Company's Board of Directors include his financial and accounting experience.

*Richard F. Goward Jr., CPA, CMA, MBA* – Mr. Goward has been the Company's Chief Financial Officer since May of 2013. Prior to being appointed, Mr. Goward served as Chief Financial Officer for Oregon's largest city, the City of Portland, a position he retired from after serving from April 2010 to May 2013. From June 1997 to April 2010, Mr. Goward served as Chief Financial Officer at Salem-Keizer Public Schools, the second largest school district in the State of Oregon. From November 1986 to June 1997, Mr. Goward worked at Chemeketa Community College as manager of the Business Office and Director of Auxiliary Services. Mr. Goward has also worked as a partner in Faler, Grove, Mueller & Smith CPAs, has 26 years of experience as an officer in the United States Navy and Navy Reserve; retiring at the rank of Captain, for 20 years was an Adjunct Professor in Accounting at Willamette University's Atkinson Graduate School of Management and has served on many community boards and committees. Mr. Goward is licensed as a CPA in the State of Oregon and is a Certified Management Accountant. He holds a Bachelor of Science Degree in Business from Oregon State University and a Master in Business Administration from Willamette University.

*James L. Ellis* – Mr. Ellis has served as a director on the Board since July 1991. Mr. Ellis retired from full time duties with the Company in July of 2009. He currently serves as the Company's ombudsman and works part-time on selected projects. Mr. Ellis previously served as the Company's Director of Human Resources from 1993 to 2009. He was the Company's Secretary from 1997 to 2009, and Vice President /Corporate from 1998 to 2009. From 1990 to 1992, Mr. Ellis was a partner in Kenneth L. Fisher, Ph.D. & Associates, a management-consulting firm. From 1980 to 1990, Mr. Ellis was Vice President and General Manager of R.A. Kevane & Associates, a Pacific Northwest personnel-consulting firm. From 1962 to 1979, Mr. Ellis was a member of and administrator for the Christian Brothers of California, owner of Mont La Salle Vineyards and producer of Christian Brothers wines and brandy. Mr. Ellis' qualifications to serve on the Company's Board of Directors include his prior experience as a member of the Company's senior management, as well as more than 40 years of business experience.

*Sean M. Cary* – Mr. Cary has served as a director on the Board since July 2007. Mr. Cary is the Chief Financial Officer of Pacific Excavation, Inc., a Eugene, Oregon based heavy and civil engineering contractor. Previously, Mr. Cary served as the CFO of CBT Nuggets, LLC, the Corporate Controller of National Warranty Corporation,



the CFO of Cascade Structural Laminators and prior to that as Controller of Willamette Valley Vineyards. Mr. Cary served in the U.S. Air Force as a Financial Officer. Mr. Cary holds a Master of Business Administration degree from the University of Oregon and a Bachelor of Science Degree in Management from the U.S. Air Force Academy. Mr. Cary's qualifications to serve on the Company's Board of Directors include his financial and accounting expertise.

*Christopher L. Sarles* – Mr. Sarles has served as a director on the Board since January of 2015. Mr. Sarles is the President/CEO of Oregon Fruit Products, a position he has held since July of 2014. From May of 1998 until June of 2014 Mr. Sarles worked in various executive capacities in Columbia Distributing/Young's Market, most recently as Executive Vice President of Sales from 2011 to 2014. From 1987 to 1995 he was President/Chief Operating Officer of Alehouse Distributing Company in Seattle Washington. Mr. Sarles has been actively involved in the wine industry, been a speaker on Wine Industry issues, and served as President of the Oregon Beer and Wine Wholesalers Association. He holds a Bachelor of Science degree in Business Marketing from Oregon State University. Mr. Sarles is qualified to serve on the Company's Board of Directors as a result of his many years of executive experience in the alcohol distribution industry.

*Betty M. O'Brien* – Ms. O'Brien has served as a director on the Board since July 1991. Ms. O'Brien is owner of Elton Vineyards L.L.C., a commercial vineyard located in Eola Hills in Yamhill County, Oregon and established in 1983. Ms. O'Brien was the Executive Director of the Oregon Wine Board from 2001 to 2004. Ms. O'Brien was employed by Willamette University as its Director of News and Publications from 1988 to 2000. She has served as a director, President and Treasurer of the Oregon Winegrowers Association. Ms. O'Brien is chairman of the Wine Studies Program Advisory Committee at Chemeketa Community College (CCC). She headed a wine industry task force developing a new wine marketing program and curriculum. She taught Wine Marketing classes there for seven years and was recognized by the college with the Legacy Builders Award in 2016. Ms. O'Brien served as Chair of the Board of Directors of LIVE (Low Input Viticulture and Enology). She was president of the Eola-Amity Hills Winegrowers Association in 2014-15. Ms. O'Brien and her husband received a 2010 Oregon Wine Industry Outstanding Service Award. Ms. O'Brien's qualifications to serve on the Company's Board of Directors include her industry experience and contacts.

*Stan G. Turel* – Mr. Turel has served as a director on the Board since November 1994. Mr. Turel is President of Turel Enterprises, a real estate management company managing his own properties in Oregon, Washington and Idaho and is president of Columbia Pacific Tax in Bend, Oregon. Prior to his current activities, Mr. Turel was the Principal and CEO of Columbia Turel, (formerly Columbia Bookkeeping, Inc.) a position which he held from 1974 to 2001. Prior to the sale of the Columbia Turel to Fiducial, one of Europe's largest accounting firms, Columbia Turel had approximately 26,000 annual tax clients including approximately 4,000 small business clients. Additionally Mr. Turel successfully operated as majority owner of two cable TV companies during the 80's and 90's which were eventually sold to several public corporations. Mr. Turel is a pilot, author, was a former delegate to the White House Conference on Small Business and held positions on several state and local Government committees. Mr. Turel's qualifications to serve on the Company's Board of Directors include his more than 20 years of accounting and business management experience.

*Heather Westing* – Ms. Westing has served as a director on the Board since March 2016. Ms. Westing owns several real estate developments, restaurant and financial companies in Oregon. She is the former owner of The Subway Group – franchisor agency for over 350 Subway Restaurants and served on Subway's Worldwide Advisory Board. Ms. Westing is an active member in the Oregon Angel Fund, and oversees the Westing Family Foundation. Previously, Ms. Westing owned an advertising and marketing agency, with offices in Eugene, Portland and Bend. She has also owned and operated a 50-acre farm of filberts, grass seed and Christmas trees. She served on Umpqua Bank's Regional Board of Advisory and The Oregon Bach Festival's Board of Directors. She is a Lifetime Alumni of University of Oregon, where she studied finance and real estate. Ms. Westing's qualifications to serve on the Company's Board of Directors include her extensive business experience and expertise in marketing.

*Jonathan Ricci* – Mr. Ricci has served as a director on the Board since March 2016. Mr. Ricci is currently President and CEO of Adelsheim Vineyard in Newberg, Oregon. Prior to joining Adelsheim in 2017, he was President and CEO of Stumptown Coffee Roasters where he remains as an Independent Director. He served as Managing Partner at First Beverage Group from 2010 to 2013, and prior to that he was CEO of Jones Soda Company from 2008 to 2010 and General Manager and Director of Customer Marketing at Columbia Distributing from 2000 to 2008. Mr. Ricci was raised in Oregon, graduating with a degree in Business Education from Oregon State University. He was formerly the President of the OSU Alumni Association and

served as an Executive Committee Member of the Board of Trustees for the OSU Foundation. Mr. Ricci is serving on the Greater Portland 2020 strategic advisory effort to meet the region's population and business development challenges. Mr. Ricci's qualifications to serve on the Company's Board of Directors include his beverage industry and public company experience.

#### **1.4 Board and Committee Meeting Attendance**

The Board of Directors met four times during 2016. Each director attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings of each committee on which each director served.

#### **1.5 Annual Meeting Attendance**

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meeting of shareholders, directors are encouraged to attend the annual meetings. All of our then current directors attended the Company's 2016 annual meeting of shareholders.

#### **1.6 Independence**

The Board of Directors has determined that each of our directors other than Mr. Bernau and Mr. Ellis is "independent" within the meaning of the applicable rules and regulations of the SEC and the director independence standards of The NASDAQ Stock Market, Inc. ("NASDAQ"), as currently in effect. Furthermore, the Board of Directors has determined that each of the members of the Compensation and Audit Committees of the Board of Directors is "independent" under the applicable rules and regulations of the SEC and the director independence standards of NASDAQ, as currently in effect. The Board of Directors does not have a separate standing Nominating Committee. Consistent with NASDAQ rules, only independent directors participate in meetings where the Board of Directors functions as the Company's nominating committee. The independent directors held two meetings in 2016.

#### **1.7 Committees of the Board of Directors**

##### *Compensation Committee*

The Board of Directors has appointed a Compensation Committee, which reviews executive compensation and makes recommendations to the full Board regarding changes in compensation, and also administers the Company's 1992 Stock Incentive Plan. Executive officers do not play a role in determining executive compensation. The Compensation Committee does not delegate any of its duties, and it may use consultants in determining executive compensation. The Compensation Committee met four times in person in 2016. In accordance with its Charter, the Compensation Committee reviewed the current compensation for the CEO and it approved the 2015 performance bonus of \$128,195 and a meritorious bonus of \$100,000 for the Company's CEO (see section "Executive Compensation"). In 2017, the Compensation committee approved a bonus of \$256,000 for 2016. The Compensation committee did not engage the services of a compensation consultant in 2016. The members of the Compensation Committee are Betty M. O'Brien, Chair, Christopher Sarles and Jonathan Ricci. All members of the Compensation Committee are independent under the applicable rules and regulations of the SEC and the director independence standards applicable to compensation committee members of NASDAQ listed companies, as currently in effect. A copy of the Compensation Committee's charter can be found on the Company's website, [www.wvv.com](http://www.wvv.com).

##### *Audit Committee*

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The members of the Audit Committee are Craig Smith, Sean Cary and Stan G. Turel. All members of the Audit Committee are independent as defined under the applicable rules and regulations of the SEC and the director independence standards of NASDAQ, as currently in effect. The Audit Committee oversees our financial reporting process on behalf of the Board of Directors and reports to the Board of Directors the results of these activities, including the systems of internal controls that management and the Board of Directors have established, our audit and compliance process and financial reporting. The Audit Committee, among other duties, engages the independent public accountants retained as the registered public accounting firm, pre-approves all audit and

non-audit services provided by the independent public accountants, reviews with the independent public accountants the plans and results of the audit engagement, considers the compatibility of any non-audit services provided by the independent public accountants with the independence of such auditors and reviews the independence of the independent public accountants. Mr. Smith is designated by the Board of Directors as the “audit committee financial expert” under SEC rules. The Audit Committee conducted four meetings in the year ended December 31, 2016 and each meeting was attended by at least 75% of the committee members. A copy of the Audit Committee charter can be found at our website, [www.wvv.com](http://www.wvv.com).

#### *Audit Committee Financial Expert*

Craig Smith serves as the Audit Committee’s “financial expert” as defined in applicable SEC rules. Mr. Smith is independent as defined under the applicable rules and regulations of the SEC and the director independence standards established by NASDAQ, as currently in effect.

#### *Capital Development Committee*

The Board of Directors has appointed a Capital Development Committee to review potential capital projects or purchases and make recommendations to the full Board of Directors. Additionally, the committee evaluates growth needs of the Company and makes recommendation to management. The Capital Development Committee met four times in 2016. The members of the committee are Craig Smith, Stan Turel, Christopher Sarles and Heather Westing.

#### *Nominating Committee Functions*

The Board of Directors performs the function of a nominating committee for selecting nominees for election as directors. Given its size, the Board believes that performing this function is a pragmatic and realistic approach. Consistent with NASDAQ rules, the independent members of the Board of Directors select and recommend to the full Board of Directors for approval nominees for director positions. The Board then determines whether to approve of such nominations and present them to the Company’s shareholders for election to the Board of Directors. In seeking nominees, the Board looks for qualified candidates that will meet the oversight and financial expertise needs of the Company. The Board also looks for nominees who will meet the independent qualifications necessary to meet current standards of independence. While not maintaining a specific policy on Board diversity requirements, the Board believes that diversity is an important factor in determining the composition of the Board and, therefore, seeks a variety of occupational and personal backgrounds on the Board in order to obtain a range of viewpoints and perspectives and to enhance the diversity of the Board. The Board, functioning as nominating committee, annually evaluates the Board’s composition. This evaluation enables the Board to update the skills and experience they seek in the Board as a whole, and in individual directors, as the Company’s needs evolve and change over time and to assess the effectiveness of efforts at pursuing diversity.

Nominations of candidates by shareholders of the Company to be considered by the Board for membership on the Board of Directors may be submitted if such nominations are made pursuant to timely notice in writing to the Company’s Secretary. For more information, please see the information provided under the heading “Shareholder Proposals and Nominations” below. The current nominees were selected by the independent members of the Board of Directors, which nominees were ratified by the entire Board of Directors. The Company does not currently have a charter or formal policy with respect to the consideration of director candidates recommended by shareholders. The reason for not having such a formal policy is that the current approach has functioned well and therefore no formal policy has been deemed necessary.

#### *Executive Committee*

In 1997 the Board appointed an Executive Committee, its members are: James Bernau, James Ellis, Craig Smith and Stan Turel. One of the principle charters of the Executive Committee is to review and approve all proposed purchases over \$50,000.00. The Executive Committee did not meet in 2016.

## 1.8 Leadership Structure of Board of Directors

Currently, the Company's President, Mr. Bernau, also serves as its Chairperson of the Board. The Board believes the interests of all shareholders are best served at the present time through a leadership model with the same person holding the positions of President and Chairperson of the Board.

The Company's President possesses an in-depth knowledge of the Company, its operations, and the array of challenges to be faced, gained through over 30 years of successful experience in the industry. The Board believes that these experiences and other insights put the President in the best position to provide broad leadership for the Board as it considers strategy and as it exercises its fiduciary responsibilities to its shareholders.

Further, the Board has demonstrated its commitment and ability to provide independent oversight of management. All directors other than Mr. Bernau and Mr. Ellis are independent, and all of the members of each of the Compensation and Audit Committees are independent. Each independent director may call meetings of the independent directors, and may request agenda topics to be added or dealt with in more detail at meetings of the full Board or an appropriate Board committee.

## 1.9 Role of Board of Directors in Risk Oversight

The entire Board and each of its standing committees are involved in overseeing risk associated with the Company. The Board monitors the Company's governance by regular review with management and outside advisors. The Board and the Audit Committees monitor the Company's liquidity risk, regulatory risk, operational risk and enterprise risk by regular reviews with management and external auditors and other advisors. In its periodic meetings with the independent accountants, the Audit Committee discusses the scope and plan for the audit and includes management in its review of accounting and financial controls, assessment of business risks and legal and ethical compliance programs. As part of its responsibilities as set forth in its charter, the Compensation Committee reviews the Company's executive compensation program and the associated incentives to determine whether they present a significant risk to the Company. Based on this review, the Compensation Committee concluded that the Company's compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

## 1.10 Director Compensation

The following table sets forth information concerning compensation of the Company's directors other than Mr. Bernau for the fiscal year ended December 31, 2016:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (1)	Non-equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
James L. Ellis	\$ 12,600	-	-	-	-	\$ 384	\$ 12,984
Sean M. Cary	4,350	-	-	-	-	-	4,350
Christopher L. Sarles	4,150	-	-	-	-	-	4,150
Craig Smith	5,550	-	-	-	-	-	5,550
Betty M. O'Brien	5,700	-	-	-	-	-	5,700
Stan G. Turel	5,760	-	-	-	-	-	5,760
Heather Westing	2,600	-	-	-	-	-	2,600
Jonathan Ricci	1,800	-	-	-	-	-	1,800

(1) There were no option awards granted or outstanding to the Company's directors in the fiscal year ended December 31, 2016.

Other compensation for James L. Ellis includes a monthly stipend for ongoing consultation services as well as serving as administrator of any potential employee complaint that might rise to the Board level.

The members of the Board received cash compensation for their service on the Board in 2016, and were reimbursed for out-of-pocket and travel expenses incurred in attending Board meetings. The Company adopted a Stock Incentive Plan that was approved by the shareholders in 1992 and further amended by the shareholders in 1996. There are no remaining stock options, owned by Directors, under this plan. In the foreseeable future, as a result of FASB ASC Topic 718, Stock Compensation, requiring all share-based payments to be recognized as expenses in the statement of operations based on their fair values and vesting periods, the Company does not intend to issue stock options to the directors for their service.

In January 2009, the Board, upon recommendation of the Board's Compensation Committee (the "Compensation Committee"), who had sought outside counsel regarding revision of the Company's Board Compensation Plan, adopted the final version of the revised WVV Board Member Compensation Plan. Under the terms of the revised plan, any Board member may elect not to receive any or all of the compensation components. The Board also reserved the right to suspend this plan at any time on the basis of prevailing economic conditions and their impact on the company. The basic elements of the revised plan are: \$1,000 yearly stipend for service on the Board, \$500 per Board meeting attended in person, \$250 per Board meeting via teleconference, \$200 per committee meeting in person and \$100 per committee meeting via teleconference. A set per diem for expenses associated with meeting attendance, as well as a yearly wine allowance were also approved.

### **1.11 Communications to the Board of Directors**

The Board of Directors welcomes and encourages shareholders to share their thoughts regarding the Company. Towards that end, the Board of Directors has adopted a policy whereby all communications should first be directed to the Company's Secretary at Willamette Valley Vineyards, Inc., 8800 Enchanted Way SE, Turner, OR 97392. The Secretary will then distribute a copy of the communication to the Chairman of the Board, the Chairperson of the Audit Committee and the Company's outside counsel. Based on the input and decision of these persons, along with the entire Board of Directors if it is deemed necessary, the Company will respond to the communication. Shareholders should not communicate directly with any other individual officer or director unless requested to do so.

### **1.12 Code of Ethics**

The Company adopted a code of ethics applicable to its Chief Executive Officer, Chief Financial Officer/Controller and other finance leaders, which is a "code of ethics" as defined by applicable rules of the SEC. Amendments to the code of ethics or any grant of a waiver from a provision of the code of ethics requiring disclosure under applicable SEC rules, if any, will be disclosed on our website at, [www.wvv.com](http://www.wvv.com).

Any person may request a copy of the code of ethics, at no cost, by writing to us at the following address:

Willamette Valley Vineyards, Inc.  
Attention: Corporate Secretary  
8800 Enchanted Way SE  
Turner, OR 97392

## **2. EXECUTIVE COMPENSATION**

### **2.1 Summary Compensation Table**

The following table sets forth certain information concerning compensation paid or accrued by the Company, to or on behalf of the Company's principal executive officer, James W. Bernau and Chief Financial Officer, Richard F. Goward Jr. (collectively, our "named executive officers") for the fiscal years ended December 31, 2016 and December 31, 2015. No other executive officer of the Company other than Mr. Bernau and Mr. Goward received total compensation in 2016 in excess of \$100,000, and thus disclosure is not required for any other person. Summary compensation information is as follows:

Summary Compensation Table

Name, Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-equity Incentive Plan Compensation	Nonqualified Deferred Comp. Earnings	All Other Comp.*	Total
Bernau, James W.,									
President, Chief Executive	2016	\$ 256,645	\$ 356,000	\$ -	\$ -	\$ -	\$ -	\$ 50,806	\$ 663,451
President, Chief Executive	2015	\$ 256,389	\$ 128,195	\$ -	\$ -	\$ -	\$ -	\$ 51,862	\$ 436,446
Goward, Richard F. Jr									
Chief Financial Officer	2016	\$ 122,269	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ 5,921	\$ 140,190
Chief Financial Officer	2015	\$ 106,134	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 21,817	\$ 137,951

\*All other compensation includes Company payments for medical insurance, value of lodging, Board of Directors stipends, life insurance payments and Company 401(k) matching contributions.

## 2.2 Compensation Philosophy

The compensation of our named executive officers has been designed to implement compensation principles that align management's interests with our shareholder's interests to support long-term value creation. In establishing the compensation structure of our named executive officers, the Compensation Committee determined that the use of a performance-based incentive provided additional motivation for our named executive officers to achieve both short-term and long-term business and growth goals for the Company. Additionally, the use of a consumer price index inflation factor on base salary ensures our named executive officer's will not lose buying power, on core compensation, while pursuing these goals.

## 2.3 Bernau Employment Agreement

The Company and Mr. Bernau are parties to an employment agreement dated August 3, 1988 as amended in February 1997, in January of 1998, in November 2010, and again in November 2012. Under the amended agreement, Mr. Bernau is paid an annual salary of \$235,000 with annual increases tied to increases in the consumer price index. Mr. Bernau's 2016 bonus is calculated as a percentage of Company net income before taxes; 5% on the first \$1.75 million of pre-tax income, and 7.5% on the pre-tax net income over \$1.75 million, not to exceed \$256,000. In 2016 the Board awarded a one-time meritorious bonus of \$100,000. The Board intends to evaluate and revise Mr. Bernau's bonus structure in 2017. Additionally, Mr. Bernau participates in the employer sponsored 401(k) plan. Pursuant to the terms of the employment agreement, the Company is to provide Mr. Bernau with housing on the Company's property. Mr. Bernau resides in the estate house, free of rent, which is also used to accommodate overnight stays for Company guests. Mr. Bernau resides in the residence for the convenience of the Company and must continue to reside there for the duration of his employment in order to provide additional security and lock-up services for late evening events at the Winery and Vineyard. The employment agreement provides that Mr. Bernau's employment may be terminated only for cause, which is defined as non-performance of his duties or conviction of a crime.

## 2.4 Goward Employment Agreement

The Company and Mr. Goward are parties to an employment agreement dated April 16, 2013 as amended on July 15, 2015. Under the agreement Mr. Goward is paid an annual salary of \$122,269 and is reviewed annually for potential meritorious awards. Additionally, Mr. Goward receives the equivalent of a board stipend for board meetings outside of the normal working schedule. Mr. Goward also participates in the employer sponsored 401(k) plan.

## 2.5 Stock Options

In order to reward performance and retain high-quality employees, the Company has, in the past, granted stock options to its employees under its stock incentive plan originally created in 1992 and most recently amended in 2001 (the "Stock Incentive Plan"). The Company has not ordinarily directly issued shares of stock to its employees. Options were typically issued at a per share exercise price equal to the closing price as reported by the Nasdaq Capital Market at the time the option was granted. The options vest to the employee over time. Three months following termination of the employee's employment with the Company, any and all unexercised options terminate. The Company is not currently granting new options under the Stock Incentive Plan and does not intend to do so at this time.

## 2.6 Outstanding Equity Awards at Fiscal 2016 Year End

There were no outstanding equity award holding held by our named executive officers as of December 31, 2016.

## 2.7 Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to beneficial ownership of the Company's Common Stock as of May 23, 2017, by (i) each person who beneficially owns more than 5% of the Company's Common Stock, (ii) each Director of the Company, (iii) each of the Company's named executive officers, and (iv) all directors and executive officers as a group. Except as indicated in the footnotes to this table, each person has sole voting and investment power with respect to all shares attributable to such person.

Information concerning persons who beneficially own more than 5% of the Company's common stock who are not otherwise affiliated with the Company is based solely upon statements made in filings with the SEC or other information we believe to be reliable.

We have determined beneficial ownership in accordance with the rules of the SEC.

Unless otherwise noted, the address of each beneficial owner listed in the table is 8800 Enchanted Way SE Turner, OR 97392.

	Number of Shares Outstanding Stock	Percent of Shares Beneficially Owned (1)
James W. Bernau, President/CEO, Chair of the Board	508,205	10.2%
Richard F. Goward Jr., CFO	500	**
James L. Ellis, Director	19,865	**
Christopher L. Sarles	-	**
Sean M. Cary, Director	5,200	**
Betty M. O'Brien, Director	40,624	**
Stan G. Turel, Director	16,692	**
Craig Smith, Director	1,500	**
Heather Westing, Director	1,700	**
Jonathan Ricci, Director	715	**
Christopher Riccardi 100 Tall Pine Ln., Apt 2102, Naples, FL 34105	385,485 (2)	7.7%
Carl D. Thoma 300 N. LaSalle St, Suite 4350. Chicago, IL 60654	336,189 (3)	6.7%
All Directors and Executive Officers as a group (8 persons)	595,001	11.9%

\*\* Less than one percent

(1) The percentage of outstanding shares of common stock is calculated out of a total of 5,000,629 shares of

common stock outstanding as of May 23, 2017. Shares owned do not include ownership of preferred stock shares.

(2) Based on a Form 4 filed by Mr. Riccardi with the SEC on December 29, 2015

(3) Based on a Schedule 13G/A filed by Mr. Thoma with the SEC on February 8, 2017. Beneficial ownership includes 139,429 shares held by the Carl D. Thoma Roth IRA, TD Ameritrade Clearing Custodian for the benefit of Mr. Thoma.

## 2.8 Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2016, with respect to shares of the Company's common stock that may be issued under the Company's existing equity compensation plans:

	Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options and Warrants	Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by security holders (1)	7,000	\$ 3.09	-
Equity compensation plans not approved by security holders	-	-	-
Total	<u>7,000</u>	<u>\$ 3.09</u>	<u>-</u>

(1) Includes shares of our common stock issuable upon exercise of options from the Company's 1992 Stock Incentive Plan.

The Company does not have compensation plans under which equity securities of the Company are authorized for issuance which were adopted without the approval of security holders.

## 2.9 Transactions with Related Persons

In 2007, the Company entered into a long-term lease for Elton vineyards which consists of 54 acres of mature grapevines, of which approximately 42 acres are Pinot Noir. The agreement was for an initial 10-year lease with the option to renew for four successive terms of five years each, plus a first right of refusal on the property's sale. Betty O' Brien, a member of the Board, is the owner of the lessor, Elton Vineyards, LLC. As such, she is therefore entitled to the net income of Elton Vineyards, LLC. In 2016, the Company paid Elton Vineyards, LLC \$121,344 in lease payments and utility reimbursements.

The Company believes that the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. All future transactions between the Company and its officers, directors, and principal shareholders will be approved by a disinterested majority of the members of the Board, and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties. After reviewing the relationship between the Company and Elton Vineyards, LLC, in each of the last three years, the Board has determined that Ms. O'Brien is "independent" within the meaning of the applicable rules and regulations of the SEC and the director independence standards of NASDAQ.

Except for payments to Elton Vineyards, LLC described above, during 2016 the Company did not participate in any transactions with related persons that had a direct or indirect material interest in an amount exceeding \$120,000 and there are no currently proposed transactions with related persons that exceed \$120,000.

The Board has determined that each of our directors, except Mr. Bernau and Mr. Ellis is "independent" within the meaning of the applicable rules and regulations of the SEC and the director independence standards of NASDAQ, as currently in effect. Furthermore, the Board has determined that, with the exception of the



Executive Committee, each of the members of each of the committees of the Board is “independent” under the applicable rules and regulations of the SEC and the director independence standards of NASDAQ, as currently in effect.

## 2.10 Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company’s officers, directors and persons who own more than 10% of a registered class of the Company’s equity securities to file certain reports with the SEC regarding ownership of, and transactions in, the Company’s securities. These officers, directors and stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) reports that are filed with the SEC. Based solely on a review of copies of such forms received by the Company and written representations received by the Company from certain reporting persons, the Company believes that for the year ended December 31, 2016 all Section 16(a) reports required to be filed by the Company’s executive officers, directors and 10% stockholders were filed on a timely basis with the exception of one Form 4 filing for Heather Westing and one for James Bernau that were filed late.

## 2.11 Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is a current or former officer or employee of the Company. Ms. Betty O’Brien, who was a member of the Compensation Committee in 2016, had a relationship with the Company requiring disclosure under Item 404 of Regulation S-K. See Item 13. “Certain Relationships and Related Transactions, and Director Independence” in our Annual Report on Form 10-K for further details.

There are no Compensation Committee interlocks between the Company and any other entities involving any of the executive officers or directors of such entities. No interlocking relationship exists between any member of our Board or our Compensation Committee and any member of the board of directors or compensation committee of any other company and no such interlocking relationship has existed in the past.

## 2.12 Compensation Committee Report

The Company’s Compensation Committee has reviewed the Executive Compensation section and has recommended to the Board that it be included in the Proxy Statement.

### COMPENSATION COMMITTEE

Betty O’Brien, Chairperson, Christopher Sarles, Jonathan Ricci

## 2.13 Audit Committee Report

The general purpose of the Audit Committee is to assist the Board of Directors in the exercise of its fiduciary responsibility of providing oversight of the Company’s financial statements and the financial reporting processes, internal accounting and financial controls, the annual independent audit of the Company’s financial statements, and other aspects of the financial management of the Company. The Audit Committee is appointed by the Board of Directors. All committee members are financially literate.

Fees for professional services provided by our independent registered public accounting firm in each of the last two fiscal years, in each of the following categories are:

	Years Ended December 31,	
	2016	2015
Audit fees (1)	\$ 141,000	\$ 151,895
Tax fees (2)	46,469	34,101
All other fees (3)	3,471	33,550
	<u>\$ 190,940</u>	<u>\$ 219,546</u>

(1) Audit fees represent fees for services rendered for the audit of the Company’s annual financial statements and review of the Company’s quarterly financial statements.

- (2) Tax fees represent fees for services rendered for tax compliance, tax advice and tax planning
- (3) All other fees represent limited engagement activity.

The Company did not incur any audit related fees in either 2016 or 2015.

**Pre-approval policies and procedures** – It is the policy of the Company not to enter into any agreement for Moss Adams LLP to provide any non-audit services to the Company unless (a) the agreement is approved in advance by the Audit Committee or (b) (i) the aggregate amount of all such non-audit services constitutes no more than 5% of the total amount the Company pays to Moss Adams LLP during the fiscal year in which such services are rendered, (ii) such services were not recognized by the Company as constituting non-audit services at the time of the engagement of the non-audit services and (iii) such services are promptly brought to the attention of the Audit Committee and prior to the completion of the audit were approved by the Audit Committee or by one or more members of the Audit Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Audit Committee. The Audit Committee will not approve any agreement in advance for non-audit services unless (1) the procedures and policies are detailed in advance as to such services, (2) the Audit Committee is informed of such services prior to commencement and (3) such policies and procedures do not constitute delegation of the Audit Committee’s responsibilities to management under the Exchange Act.

Specific Audit Committee Actions Related to Review of the Company’s Audited Financial Statements: In discharging its duties, the Audit Committee, among other actions, has (i) reviewed and discussed the audited financial statements to be included in the company’s Annual Report on Form 10-K for the twelve months ended December 31, 2016 with management, (ii) discussed with the Company’s independent auditors the matters required to be discussed by SAS 61, as amended (AICPA, Professional Standards, Vol. 1, AU380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, related to such financial statements, (iii) received the written disclosures and the letter from the Company’s independent accountants required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent accountant’s independence, and (iv) based on such reviews and discussions, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in the company’s Annual Report on Form 10-K for the twelve months ended December 31, 2016.

**AUDIT COMMITTEE**

Sean Cary, Chairperson, Stan Turel, Craig Smith

**3. ELECTION OF DIRECTORS (PROPOSAL NO. 1)**

At the Annual Meeting three directors are up for election to the Board of Directors, each for a term of three years. In November 2015 the Board of Directors amended the Company’s Bylaws to include, among other things, dividing board membership into three groups with staggered terms. Therefore, all nominees have been divided into groups. Unless otherwise specified in the proxy, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as directors the persons named below as nominees:

<u>Nominees:</u>	<u>Group Number</u>	<u>Term Begins Following Annual Meeting:</u>	<u>Term Ends at Annual Meeting:</u>
James W. Bernau	I	2017	2020
Christopher L. Sarles	I	2017	2020
Sean M. Cary	I	2017	2020

The Board of Directors believes that the nominees will serve if elected as directors. There is no cumulative voting for election of directors. Directors are elected by a plurality of votes; therefore, the three persons receiving the most votes, even if less than a majority of the votes cast, will be elected directors. Abstentions or failure to vote will have no effect on the election of directors, assuming the existence of a quorum. The Board of Directors unanimously recommends a vote **FOR** this proposal.

#### 4. RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS (PROPOSAL NO. 2)

The Audit Committee has appointed Moss Adams LLP (“Moss Adams”) as independent auditors for the 2017 fiscal year. Moss Adams will audit the Company’s consolidated financial statements for the 2017 fiscal year and perform other services. While shareholder ratification is not required by the Company’s by-laws or otherwise, the Board of Directors is submitting the selection of Moss Adams to the shareholders for ratification as a good corporate governance practice. If the shareholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain Moss Adams. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent public accountant or auditor at any time during the year if it determines that such a change would be in the best interest of the Company and its shareholders.

The proposal will be approved if, assuming the existence of a quorum, at least a majority of the shares of the Company’s Common Stock cast on the proposal vote in favor of approval. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but will not be counted and will have no effect on the determination of the outcome of the proposal. The proxies will be voted for or against the proposal, or as an abstention, in accordance with the instructions specified on the proxy form. If no instructions are given, proxies will be voted for approval of the ratification of Moss Adams LLP.

A representative of Moss Adams LLP is expected to attend the Annual Meeting at his own expense and will be given an opportunity to make a statement if he desires to do so and will be available to respond to appropriate questions.

The Board of Directors unanimously recommends a vote **FOR** this proposal. Assuming the existence of a quorum, the appointment of Moss Adams LLP will be ratified if approved by the holders of a majority of the shares present in person or by proxy.

#### 5. ADVISORY (NON-BINDING) APPROVAL ON COMPANY’S EXECUTIVE COMPENSATION (PROPOSAL NO. 3)

The Board of Directors is asking the shareholders to provide advisory approval of the compensation of our named executive officers as we have described it in the “Executive Compensation” section of this proxy statement beginning on page 13. While this vote is advisory, and not binding on our Company, it will provide information to our board and Compensation Committee regarding investor sentiment about our executive compensation philosophy, policies and practices, which the Committee will be able to consider when determining executive compensation for the remainder of fiscal 2017 and beyond.

The Board asks that shareholders indicate their support for our executive compensation policies and practices as described in this Proxy Statement by voting “FOR” the following resolution:

*“Resolved, that the shareholders approve, on an advisory basis, the compensation of the Company’s named executive officers as disclosed in the compensation tables and the related narrative disclosure in this Proxy Statement.”*

The proposal will be approved if, assuming the existence of a quorum, at least a majority of the shares of the Company’s Common Stock cast on the proposal vote in favor of approval. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but will not be counted and will have no effect on the determination of the outcome of the proposal. The proxies will be voted for or against the proposal, or as an abstention, in accordance with the instructions specified on the proxy form. If no instructions are given, proxies will be voted for approval of the proposal. The Board of Directors unanimously recommends a vote **FOR** this proposal.

## **6. SHAREHOLDER PROPOSALS AND NOMINATIONS OF DIRECTORS**

### **6.1 Shareholder Proposals for Inclusion in Next Year's Proxy Statement**

To be considered for inclusion in the proxy statement relating to next year's annual meeting, a shareholder proposal must be received at our principal executive offices no later than January 16, 2018. Such proposals also will need to comply with SEC regulations under Rule 14a-8 regarding the inclusion of shareholder proposals in Company-sponsored proxy materials. Proposals should be addressed to the Company Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392. If the date of the next annual meeting is changed by more than 30 days from the anniversary of this year's annual meeting, then, to be considered for inclusion in the proxy statement relating to next year's annual meeting, notice of a shareholder proposal will need to be received by the Company in a reasonable amount of time before the Company begins to print and send its proxy materials.

### **6.2 Other Shareholder Proposals**

If a shareholder wishes to present a shareholder proposal at our next annual meeting that is not intended to be included in the proxy statement pursuant to Rule 14a-8 of the Exchange Act, the shareholder should give notice to our Company Secretary of such proposal. Such notice should be addressed to the Company Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392. According to the Company's bylaws, in order to be timely, such notice must be in writing and received by the Company Secretary, not less than 90 days nor more than 120 days prior to the first anniversary of the date on which the Company first mailed its proxy materials for the 2017 Annual Meeting (no earlier than January 16, 2018, and no later than the close of business on February 14, 2018). However, if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, then notice by the shareholder to be timely must be delivered to the Company's Secretary not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 15th day following the day on which public announcement of the date of such meeting is first made. Therefore, in the event a shareholder does not notify the Company of an intent to present a shareholder proposal at the Company's 2018 Annual Meeting within the timeframe outlined above, the Company's management will have the right to exercise their discretionary authority to vote proxies received for such meeting with respect to any such proposal.

### **6.3 Shareholder Director Nominations**

The independent members of the Board of Directors select and recommend to the Board of Directors for approval nominees for director and committee member positions. The Board then considers the recommendation of these directors and decides which nominees to present to the Company's shareholders for election to the Board of Directors.

Shareholders who wish to submit a proposed nominee for election to the Board of Directors of the Company for consideration by the Board should send written notice to the Chairman of the Board of Directors, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392 no later than February 14, 2018. Such notification should set forth all information relating to the proposed nominee, as is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act. This includes the proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; the name and address of such shareholder or beneficial owner on whose behalf the nomination is being made; and the number of shares of the Company owned beneficially and of record by such shareholder or beneficial owner. The Board will consider shareholder nominees on the same terms as nominees selected by the Board.

## **7. RESULTS OF THE ANNUAL MEETING**

The Company intends to announce preliminary voting results at the Annual Meeting and will publish final results within four business days of the Annual Meeting in a Current Report on Form 8-K, which the Company will file with the SEC.

## 8. HOUSEHOLDING

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for shareholders and cost savings for companies. The Company has implemented householding rules with respect to our shareholders of record. Additionally, a number of brokers with account holders who are shareholders may be “householding” the Company’s proxy materials. If a shareholder receives a householding notification from his, her or its broker, a single proxy statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from an affected shareholder. Once a shareholder has received notice from his/her broker that they will be “householding” communications to such shareholders address, “householding” will continue until you are notified otherwise.

Shareholders who currently receive multiple copies of the Notice of Internet Availability at their address and would like to request “householding” of their communications should contact their broker. In addition, if any shareholder that receives a “householding” notification wishes to receive a separate Notice of Internet Availability at his, her or its address, such shareholder should also contact his, her or its broker directly. Shareholders who in the future wish to receive multiple copies may also contact the Company c/o Company Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392.

Shareholders of record sharing an address can request delivery of a single copy of annual reports to security holders, proxy statements, and notices of internet availability of proxy materials by contacting the Company at: c/o Company Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392.

## 9. COST OF SOLICITATION

The cost of soliciting proxies will be borne by the Company. In addition to use of the mails, proxies may be solicited personally or by telephone by directors, officers and employees of the Company, who will not be specially compensated for such activities.

## 10. ADDITIONAL INFORMATION

A copy of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2016 accompanies this Proxy Statement. The Company is required to file an Annual Report on Form 10-K with the SEC. Shareholders may obtain, free of charge, a copy of the Form 10-K on the website maintained by the SEC at [www.sec.gov](http://www.sec.gov) or by writing to Craig Smith, Secretary, Willamette Valley Vineyards, Inc., 8800 Enchanted Way S.E., Turner, Oregon 97392, or they may access a copy through links provided on the Company's web site: [www.wvy.com](http://www.wvy.com). An electronic version of the 2017 Proxy and Annual Report are available at this web address: [otrtransfer.com/olink](http://otrtransfer.com/olink). The information on the Company’s website is not part of this Proxy Statement.

By Order of the Board of Directors  
James W. Bernau  
Chairperson of the Board  
May 23, 2017

## ANNUAL REPORT TO SHAREHOLDERS

### DESCRIPTION OF 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 and Tualatin Estate 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. See “Note 15 – Segment Reporting” on the Notes to Financial Statements attached to this report.

**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 2016, \$22 to \$100 per bottle; Chardonnay, \$25 to \$45 per bottle; Pinot Gris, \$17 per bottle; Rose, \$18 to \$24 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 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, NOG, OREGON’S NOG, OREGON’S LANDMARK WINERY, GRIFFIN CREEK, GRIFFIN, ELTON, WILLAMETTE, WVV, SIP.SAVE, WHOLE CLUSTER, MADE IN OREGON CELLARS, OREGON BLOSSOM, 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 2016, U.S. wineries grew in number from 1,817 to 8,702. In addition, wineries are classified as one of the fastest growing segments in agriculture with an average annual growth of 10–15%.

The United States is the largest wine market in the world in terms of revenues and volume. According to Impact Databank, U.S. wine sales have been growing at a rate of 2-3% per year for the past 21 years. In 2015 U.S. wine sales reached \$38.1 billion, a 3% increase from 2014. The U.S. wine volume consumption reached 357.5 million cases in 2014, the most recent year this data was available, with France in second place at 310 million cases. The U.S. also leads the world as the largest wine-consuming nation with over 101 million people drinking wine, approximately 44% of all U.S. adults.

U.S. wineries decreased production in 2015, the most recent year such data is available, by 8% and produced approximately 323 million cases. Pinot Noir is one of the highest-priced varieties on the market, yet its sales have nearly tripled in the U.S. since the movie *Sideways* was released in 2004. In 2016, red blends sales increased 10.1% and wine priced at \$11 per bottle, and above, had sales growth while bottles priced below \$8 had a decline in sales volume. In Oregon, wines priced at greater than \$20 per bottle are growing faster than other segments.

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 advanced 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. In 2015, the most recent year such data is available, there were 702 commercial wineries licensed in Oregon, an increase of 4% from 2014, and 28,034 planted acres of wine grape vineyards, 24,742 acres of which were harvested. Oregon wine grapes produced a 2015 crop with a total value of \$171 million, an increase of 1.7% from 2014. Pinot Noir leads all varieties accounting for 62% of harvested acreage. Oregon case sales in 2015 are estimated at 3.1 million, up from 2.8 million in 2014, a 6.9% increase, with the largest channel increase in direct to consumer sales at 14%. Case sales in dollars for 2015 are estimated to be \$470 million, a 9% increase from 2014.

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. 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. As of December 31, 2016, 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 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 and Griffin Creek brands.

**2015 Oregon harvest** – The Oregon Vineyard and Winery Census Report states that the total grapes crushed in Oregon rose 5%, compared to 2014, to a record high of 73,518 tons. Pinot Noir continued to lead statewide production representing 60% of the tonnage grown and crushed. Yield increased to an average 3.43 tons per acre from 24,742 harvested acres.

**2016 Oregon harvest** – There is no official data available on the 2016 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.

In order 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 winery in the Walla Walla AVA under the name Pambrun. This 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 and plans to start facility construction in 2019. Additionally, the Company is developing a single vineyard brand near Hopewell, Oregon adjacent to the current site of Elton Vineyards to produce wine under the Elton label. This brand will produce primarily Pinot Noir and Chardonnay, also for sale in the ultra-premium space. The Company intends to release wines under the Elton label beginning with the 2015 vintage year and plans to complete facility construction in 2024. 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 and is in the process of developing a plan for the use and development of that property.

## **Vineyards**

The Company owns and leases approximately 794 acres of land, of which 625 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 76% of the grapes needed to meet the winery's production capacity, of 378,000 gallons (159,000 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 2016	Harvest 2015
<b>Owned Vineyards</b>							
WV Estate	107	60	4	1	42	197	269
Tualatin Estate Vineyard	107	48	12	-	47	162	246
Ingram Vineyard	86	2	60	-	24	5	-
Pambrun Vineyard	42	-	15	16	11	-	-
Loeza Vineyard	62	-	13	45	4	-	-
Ribbon Ridge Vineyard	53	-	-	25	28	-	-
Rocks Vineyard	37	-	-	36	1	-	-
Dundee Vineyard	40	-	-	40	-	-	-
Sub-Total	534	110	104	163	157	364	515
<b>Leased Vineyards</b>							
Peter Michael Vineyard	79	69	-	-	10	231	330
Meadowview Vineyard	45	45	-	-	-	217	292
Elton Vineyard	59	54	-	2	3	109	157
Ingram Vineyard	110	-	70	40	-	-	-
Sub-Total	293	168	70	42	13	557	779
<b>Contracted Vineyards*</b>							
Various	304	304	-	-	-	1,052	1,094
<b>Total</b>	<b>1,131</b>	<b>582</b>	<b>174</b>	<b>205</b>	<b>170</b>	<b>1,973</b>	<b>2,388</b>

\* Contracted acreage is estimated

*WV Estate* – Established in 1983, the Company's Estate Vineyard (the "Estate Vineyard") is located at the Winery location south of Salem, near Turner, Oregon. The Estate Vineyard uses an elaborate trellis design known as the Geneva Double Curtain. The Company has incurred the additional expense of constructing this trellis because it doubles the number of canes upon which grape clusters grow and spreads these canes for additional solar exposure and air circulation. Research and practical applications of this trellis design indicate that it should improve grape quality through smaller clusters and berries over traditional designs. The Company planted one half acre in 2016.

*Tualatin Estate Vineyard* – Established in 1973 at the Tualatin Winery location near Forest Grove, Oregon, the Company's Tualatin Estate Vineyards is one of the oldest vineyards in Oregon. It was purchased by the Company in 1997. A series of sale-leaseback transactions split the property into two additional vineyards, and the Company continues to lease and manage the Peter Michael Vineyard and Meadowview Vineyard, located adjacent to the Tualatin Vineyard.

*Ingram Estate and Elton Vineyard* – The Company purchased 86 acres near Hopewell, Oregon, for vineyard plantings. Adjacent to the purchased land is an additional 110 leased acres, also for vineyard development. The Company believes the site is ideally situated to grow premium Pinot Noir and planted 24 acres in 2016. The Ingram site is also adjacent to Elton Vineyards, where the Company leases 54 acres of established vineyards. The Company intends to plant 22 leased acres at Ingram in 2017.

*Pambrun Vineyards* – In 2015, the Company purchased 42 acres in the Walla Walla AVA near the town of Milton-Freewater, Oregon. Additionally, the Company has exercised an option to buy another 45 acres in 2017. The Company believes this site is ideal to grow Cabernet Sauvignon and other Bordeaux-varietals. Wines produced from this vineyard are expected to be sold under the Pambrun label. The Company planted 15 acres in 2016 and intends to plant 4 acres in 2017.

*Loeza Vineyard* – The Company purchased 62 acres near Gaston, Oregon in 2014, for vineyard plantings, and believes the site is ideally situated to grow premium Pinot Gris. The site is close to Tualatin Vineyards which allows the Company to leverage existing crews for vineyard development and operations. The Company planted 13 acres in 2016 and intends to plant 35 acres in 2017.

*Ribbon Ridge Vineyard* – The Company purchased 53 acres in the Ribbon Ridge sub-AVA in 2016 for vineyard plantings and believes the site is suitable for growing ultra-premium Pinot Noir. The Company plans to plant 15 acres in the fall of 2017.

*Rocks Vineyard* – The Company purchased approximately 37 acres in the new Rocks District of Milton-Freewater appellation near Milton-Freewater, Oregon in 2016. No plantings are planned until 2018.

*Dundee Vineyard* – The Company purchased 40 acres in Dundee, Oregon in December 2016. The Company has no plans for planting this site in 2017.

*Grape Vines* - Beginning in 1997, the Company embarked on a major effort to improve the quality of its flagship varietal by planting new Pinot Noir clones that originated directly from the cool climate growing region of Burgundy rather than the previous source, Napa, California, where winemakers believe the variety adapted to the warmer climate over the many years it was grown there.

These new French clones are called “Dijon clones” after the University of Dijon in Burgundy, which assisted in their selection and shipment to a U.S. government authorized quarantine site, and then two years later to Oregon winegrowers. The most desirable of these new Pinot Noir clones are numbered 113, 114, 115, 667, 777 and 943. In addition to certain flavor advantages, these clones ripen up to two weeks earlier, allowing growers to pick before heavy autumn rains. Heavy rains can dilute concentrated fruit flavors and promote bunch rot and spoilage. These Pinot Noir clones were planted at the Tualatin Vineyards with phylloxera-resistant rootstock and the 667 and 777 clones have been grafted onto seven acres of self-rooted, non-phylloxera-resistant vines at the Company’s Estate Vineyard.

New clones of Chardonnay preceded Pinot Noir into Oregon and were planted at the Company’s Estate Vineyard on phylloxera-resistant rootstock.

*Grape supply* – In 2016, the Company’s producing acres in the Estate Vineyard yielded approximately 197 tons of grapes. Tualatin/Peter Michael/Meadowview Vineyards produced an aggregate of 585 tons of grapes in 2016. Elton and Ingram Vineyards produced 88 tons of grapes in 2016.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices. In 2016, the Company purchased an additional 1,052 tons of grapes from other growers. The Company cannot grow enough grapes to meet anticipated production needs, and therefore contracts grape purchases to make up the difference. Contracted grape purchases are considered an important component of the Company’s long-term growth and risk-management plan. The Company believes high quality grapes will be available for purchase in sufficient quantity to meet the Company’s requirements. Additionally, the Company will continue to evaluate opportunities to purchase properties for future vineyards.

The grapes grown on the Company’s vineyards establish a foundation of quality, through the Company’s farming practices, upon which the quality of the Company’s wines is built. In addition, wine produced from grapes grown in the Company’s own vineyards may be labeled as “Estate Bottled” wines. These wines traditionally sell at a premium over non-estate bottled wines.

*Viticultural conditions* – Oregon’s Willamette Valley is recognized as a premier location for growing certain varieties of high quality wine grapes, particularly Pinot Noir, Pinot Gris, Chardonnay and Riesling. The Company believes that the Estate Vineyard’s growing conditions, including its soil, elevation, slope, rainfall, evening marine breezes and solar orientation are among the most ideal conditions in the United States for growing certain varieties of high-quality wine grapes. The Estate Vineyard’s grape growing conditions compare favorably to those found in some of the famous Viticultural regions of France. Western Oregon’s latitude (42°–46° North) and relationship to the eastern edge of a major ocean is very similar to certain centuries-old wine grape growing regions of France.

The Estate Vineyard's soil type is Jory/Nekia, a dark, reddish-brown, silky clay loam over basalt bedrock, noted for being well drained, acidic, of adequate depth, retentive of appropriate levels of moisture and particularly suited to growing high quality wine grapes.

The Estate Vineyard's elevation ranges from 533 feet to 800 feet above sea level with slopes from 2% to 30% (predominately 12-20%). The Estate Vineyard's slope is oriented to the south, southwest and west. Average annual precipitation at the Estate Vineyard is 41.3 inches; average annual air temperature is 52 to 54 degrees Fahrenheit, and the length of each year's frost-free season averages from 190 to 210 days. These conditions compare favorably with conditions found throughout the Willamette Valley viticultural region and other domestic and foreign viticultural regions, which produce high quality wine grapes.

In the Willamette Valley, permanent vineyard irrigation generally is not required. The average annual rainfall provides sufficient moisture to avoid the need to irrigate the Estate Vineyard. However, if the need should arise, the Company's Estate property contains one water well which can sustain sufficient volume to meet the needs of the Winery and to provide auxiliary water to the Estate Vineyard for new plantings and unusual drought conditions. At the Tualatin Vineyard, the Company has water rights to a year round spring that feeds an irrigation pond. Additionally, the Company has water rights at the Pambrun and Rocks Vineyards.

*Susceptibility of vineyards to disease* – The Tualatin Vineyard and the adjacent leased vineyards are known to be infested with phylloxera, an aphid-like insect, which can destroy vines. The Company has not detected any phylloxera at its Estate Vineyard or Loeza Vineyard.

It is not possible to estimate any range of loss that may be incurred due to the phylloxera infestation of the Company's vineyards. The phylloxera at Tualatin Vineyard is believed to have been introduced on the roots of the vines first planted on the property in the southern most section Gewurztraminer in 1971 that the Company partially removed in 2004. The remaining vines, and all others infested, remain productive at low crop levels. The Company is in the process of gradually replacing infested areas with new, phylloxera-resistant vines.

## **Winery**

*Wine production facility* – The Company's Winery and production facilities are capable of efficiently producing up to 159,000 cases (378,000 gallons) of wine per year, depending on the type of wine produced. In 2016, the Winery produced approximately 141,416 cases (336,300 gallons) from its 2014 and 2015 harvest. The Company expects to produce approximately 143,000 cases (340,000 gallons) in 2017 from its 2015 and 2016 harvests.

The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,500 square foot insulated storage facility with a capacity of approximately 30,000 cases of wine. The Company also has a 23,000 square foot storage building to store its inventory of bottled product with a capacity of approximately 135,000 cases of wine. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations.

In addition to the production capacity discussed above, the Tualatin Winery has 20,000 square feet of production capacity. This adds approximately 25,000 cases (59,000 gallons) of wine production capacity to the Company. The capacity at the Tualatin Winery is available to the Company to meet any anticipated future production needs. In 2008, the Company replaced the roof and production floor, insulation and walls, in anticipation of using it for wine storage and future production.

*Hospitality facility* – The Company has a renovated tasting and hospitality facility of 35,642 square feet (the "Hospitality Center") at the Estate Winery. The main floor of the Hospitality Center includes retail sales space with the Estate Tasting Room, Club Room for Wine Club Members, dining area and mezzanine, which altogether are designed to accommodate approximately 300 persons for tastings, wine and food pairing meals, public and private events and meetings. An iconic observation tower and tiered decks around the Hospitality Center enable visitors to enjoy the view of the Willamette Valley and the Company's Estate Vineyard. The tiered decks funnel into an outdoor courtyard that hosts many seasonal gatherings. To the south side of the tiered decks the Company has two hospitality suites for overnight accommodations. The

Hospitality Center sits above the underground barrel cellar and tunnel that connects with the Winery. The facility includes a basement cellar, tunnel and barrel room of 11,090 square feet to store up to 1,800 barrels of wine for aging in the proper environment.

Just outside the Hospitality Center, the Company has a landscaped park setting consisting of terraced lawns for outdoor events. The area between the Winery and Hospitality Center form a 20,000 square foot quadrangle. As designed, a removable fabric top can cover the quadrangle, making it an all-weather outdoor facility to promote the sale of the Company's wines through festivals and social events. Above the Company's working Winery houses the Pinot Room and Founders' Room, which can accommodate 40 persons and 111 persons for public and private events.

The Company believes the Hospitality Center and surrounding areas make the Winery an attractive recreational and social destination for tourists and residents, thereby enhancing the Company's ability to sell its wines.

*Mortgages on properties* – The Company's winery facilities at the Estate Winery are subject to four mortgages with an aggregate principal balance of \$4,824,095 at December 31, 2016. The mortgages are payable in monthly aggregate installments, including principal and interest, of approximately \$53,059. The maturity dates of the mortgages range from December 1, 2024 through December 1, 2028.

*Wine production* – The Company operates on the principle that winemaking is a natural but highly technical process requiring the attention and dedication of the winemaking staff. The Company's Winery is equipped with current technical innovations and uses modern laboratory equipment and computers to monitor the progress of each wine through all stages of the winemaking process.

The Company's recent annual grape harvest and wine production is as follows:

Harvest Year	Tons of Grapes Grown	Tons of Grapes Purchased	Total Tons of Grapes Harvested	Gallons of Bulk Purchases	Production Year	Cases Produced
2005	1,107	25	1,132	-	2005	72,297
2006	1,454	34	1,488	-	2006	81,081
2007	850	896	1,746	-	2007	115,466
2008	551	874	1,425	57,736	2008	121,027
2009	1,033	1,100	2,133	74,954	2009	132,072
2010	674	371	1,045	4,276	2010	110,224
2011	718	609	1,327	9,620	2011	81,357
2012	658	670	1,328	7,910	2012	91,181
2013	755	1,020	1,775	6,257	2013	95,638
2014	1,211	970	2,181	520	2014	108,958
2015	1,266	1,012	2,278	-	2015	120,794
2016	921	1,052	1,973	47,780	2016	141,416

Cases produced per ton harvested often vary between years mainly due to the timing of when the cases are produced.

### **Sales and Distribution**

*Marketing strategy* – The Company markets and sells its wines through a combination of direct sales at the Winery, directly through mailing lists, and through distributors and wine brokers. As the Company has increased production volumes and achieved greater brand recognition, sales to out of state markets have increased, both in terms of absolute dollars and as a percentage of total Company sales.

The Company uses a variety of marketing channels to generate interest in its wines. The Company has created a new, highly functional website and maintains social media sites. The Company controls a database of customers for email and direct promotions. The Company continues to submit its wines to competitions and state, regional and national media for editorials and ratings.

*Direct sales* – The Company’s Estate Winery is located on a visible hill adjacent to Oregon’s major north-south freeway (Interstate 5), approximately 2 miles south of the state’s second-largest metropolitan area (Salem), and 50 miles in either direction from the state’s first and third-largest metropolitan areas (Portland and Eugene). The unique location along Interstate 5 has resulted in generally greater amount of wines sold at the Estate Winery as compared to the Oregon industry standard. Direct sales from the Winery are a vital and growing sales channel and an effective means of product promotion. The Estate Winery Tasting Room is open daily and offers wine tasting and education by trained personnel. The Company offers a complimentary daily tour along with by-appointment private tours offering a behind-the-scenes look at the production process of the wines. The Company has the largest wine club membership in Oregon and features a Members-only Club Room at the Estate Winery.

In 2014, the Company launched “Pairings,” a focused restaurant offering a wine and food pairing lunch. Led by the Winery chef, the menu highlights Northwest fresh dishes paired thoughtfully with the Company’s wines. The culinary offering has now expanded to include “Pairings Food & Wine Experiences,” community-style wine dinners hosted on the weekends.

The Winery has developed a strong Winery Ambassador program, which connects its “Ambassadors” with customers throughout the United States and offers personalized wine recommendations and easy ordering by phone or email.

The Company also operates two additional tasting rooms; one in historic downtown McMinnville, in the heart of Oregon Wine Country, and at its Tualatin Vineyard (located 30 minutes west of Portland).

The Company holds four major festivals at the Winery each year. In addition, open houses are held at the Winery during major holiday weekends such as Memorial Day and Thanksgiving. Numerous private events, charitable and political events are also held at the Winery.

Direct sales produce a higher profit margin because the Company is able to sell its wine directly to consumers at retail prices rather than to distributors at free-on-board or “FOB” prices. Sales made directly to consumers at retail prices result in an increased profit margin equal to the difference between retail prices and distributor prices. For 2016 and 2015, direct sales contributed approximately 36% and 39% of the Company’s net sales, respectively.

*Distributors and wine brokers* – The Company uses both independent distributors and wine brokers primarily to market the Company’s wines in specific targeted areas. Only those distributors and wine brokers who have demonstrated knowledge of and a proven ability to market premium, super premium, and ultra-premium wines are utilized. The Company’s products are distributed in 49 states and the District of Columbia, and there are 5 non-domestic (export) customers. For 2016 and 2015, sales to distributors and wine brokers contributed approximately 64% and 61% of the Company’s revenue from operations, respectively.

*Tourists* – Oregon wineries are a popular tourist destination with many bed & breakfasts, motels and fine restaurants available. The Willamette Valley, Oregon’s leading wine region has almost 80% of the state’s wineries and vineyards and is home to approximately 531 wineries. An additional advantage for Willamette Valley wine tourism is the proximity of the wineries to Portland (Oregon’s largest city and most popular destination). From Portland, tourists can visit the Willamette Valley winery of their choice in anywhere from a 45 minutes to a two hour drive.

The Company believes its convenient location, adjacent to Interstate 5, enables the Winery to attract a significant number of visitors. The Winery is approximately a 45 minute drive from Portland and less than one mile from The Enchanted Forest, a popular amusement park which operates from April through September each year.

### **Dependence on Major Customers**

Historically, the Company’s revenue has been derived from thousands of customers annually. In 2016, sales to one distributor represented approximately 19.0% of total Company revenue. In 2015, sales to one distributor represented approximately 18.2% of total Company revenue.

## **Research and Development**

The nature of the Company's business does not require the Company to incur a material amount of research and development expense.

## **Competition**

The wine industry is highly competitive. In a broad sense, wines may be considered to compete with all alcoholic and nonalcoholic beverages. Within the wine industry, the Company believes that its principal competitors include wineries in Oregon, California and Washington, which, like the Company, produce premium, super premium, and ultra-premium wines. Wine production in the United States is dominated by large California wineries that have significantly greater financial, production, distribution and marketing resources than the Company. Currently, no Oregon winery dominates the Oregon wine market. Several Oregon wineries, however, are older and better established and have greater label recognition than that of the Company.

The Company believes that the principal competitive factors in the premium, super premium, and ultra-premium segment of the wine industry are product quality, price, label recognition, and product supply. The Company believes it competes favorably with respect to each of these factors. The Company has primarily received "Excellent" to "Recommended" reviews in tastings of its wines and believes its prices are competitive with other Oregon wineries. Larger scale production is necessary to satisfy retailers' and restaurants' demand and the Company believes that additional production capacity will be needed to meet estimated future demand. Furthermore, the Company believes that its estimated production capacity of 437,000 gallons (184,000 cases) per year at its Estate Vineyards and Tualatin Vineyard locations give it significant competitive advantages over most Oregon wineries in areas such as marketing, distribution arrangements, grape purchasing, and access to financing. The current production level of most Oregon wineries is generally much smaller than the estimated production capacity level of the Company's Wineries. With respect to label recognition, the Company believes that its unique structure as a consumer-owned company will give it a significant advantage in gaining market share in Oregon, as well as penetrating other wine markets.

## **Governmental Regulation of the Wine Industry**

The production and sale of wine is subject to extensive regulation by the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau and the Oregon Liquor Control Commission. The Company is licensed by and meets the bonding requirements of each of these governmental agencies. Sale of the Company's wine is subject to federal alcohol tax, payable at the time wine is removed from the bonded area of the Winery for shipment to customers or for sale in its tasting room. The current federal alcohol tax rate is \$1.07 per gallon for wines with alcohol content at or below 14.0% and \$1.57 per gallon for wines with alcohol content above 14.0%; however, wineries that produce not more than 250,000 gallons during the calendar year are allowed a graduated tax credit of up to \$0.90 per gallon on the first 100,000 gallons of wine (other than sparkling wines) removed from the bonded area during that year. The Company also pays the state of Oregon an excise tax of \$0.67 per gallon for wines with alcohol content at or below 14.0% and \$0.77 per gallon for wines with alcohol content above 14.0% on all wine sold in Oregon. In addition, most states in which the Company's wines are sold impose varying excise taxes on the sale of alcoholic beverages. As an agricultural processor, the Company is also regulated by the Oregon Department of Agriculture and, as a producer of wastewater, by the Oregon Department of Environmental Quality. The Company has secured all necessary permits to operate its business.

Prompted by growing government budget shortfalls and public reaction against alcohol abuse, Congress and many state legislatures are considering various proposals to impose additional excise taxes on the production and sale of alcoholic beverages, including table wines. Some of the excise tax rates being considered are substantial. The ultimate effects of such legislation, if passed, cannot be assessed accurately since the proposals are still in the discussion stage. Any increase in the taxes imposed on table wines can be expected to have a potentially adverse impact on overall sales of such products. However, the impact may not be proportionate to that experienced by producers of other alcoholic beverages and may not be the same in every state.

## Costs and Effects of Compliance with Local, State and Federal Environmental Laws

The Company management is strongly focused on environmental stewardship and maintains a variety of policies and processes designed to protect the environment, the public and consumers of its wine. Although much of the Company's expenses for protecting the environment are voluntary, the Company is regulated by various local, state and federal agencies regarding environmental laws. However, these regulatory costs and processes are effectively integrated into the Company's regular operations and consequently do not generally cause significant alternative processes or costs.

### Employees

As of December 31, 2016 the Company had approximately 108 full-time employees and 38 part-time employees. In addition, the Company hires additional employees for seasonal work as required. The Company's employees are not represented by any collective bargaining unit. The Company believes it maintains positive relations with its employees.

### Additional Information

The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and proxy statements with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). You may learn more about the Company by visiting the Company's website at [www.wvv.com](http://www.wvv.com). All websites referred to herein are inactive textual references only, meaning that the information contained in such websites is not incorporated by reference herein.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### Market Information

The Company's common stock is traded on the NASDAQ Capital Market under the symbol "WVVI."

The following table below sets forth for the quarters indicated the high and low sales prices for the Company's common stock as reported on the NASDAQ Capital Market:

<u>Quarters ended 2016</u>	<u>12/31/2016</u>	<u>9/30/2016</u>	<u>6/30/2016</u>	<u>3/31/2016</u>
High	\$ 8.36	\$ 8.75	\$ 9.00	\$ 7.19
Low	\$ 7.80	\$ 7.62	\$ 6.90	\$ 6.55
<u>Quarters ended 2015</u>	<u>12/31/2015</u>	<u>9/30/2015</u>	<u>6/30/2015</u>	<u>3/31/2015</u>
High	\$ 8.20	\$ 8.10	\$ 7.23	\$ 6.24
Low	\$ 6.66	\$ 4.50	\$ 5.95	\$ 5.50

The Company's Series A Redeemable Preferred Stock (the "Preferred Stock") is listed on the NASDAQ Capital Market under the symbol "WVVIP." Although it is listed, as of December 31, 2016 there was limited trading for the recently issued stock.

### Holders

As of May 16, 2017, the Company had approximately 2,269 common stock shareholders of record. As some of our shares of common stock are held in "street name" by brokers on behalf of shareholders, we are unable to precisely determine the total number of beneficial holders of our common stock represented by these record holders.

## Dividends

The Company has not paid any dividends on its Common Stock, and the Company does not anticipate paying any dividends in the foreseeable future. The Company intends to use its earnings to expand its vineyards, winemaking and customer service facilities.

The Company has paid a prorated annual dividend on its Preferred Stock. On December 30, 2016 the Company paid \$0.22 per share to Preferred Stock shareholders of record as of December 12, 2016. Shares issued by the Company after January 1, 2016 received a prorated dividend based upon their original issue date. The Company offers a program that allows Preferred Stock shareholders to use their dividends as credits for wine purchases at additional discounts. Total dividends paid, in cash and wine credits, were \$462,529 and the payment satisfied all accrued dividend liability through December 31, 2016. The Company anticipates paying Preferred Stock dividends annually in December of each year.

## Equity Compensation Plans

See Item 12 – Equity Compensation Plan Information of this Annual Report on Form 10-K for information concerning securities authorized for issuance under the Company’s equity compensation plans.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

Issuer purchases of equity securities not disclosed in previous submissions are as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs</u>
October 2016	2,350	8.11	2,350	\$ 212,496
November 2016	-	-	-	212,496
December 2016	600	8.18	600	207,586
Total	<u>2,950</u>	<u>8.13</u>	<u>2,950</u>	<u>\$ 207,586</u>

In January 2012 the Company began its first program to repurchase common stock and has approved two subsequent programs. As of December 31, 2016 the Company has repurchased 219,792 shares of common stock since the inception of the original program.

In November of 2015 the Board approved its most recent program to repurchase common stock of the Company. Under the November 2015 Board action, the Company funded a plan to repurchase up to \$250,000 of our common stock through the open market. On April 25, 2016, the Board approved allocating additional funds to increase the plan balance back to the \$250,000 level and additionally approved the repurchase of up to \$100,000 of the Company’s common stock from private parties. On August 29, 2016 the Board approved adding an additional \$250,000 to the plan. This plan is intended to remain in place until all funding for the plan is depleted or the plan is expanded or terminated by the Board. As of December 31, 2016, \$207,586 remained unspent under this plan.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses Willamette Valley Vineyards' financial statements, which have been prepared in accordance with generally accepted accounting principles. As such, management is required to make certain estimates, judgments and assumptions that are believed to be reasonable based upon the information available. On an on-going basis, management evaluates its estimates and judgments, including those related to product returns, bad debts, inventories, investments, income taxes, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**Revenue** - The Company's principal sources of revenue are derived from sales and distribution of wine. Distributor sales are recognized from wine sales at the time of shipment and passage of title. The Company's payment arrangements with customers provide primarily 30-day terms and, to a limited extent, 45-day, 60-day or longer terms for some international customers. Direct sales from items sold through the Company's retail locations are recognized at the time of sale.

**Inventory** - The Company values inventories at the lower of actual cost to produce the inventory or market value. The Company regularly reviews inventory quantities on hand and adjusts its production requirements for the next twelve months based on estimated forecasts of product demand. A significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. In the future, if the Company's inventory cost is determined to be greater than the net realizable value of the inventory upon sale, the Company would be required to recognize such excess costs in its cost of goods sold at the time of such determination. Therefore, although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the ultimate selling price and cases sold and, therefore, the carrying value of the Company's inventory and its reported operating results.

Additionally, the Company regularly evaluates inventory for obsolescence and marketability and if it determines that the inventory is obsolete, or no longer suitable for use or marketable, the cost of that inventory is recognized in its cost of sales at the time of such determination.

**Vineyard Development** - The Company capitalizes internal vineyard development costs prior to the vineyard land becoming fully productive. These costs consist primarily of the costs of the vines and expenditures related to labor and materials to prepare the land and construct vine trellises. Amortization of such costs as annual crop costs is done on a straight-line basis for the estimated economic useful life of the vineyard, which is estimated to be 30 years. The Company regularly evaluates the recoverability of capitalized costs. Amortization of vineyard development costs are included in capitalized crop costs that in turn are included in inventory costs and ultimately become a component of cost of goods sold.

**Depletions** - The Company pays depletion allowances to the Company's distributors based on their sales to their customers. The Company sets these allowances on a monthly basis and the Company's distributors bill them back on a monthly basis. All depletion expenses associated with a given month are recognized in that month as a reduction of revenues. The Company also reimburses for samples used by distributors up to 1.5% of product sold to the distributors. Sample expenses are recognized at the time the Company is billed by the distributor as a selling, general and administrative expense.

**Shipping** - Amounts paid by customers to the Company for shipping and handling expenses are included in the net revenue. Expenses incurred for outbound shipping and handling charges are included in selling, general and administrative expense. The Company's gross margins may not be comparable to other companies in the same industry as other companies may include shipping and handling expenses as a cost of goods sold.

**Income Taxes** – The Company accounts for income taxes using the asset and liability approach. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and the tax basis of assets and liabilities at the applicable tax rates. The Company evaluates deferred tax assets, and records a valuation allowance against those assets, if available evidence suggests that some of those assets will not be realized.

The effect of uncertain tax positions would be recorded in the financial statements only after determining a more likely than not probability that the uncertain tax positions would withstand an examination by tax authorities based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As facts and circumstances change, management reassesses these probabilities and would record any changes in the financial statements as appropriate.

## **Overview**

The Company generates revenue from the sales of wine to wholesalers and direct to consumers. Direct to consumer sales primarily include sales through the Company's tasting rooms and wine club. Direct to consumer sales are more profitable to the Company due to prices received being closer to retail than those prices paid by wholesalers. The Company continues to emphasize growth in direct to consumer sales through use of the Hospitality Center and growth in wine club membership. The Company had 6,714 wine club memberships for the year ended December 31, 2016, a net increase of 344 when compared to 2015. Periodically, the Company will also sell grapes or bulk wine, which primarily consists of inventory that does not meet Company standards or is in excess to production targets. However, this activity is not a significant part of the Company's activities.

The Company sold approximately 134,700 and 121,800 cases of produced wine during the years ended December 31, 2016 and 2015, respectively, an increase of 12,900 cases, or 10.6% in the current year over the prior year. The increase in wine sales was the result of growth in both retail sales and sales through distributors.

Cost of Sales includes grape costs, whether purchased or grown at Company vineyards, crush costs, winemaking and processing costs, bottling, packaging, warehousing and shipping and handling costs associated with purchased production materials. For grapes grown at Company vineyards, costs include farming expenditures and amortization of vineyard development costs. The Company expects cost of sales to decrease, as a percentage of net sales, over the next several years, as higher yield vintages are released.

At December 31, 2016, wine inventory includes approximately 72,400 cases of bottled wine and 407,600 gallons of bulk wine in various stages of the aging process. Case wine is expected to be sold over the next 12 to 24 months and generally before the release date of the next vintage. The winery bottled approximately 141,416 cases during the year ended December 31, 2016.

## **Results of Operations**

The Company had net sales of \$19,425,412 and \$17,938,872 for the years December 31, 2016 and 2015, respectively, an increase of \$1,486,540 or 8.3%, for the year ended December 31, 2016 over the prior year period. The reasons for this increase include increased sales in all categories except bulk wine; retail sales (10.2%), in-state sales (13.8%), out-of-state sales (12.5%) and sales of bulk products (-68.5%). The reduction in bulk wine sales is primarily attributable to high harvest yields in 2015 that did not exist in 2016.

Gross profit was \$12,220,528 and \$10,846,761 for the years ended December 31 2016 and 2015, respectively, an increase of \$1,373,767, or 12.7%, for the year ended December 31, 2016 over the prior year period. This increase was generally driven by an increase in sales and a reduced cost of sales as a percentage of sales.

The gross margin percentage was 62.9% and 60.5% for the years ended December 31, 2016 and 2015, respectively, an increase of 4.0%, for the year ended December 31, 2016 over the prior year period. This increase in the gross profit percentage is primarily the result of an overall increase in per case margins.

Selling, general and administrative expenses were \$8,053,127 and \$7,573,801 for the years ended December 31, 2016 and 2015, respectively, an increase of \$479,326, or 6.3%, for the year ended December 31, 2016 over the prior year period. This increase was mainly the result of both increased selling expenses and increased general and administrative costs associated with efforts to increase sales and accommodate and develop retail growth.

Income from operations was \$4,167,401 and \$3,272,960 for the years ended December 31, 2016 and 2015, respectively, an increase of \$894,441, or 27.3%, for the year ended December 31, 2016 over the prior year period. The primary reason for this increase was increased gross profit, which was partially offset by increased selling expenses and administrative expense.

Provision for income taxes was \$1,478,310 and \$1,275,416 for the years ended December 31, 2016 and 2015, respectively, an increase of \$202,894, or 15.9%, for the year ended December 31, 2016 over the prior year period. This increase in income taxes in 2016 compared to 2015 were primarily the result of higher pretax income in 2016 compared to the previous year partially offset by a lower effective tax rate.

Net income was \$2,628,975 and \$1,901,832, for the years ended December 31, 2016 and 2015, respectively, an increase of \$727,143, or 38.2%, for the year ended December 31, 2016 over the prior year period. The primary reason for this increase was an overall increase in income from operations. Additionally, the Company recorded \$110,000 in net proceeds received in 2016 from a legal claim, regarding damage to grapes that occurred in 2013 from an adjacent farm overspray, which was included as an offset to selling, general and administrative expense for 2016.

Net income applicable to common shareholders was \$2,166,446 and \$1,844,221, for the years ended December 31, 2016 and 2015, respectively, an increase of \$322,225, or 17.5%, for the year ended December 31, 2016 over the prior year period. This increase was primarily driven by increased income from operations in 2016 compared to 2015.

Diluted income per common share after preferred dividends was \$0.43 and \$0.37 for the years ended December 31, 2016 and 2015, respectively, an increase of \$0.06, or 16.7%, for the year ended December 31, 2016 over the prior year period. The primary reason for this increase is an increase in net income in 2016 compared to 2015.

The Company has three primary sales channels: direct-to-consumer sales, in-state sales to distributors, and out-of-state sales to distributors. These three sales channels represent 36.0%, 19.1% and 44.9%, of net sales for the year ended December 31, 2016, respectively. This compares to 38.5%, 18.2% and 43.3% of net sales for the year ended December 31, 2015, respectively. Miscellaneous and grape sales are included in direct-to-consumer sales.

The Company had cash balances of \$5,706,351, at December 31, 2016, and \$4,010,664 at December 31, 2015. The Company had no outstanding line of credit balance at December 31, 2016 or 2015.

## **EBITDA**

In 2016, the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 20.2% to 5,724,058 from 4,760,442 in 2015, primarily as a result of higher net income and depreciation and amortization expenses.

EBITDA does not reflect the impact of a number of items that affect our net income, including financing costs. EBITDA is not a measure of financial performance under the accounting principles generally accepted in the United States of America, referred to as "GAAP", and should not be considered as an alternative to net income or income from operations as a measure of performance, nor as an alternative to net cash from operating activities as a measure of liquidity. We use EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider it to be a meaningful supplement to operating income as a performance measure primarily because depreciation and amortization expense are not actual cash costs, and depreciation expense varies widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of our operating facilities.

EBITDA has significant limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported. Because of these limitations, EBITDA should only be considered as a supplemental performance measure and should not be considered as a measure of liquidity or cash available to us to invest in the growth of our business. See the Statement of Cash Flows set out in our consolidated financial statements included herein.

The following table provides a reconciliation of net income (the most comparable GAAP measure) to EBITDA for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net Income</b>	\$ 2,628,975	\$ 1,901,832
Depreciation and amortization expense	1,335,254	1,274,243
Interest Expense	291,370	311,188
Interest Income	(9,851)	(2,237)
Income tax expense	1,478,310	1,275,416
<b>EBITDA</b>	<b>\$ 5,724,058</b>	<b>\$ 4,760,442</b>

### Sales

Wine sales for the years ended December 31, 2016 and 2015 and ending inventory amounts for the year ended December 31, 2016, are shown on the following table, as well as planned production quantities for the year ending December 31, 2017:

<u>Varietal/Product</u>	<u>Cases Sold</u> <u>2016</u>	<u>Cases Sold</u> <u>2015</u>	<u>Cases On-Hand</u> <u>December 31, 2016</u>	<u>Planned Bottling</u> <u>Production</u> <u>(Cases) 2017</u>
Pinot Noir/Estate	13,900	14,000	18,100	15,200
Pinot Noir/Barrel Select	10,800	10,800	200	9,000
Pinot Noir/Founders Reserve	3,400	3,500	5,100	5,000
Pinot Noir/Special Designates	4,100	4,200	7,400	4,100
Pinot Noir/Whole Cluster	38,000	30,100	4,300	35,200
Pinot Gris	24,500	22,400	11,800	26,000
Riesling	22,000	20,100	7,500	19,500
Chardonnay	2,600	3,500	4,200	4,300
Table Wine	10,300	6,100	5,300	12,500
Other	5,100	7,100	8,500	12,200
<b>Total</b>	<b>134,700</b>	<b>121,800</b>	<b>72,400</b>	<b>143,000</b>

Approximately 52% of the Company's case sales during 2016 were of the Company's flagship varietal, Pinot Noir. Case sales of Pinot Gris and Riesling follow with approximately 18% and 16% of case sales each, respectively. The Company sold approximately 134,700 and 121,800 cases of Company-produced wine during the years ended December 31, 2016 and 2015, respectively. This represents an increase of approximately 12,900 cases, or 10.6% in 2016 compared to 2015. This increase in case sales in 2016 compared to 2015 was primarily the result of growth in both retail sales and sales through distributors.

### Wine Inventory

The Company had approximately 72,400 cases of bottled wine on-hand at the end of 2016. Management believes sufficient bulk wine inventory is on-hand to bottle approximately 143,000 cases of wine in 2017 and that sufficient stock is on hand to meet current demand levels until the 2017 vintage becomes available.

## **Production Capacity**

Current production volumes are within the current production capacity constraints of the Winery when including storage capacity at the Tualatin Winery and utilization of temporary storage when appropriate. In 2016, approximately 141,416 cases were produced, and Management anticipates bottling approximately 143,000 cases in 2017. The Winery has capacity to comfortably store and process about 159,000 cases of wine per year at the Estate Winery but can expand that capacity by utilizing storage at the Tualatin Winery as well as temporary storage. Management continues to invest in new production technologies to increase the efficiency and quality of wine production. During 2016, the Company did not choose to utilize the wine production facilities at the Tualatin Winery but did utilize it for wine storage. The Tualatin Winery has capacity to produce approximately 25,000 cases of wine. The facility is maintained in good condition, and is occasionally used by other local wineries. Management intends to fully utilize the production capacity at the Estate Winery before expanding into the Tualatin Winery.

## **Grape Supply**

For the 2016 and 2015 vintages, the Company grew approximately 47% and 54% of all grapes harvested, respectively. The remaining grapes harvested were purchased from other growers. In 2016 and 2015, 32% and 16% of grapes harvested were purchased under short-term contracts, and 21% and 30% of grapes harvested were purchased under long-term contracts, respectively. The Company considers short-term contracts to be for single vintage years and long-term contracts to cover multiple vintage years.

Grapes are typically harvested and received in October of the vintage year. Upon receipt, the grapes are weighed, and a quality analysis is performed to ensure the grapes meet the standards set forth in the purchase contract. Based on the amount of qualifying grapes received, the full amount payable to the grower is recorded to the grapes payable liability account. Approximately 50% of the grapes payable amount is due in November of the vintage year. The remaining amount is due in March of the following year. The grapes are processed into wine, which is typically bottled and available for sale between five months and two years from date of harvest.

The Company received \$525,118 and \$959,446 worth of grapes from long-term contracts during the years ended December 31, 2016 and 2015, respectively. The Company received \$1,258,642 and \$900,792 worth of grapes from short-term contracts during the years ended December 31, 2016 and 2015, respectively. Total grapes payable were \$693,666 and \$816,879 as of December 31, 2016 and 2015, respectively. Grapes payable includes \$225,118 and \$410,575 of grapes payable from long-term contracts as of December 31, 2016 and 2015, respectively.

The Company plans to address long-term grape supply needs by developing new vineyards on properties currently owned or secured by lease. The Company has approximately 174 acres of vineyards that have been planted but are in the pre-productive stage. We anticipate that these vineyards will begin bearing fruit in the next one to three years. The Company has approximately 173 acres of land that is suitable for future vineyard development. Management currently has plans to plant approximately 76 acres and 75 acres in the years 2017 and 2018, which we anticipate will begin bearing fruit in years 2021 and 2022, respectively. Additionally, the Company intends to seek out opportunities to acquire land for future grape plantings in order to continue to increase available quantities, maintain control over farming practices, more effectively manage grape costs and mitigate uncertainty associated with long-term contracts.

In 2016, a major grape supplier substantially under-delivered grape quantities, anticipated under the contract with us, causing the Company to purchase grapes from other local growers. The Company is reevaluating its relationship with this grower and as a result may purchase fewer grapes under the long-term contract categorization.

## **Wine Quality**

Continued awareness of the Willamette Valley Vineyards brand and the quality of its wines, was enhanced by national and regional media coverage and partnerships throughout 2016.

The Company's Founder Jim Bernau was nominated for 'Person of the Year' in the Wine Star Awards presented by Wine Enthusiast Magazine. The Willamette Valley was honored by earning 'Region of the Year.'

The Company was selected as the Best Vineyard/Tasting Room Experience by Sunset Magazine in their annual Sunset Travel Awards. The Sunset Travel Awards honor the West's top destinations in lodging, dining, cultural tourism, outdoor adventure and attractions. The Company is the first Oregon winery to win the award.

The Company's Founder Jim Bernau was selected as the face of the Oregon Wine Board's Oregon Wine Month campaign that ran in May 2016. Print advertisements and in-store point of sale materials were featured throughout the country promoting Oregon wines.

Wine Enthusiast Magazine rated the Company's 2015 Whole Cluster Pinot Noir a 90 point and Editors' Choice, Whole Cluster Rose' a 90 point and Editors' Choice, Pinot Gris a 90 point and Editors' Choice, 2013 Bernau Block Pinot Noir a 91 point and Cellar Selection, 2013 Signature Cuvée Pinot Noir a 92 point, 2013 Hannah Pinot Noir a 91 point, 2013 Elton Pinot Noir a 90 point, and 2014 Estate Chardonnay a 90 point score.

Wine Spectator rated the Company's 2013 Tualatin Estate Pinot Noir a 91 point, 2013 Signature Cuvée Pinot Noir a 91 point, and 2013 Vintage 40 Chardonnay a 89 point score. Wine Spectator rated the 2014 Riesling with a 90 point and "Best Buy" in the February 2016 issue.

Vinous, which recently purchased Stephen Tanzer's International Wine Cellar, reviewed the Company's 2013 Pinot Noirs and awarded 91 points to the Hannah Pinot Noir, Signature Cuvée Pinot Noir and Bernau Block Pinot Noir. They awarded 90 points to the Elton Pinot Noir, Whole Cluster Pinot Noir and Vintage 40 Pinot Noir.

The 2016 Quarter 1 issue of Burghound.com rated the Company's 2012 Fuller Pinot Noir a 92 point, 2012 O'Brien Pinot Noir a 91 point, 2012 Tualatin Estate Pinot Noir a 91 point, 2012 Hannah Pinot Noir a 90 point, and 2012 Signature Cuve'e Pinot Noir a 90 point.

Wine Advocate rated the Company's 2014 Elton Chardonnay a 90 point score.

The International Wine Report rated the Company's 2013 Elton Pinot Noir with a 93 point score.

Portland Monthly Magazine included the Company's 2014 Estate Pinot Noir (#13) and 2014 Estate Chardonnay (#32) on the list of Oregon's 50 Best Wines.

The Company's 26th annual Grape Stomp Championships & Harvest Celebration was featured in a USA Today article titled, "Where to stomp grapes this harvest season." The article was also syndicated to the Portland Tribune.

SouthCoast Today shared the Company's winery story and rated the wines as "outstanding."

The Company partnered with the Portland Timbers major league soccer team for the 2016 season. The partnership includes in-stadium experiences and tastings, premium concession offerings and joint advertising.

The Company partnered with Tillamook Dairy Co-op on in-store displays and promotions featuring Tillamook Cheese and the Company's wine in Safeway and Albertson's stores.

The Company partnered with Timberline Lodge, one of the northwest's top destinations, on a sustainable food educational dinner series called Pasture and Pinot Noir. The program will run through the end of the year and feature grass-fed beef paired with the Company's wines in their on-site restaurant.

The Company participated in Chicago Gourmet and Los Angeles Food and Wine events.

The Walla Walla Union Bulletin featured an article titled, "New vineyard honors Valley's French-Canadian roots," prior to the Company's Pambrun Vineyard planting that was also picked up and featured on Bloomberg Online in May.

Wine Enthusiast Magazine featured an online story on the Company's Groundbreaking event titled, "Willamette Moves Into Walla Walla," for the new Pambrun Vineyard located in the Walla Walla Valley.

Eater included the Company's culinary program in a piece titled, "14 Standout Restaurants in the Willamette Valley Wine Country."

The Classic Wine Auction presented their annual ORVI Award to our Founder Jim Bernau for his achievements in building the Oregon wine industry and establishing its worldwide reputation. The ORVI Award is presented to individuals that have not only elevated the status of Oregon wines, but have also provided generous support to the Classic Wines Auction.

Portland Monthly Magazine selected Founder Jim Bernau for their Faces of Portland campaign featuring him as the face of Oregon wine.

The Statesman Journal, published in Salem, Oregon, featured an article titled, "Oregon Wine Industry Honors the Best," which announced the Company's Vineyard Manager, Efrén Loeza earned the inaugural Oregon Wine Board Vineyard Excellence Award at the 2016 Oregon Wine Symposium.

Kelly Mitchell of The Huffington Post published an online feature story about the Company titled "Perfecting Pinot in the Willamette Valley," and writing, "Today Willamette Valley Vineyards is a leader, not only in the production of top Pinot Noir, but in the employing practices to offset environmental impact of the business."

The Oregonian named the Company as "One of the Most Elegant Wineries in Oregon" in the January 2016 article.

### Seasonal and Quarterly Results

The Company has historically experienced and expects to continue experiencing seasonal fluctuations in its revenue and net income. Typically, first quarter sales are the lowest of any given year, and sales volumes increase progressively through the fourth quarter mostly because of consumer buying habits.

The following table sets forth certain information regarding the Company's revenue, excluding excise taxes, from the Winery's operations for the three and twelve months ended December 31, 2016 and 2015:

	Three months ended		Twelve months ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Retail sales	\$ 1,957,154	\$ 1,699,991	\$ 6,932,424	\$ 6,291,039
In-state sales	1,345,089	1,120,745	3,810,841	3,350,048
Out-of-state sales	2,616,886	2,225,228	8,937,097	7,940,977
Bulk wine/miscellaneous sales	100,565	131,148	245,097	777,538
Total revenue	6,019,694	5,177,112	19,925,459	18,359,602
Less excise taxes	<u>(158,790)</u>	<u>(116,414)</u>	<u>(500,047)</u>	<u>(420,730)</u>
Sales, net	<u>\$ 5,860,904</u>	<u>\$ 5,060,698</u>	<u>\$ 19,425,412</u>	<u>\$ 17,938,872</u>

### 2016 Compared to 2015

Retail sales for the years ended December 31, 2016 and 2015 were \$6,932,424 and \$6,291,039, respectively, an increase of \$641,385, or 10.2%, for the year ended December 31, 2016 over the prior year period. This increase was primarily driven broad based growth in each major retail category.

Bulk Wine/miscellaneous sales for the years ended December 31, 2016 and 2015 were \$245,097 and \$777,538, respectively, a decrease of \$532,441. This decrease was primarily the result of increased sales of bulk wine in 2015, mainly due to higher yields in the 2014 and 2015 grape harvests, which resulted in wine

quantities that were in excess of Company needs. These excess bulk wine quantities were not present in 2016.

In-state sales for the years ended December 31, 2016 and 2015 were \$3,810,841 and \$3,350,048, respectively, an increase of \$460,793, or 13.8%, for the year ended December 31, 2016 over the prior year period. Management believes this increase is primarily due to increased visibility of our products in the Oregon market.

Out-of-state sales for the years ended December 31, 2016 and 2015 were \$8,937,097 and \$7,940,977, respectively, an increase of \$996,120, or 12.5%. Management believes this increase is primarily related to an increase in sales efforts outside of Oregon in 2016.

The Company pays alcohol excise taxes to both the Oregon Liquor Control Commission ("OLCC") and to the Federal Alcohol Tobacco Tax and Trade Bureau ("TTB"). These taxes are based on product sales volumes. The Company is liable for the taxes upon the removal of product from the Company's warehouse on a per gallon basis. The Company also pays taxes on the grape harvest on a per ton basis to the OLCC for the Oregon Wine Board. The Company's excise taxes for the years ended December 31, 2016 and 2015 were \$500,047 and \$420,730, an increase of \$79,317, or 18.9%, for the year ended December 31, 2016 over the prior year period. This increase was due primarily to increased wine sales in 2016.

Cost of Sales was \$7,204,884 and \$7,092,111 for the years ended December 31, 2016 and 2015, respectively, an increase of \$112,773, or 1.6%, for the year ended December 31, 2016 over the prior year period. The increase in cost of sales can be attributed mainly to the overall increase in product sales partially offset by higher sales margins.

As a percentage of net sales revenue, gross profit was 62.9% and 60.5% in the years ended December 31, 2016 and 2015, respectively, an increase of 4.0%, for the year ended December 31, 2016 over the prior year period. This increase in the gross profit percentage is primarily a result of the release of higher margin vintages in 2016.

The Company continued its focus in 2016 on improved distribution of higher margin products through distributors nationwide and through direct sales and strives to minimize increases in grape and production costs.

Selling, general and administrative expenses were \$8,053,127 and \$7,573,801 for the years ended December 31, 2016 and 2015, respectively, an increase of \$479,326, or 6.3%, for the year ended December 31, 2016 over the prior year period. This increase was primarily the result of increased sales efforts and operating costs associated with retail and administrative operations offset partially by receipt of a legal settlement of \$110,000 in 2016.

Interest income was \$9,851 and \$2,237 for the years ended December 31, 2016 and 2015, respectively, an increase of \$7,614 or 340.4%. The increase in interest income is primarily due to increased balances of cash on hand in the Company's accounts as a result of the proceeds received from sale of Preferred Stock in 2016. Interest expense was \$291,370 and \$311,188 for the years ended December 31, 2016 and 2015, respectively, a decrease of \$19,818, or 6.4%, for the year ended December 31, 2016 over the prior year period. The decrease in interest expense was mainly due to the reduced balances on Company loans.

Other income, net, was \$221,403 and \$213,239 for the years ended December 31, 2016 and 2015, respectively, an increase of \$8,164, or 3.8%, for the year ended December 31, 2016 over the prior year period. The increase in other income is not attributable to a single factor.

The provision for income taxes and the Company's effective tax rate was \$1,478,310 and 36.0%, respectively in the year ended December 31, 2016. The provision for income taxes and the Company's effective tax rate was \$1,275,416 and 40.1%, respectively in the year ended December 31, 2015. This decrease in tax rate is primarily related to tax adjustments that occurred in 2015 but did not reoccur in 2016 as well as an increased federal domestic production activities deduction. The Company does not anticipate significant changes in the tax rate in future periods.



As a result of the above factors, net income was \$2,628,975 and \$1,901,832 for the years ended December 31, 2016 and 2015, respectively, an increase of \$727,143, or 38.2%, for the year ended December 31, 2016 over the prior year period. The increase in net income was primarily the result of increased income from operations. Diluted income per common share after preferred dividends was \$0.43 and \$0.37 for the years ended December 31, 2016 and 2015, respectively, an increase of \$0.06 or 16.7% in 2016 compared to 2015. The increase in earnings per share is primarily a result of increased net income.

### Liquidity and Capital Resources

At December 31, 2016, the Company had a working capital balance of \$16.4 million and a current ratio of 5.59:1. The Company had cash balances of \$5,706,351, at December 31, 2016.

Total cash provided from operating activities for the years ended December 31, 2016 was \$3,087,913. These results were primarily due to income from operations, increased by non-cash operating expenses, such as depreciation, and decreased by an increase in inventory.

Total cash used in investing activities for the years ended December 31, 2016 was \$5,328,419. These results were primarily due to additions to property and equipment and general vineyard development.

Total cash provided from financing activities for the years ended December 31, 2016 was \$3,936,193. These results were primarily due to cash received in connection with the issuance of Preferred Stock partially offset by the repurchase of common stock and payment of a preferred stock dividend.

At December 31, 2016, the line of credit balance was \$0 on a maximum borrowing amount of \$2,000,000. The Company has a loan agreement with Umpqua Bank that contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of December 31, 2016, the Company was in compliance with all of the financial covenants. The current line of credit loan agreement with Umpqua Bank is due to expire in July 2017.

As of December 31, 2016, the Company had a long-term debt balance of \$4,824,096 owed to NW Farm Credit Services. The debt with NW Farm Credit Services was used to finance the Hospitality Center and subsequent remodels, invest in winery equipment to increase the Company's winemaking capacity, complete the storage facility, and acquire new vineyard land for future development. Additionally, the Company had a long-term debt balance of \$45,899 owed to Toyota Credit Corporation for the purchase of a vehicle.

The Company believes that cash flow from operations and funds available under its existing credit facilities will be sufficient to meet the Company's foreseeable short and long-term operating needs.

The Company's contractual obligations as of December 31, 2016 including long-term debt, note payable, grape payables and commitments for future payments under non-cancelable lease arrangements are summarized below:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Long-term debt	\$4,869,995	\$ 380,471	\$ 830,912	\$ 920,631	\$ 2,737,981
Note payable	245,417	245,417	-	-	-
Grape payables	693,666	693,666	-	-	-
Operating leases	2,455,689	415,230	758,217	345,181	937,061
Total contractual obligations	<u>\$8,264,767</u>	<u>\$1,734,784</u>	<u>\$1,589,129</u>	<u>\$1,265,812</u>	<u>\$ 3,675,042</u>

### Inflation

The Company's management does not believe inflation has had a material impact on the Company's revenues or income during 2016 or 2015.

## **Off Balance Sheet Arrangements**

At December 31, 2016 and 2015, the Company had no off-balance sheet arrangements.

## **Risk Factors**

The following risk factors should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report to Shareholders. These disclosures are intended to discuss certain material risks of the Company's business as they appear to Management at this time. However, this list is not exhaustive. Other risks may, and likely will, arise from time to time.

### *Agricultural risks could adversely affect the Company*

Winemaking and grape growing are subject to a variety of agricultural risks. Various diseases, pests, fungi, viruses, including Grapevine Red Blotch Disease (GRBV), drought, frost and certain other weather conditions can affect the quantity of grapes available to the Company, decreasing the supply of the Company's products and negatively impacting profitability. In particular, certain of the Company's vines are not resistant to phylloxera; accordingly, those vines are particularly at risk to the effects from an infestation of phylloxera. Phylloxera is a pest that attacks the rootstocks of wine grape plants. Vineyards in the United States, including some in Oregon and some owned by us, have been infested in recent years with phylloxera. In particular, Tualatin Vineyards have phylloxera. There can be no assurance that the Company's existing vineyards, or the rootstocks the Company is now using in its planting programs, will not become susceptible to current or new strains of phylloxera or that the phylloxera present at the Tualatin Vineyards will not spread to our other vineyards. Pierce's Disease is a vine bacterial disease. It kills grapevines and there is no known cure. Small insects called Sharpshooters spread this disease. A new strain of the Sharpshooter was discovered in Southern California and is believed to be migrating north. The Company is actively supporting the efforts of the agricultural industry to control this pest and is making every reasonable effort to prevent an infestation in its own vineyards. The Company cannot, however, guarantee that it will succeed in preventing contamination in its vineyards. Future government restrictions regarding the use of certain materials used in grape growing may increase vineyard costs and/or reduce production. Additionally, long-term changes in weather patterns could adversely affect the Company.

### *Loss of key employees could harm the Company's reputation and business*

The Company's success depends to some degree upon the continued service of a number of key employees. The loss of the services of one or more of these key employees, including James W. Bernau, our President, and Richard F. Goward Jr., our Chief Financial Officer, could harm the Company and its reputation and negatively impact its profitability, particularly if one or more of the Company's key employees resigns to join a competitor or to form a competing company.

### *The Company's ability to operate requires utilization of the line of credit*

The Company's cash flow from operations historically has not been sufficient to provide all funds necessary for the Company's operations. The Company has entered into a line of credit agreement to provide such funds and entered into term loan arrangements, the proceeds of which were used to acquire the Tualatin Winery and the Tualatin Vineyards, construct and remodel the Hospitality Center and pay down the Company's revolving line of credit. There is no assurance that the Company will be able to comply with all conditions under its credit facilities in the future or that the amount available under its line of credit facility will be adequate for the Company's future needs. Failure to comply with all conditions of the credit facilities, or to have sufficient funds for operations could adversely affect the Company's results of operations and shareholder value.

As of December 31, 2016, the Company's outstanding indebtedness was approximately \$4.9 million and the Company had a line of credit balance of \$0 on a maximum borrowing amount of \$2 million.

*Costs of being a publicly-held company may put the Company at a competitive disadvantage*

As a public company, the Company incurs substantial costs that are not incurred by its competitors that are privately-held. These compliance costs may result in the Company's wines being more expensive than those produced by its competitors and/or may reduce profitability compared to such competitors.

*The Company faces significant competition which could adversely affect profitability*

The wine industry is intensely competitive and highly fragmented. The Company's wines compete in several premium wine market segments with many other premium domestic and foreign wines, with imported wines coming from the Burgundy and Bordeaux regions of France, as well as Italy, Chile, Argentina, South Africa, New Zealand and Australia. The Company's wines also compete with popular priced generic wines and with other alcoholic and, to a lesser degree, non-alcoholic beverages, for shelf space in retail stores and for marketing focus by the Company's independent distributors, many of which carry extensive brand portfolios. A result of this intense competition has been and may continue to be upward pressure on the Company's selling and promotional expenses. In addition, the wine industry has experienced significant consolidation. Many of the Company's competitors have greater financial, technical, marketing and public relations resources than the Company does. In particular, wine production in the United States is dominated by large California wineries that have significantly greater resources than the Company. Additionally, greater worldwide label recognition and larger production levels give many of the Company's competitors certain unit cost advantages. Company sales may be harmed to the extent it is not able to compete successfully against such wine or alternative beverage producers' costs. There can be no assurance that in the future the Company will be able to successfully compete with its current competitors or that it will not face greater competition from other wineries and beverage manufacturers.

*The Company competes for shelf space in retail stores and for marketing focus by its independent distributors, most of whom carry extensive product portfolios*

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

*Fluctuations in quantity and quality of grape supply could adversely affect the Company*

A shortage in the supply of quality grapes may result from a variety of factors that determine the quality and quantity of the Company's grape supply, including weather conditions, pruning methods, diseases and pests, the ability to buy grapes on long and short term contracts and the number of vines producing grapes. Any shortage in the Company's grape production could cause a reduction in the amount of wine the Company is able to produce, which could reduce sales and adversely impact the Company's results from operations. Factors that reduce the quantity of the Company's grapes may also reduce their quality, which in turn could reduce the quality or amount of wine the Company produces. Deterioration in the quality of the Company's wines could harm its brand name and could reduce sales and adversely impact the Company's results of operations.

*Contamination of the Company's wines would harm the Company's business*

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

*A reduction in consumer demand for premium wines could harm the Company's business*

There have been periods in the past in which there were substantial declines in the overall per capita consumption of beverage alcohol products in the United States and other markets in which the Company participates. A limited or general decline in consumption in one or more of the Company's product categories could occur in the future due to a variety of factors, including: a general decline in economic conditions; increased concern about the health consequences of consuming alcoholic beverage products and about drinking and driving; a trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices and water products; the increased activity of anti-alcohol consumer groups; and increased federal, state or foreign excise and other taxes on beverage alcohol products. The competitive position of the Company's products could also be affected adversely by any failure to achieve consistent, reliable quality in the product or service levels to customers.

*Changes in consumer spending could have a negative impact on the Company's financial condition and business results*

Wine sales depend upon a number of factors related to the level of consumer spending, including the general state of the economy, federal and state income tax rates, deductibility of business entertainment expenses under federal and state tax laws, and consumer confidence in future economic conditions. Changes in consumer spending in these and other regions can affect both the quantity and the price of wines that customers are willing to purchase at restaurants or through retail outlets. Reduced consumer confidence and spending may result in reduced demand for the Company's products, limitations on the Company's ability to increase prices and increased levels of selling and promotional expenses. This, in turn, may have a considerable negative impact upon the Company's sales and profit margins.

*Increased regulation could adversely affect the Company*

The wine industry is subject to extensive regulation by the TTB and various foreign agencies, state liquor authorities, such as the OLCC, and local authorities. These regulations and laws dictate such matters as licensing requirements, trade and pricing practices, permitted distribution channels, permitted and required labeling, and advertising and relations with wholesalers and retailers. Any expansion of the Company's existing facilities or development of new vineyards or wineries may be limited by present and future zoning ordinances, environmental restrictions and other legal requirements. In addition, new regulations or requirements or increases in excise taxes, income taxes, property and sales taxes or international tariffs, could negatively affect the Company's financial condition or results of operations. Recently, many states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. New or revised regulations, or increased licensing fees, requirements or taxes could have a material adverse effect on the Company's financial condition or results of operations. There can be no assurance that new or revised regulations or increased licensing fees and requirements will not have a material adverse effect on the Company's business and its results of operations and its cash flows.

*The Company's common stock is thinly traded, and therefore not as liquid as other investments.*

The trading volume of the Company's common stock on NASDAQ is consistently "thin," in that there is not a great deal of trading activity on a daily basis. Because the average active trading volume is thin, there is less opportunity for shareholders to sell their shares of the Company's common stock on the open market, resulting in the common stock being less liquid than common stock in other publicly traded companies.

*The Company may face liabilities associated with the offer and sale of our preferred stock.*

In August 2015, the Company commenced a public offering of our Series A Redeemable Preferred Stock pursuant to a registration statement filed with the Securities and Exchange Commission. The Company registered this transaction with the securities authorities of the States of Oregon and Washington and, in November 2015, achieved listing status on NASDAQ under the trading symbol WVVIP. The terms of our Series A Redeemable Preferred Stock are unusual for a company of our size, and we believe the structure of these securities and of the offering are not commonplace among issuers of any type. Federal and state securities laws impose significant liabilities on issuers of securities if the related offering documents contain material misstatements of fact, or if the documents omit to state facts necessary, in light of the circumstances as a whole, to prevent the documents from being misleading. These liabilities can include rescission liability to the purchasers of the securities, as well as potential enforcement liability that could give rise to civil money penalties. Securities litigation can be extraordinarily expensive and protracted, and if we are accused of misstatements or omissions in our offering documents, we may face economic harms and management distractions regardless of the ultimate outcome of any such litigation. Further, if we ultimately are adjudged to have actually made a material misstatement or omission, the Company may be liable for the repayment of the purchase price of the related securities, plus interest from the date of purchase. Any one or more of these events or circumstances would have a material adverse impact upon our business, financial condition or results of operations, and may make it more difficult or more expensive to undertake capital-raising efforts in the future.

*The Company may be unable to pay accumulated dividends on its Series A Redeemable Preferred Stock.*

The Company's Series A Redeemable Preferred Stock bears a cumulative 5.3% dividend based upon the original issue price, or \$0.22 per share per annum. However, prior to the declaration and payment of dividends our board of directors must determine, among other things, that funds are available out of the surplus of the Company and that the payment would not render us insolvent or compromise our ability to pay our obligations as they come due in the ordinary course of business. Additionally, our existing credit facility limits, and future debt obligations in the future may limit, both our legal and our practical ability to declare and pay dividends. As a result, although the Series A Redeemable Preferred Stock will continue to earn a right to receive dividends, the Company's ability to pay dividends will depend, among other things, upon our ability to generate excess cash. Further, although shares of our Series A Redeemable Preferred Stock will earn cumulative dividends, unpaid dividends will not, themselves, accumulate (as might compounding interest on a debt security, for example).

*The issuance of additional shares of our preferred stock or common stock in the future could adversely affect holders of common stock.*

The market price of our common stock may be influenced by any preferred stock we may issue. Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of our stockholders. This includes the power to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over common stock with respect to the liquidation, dissolution or winding up of the business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected.

*The provisions in our articles of incorporation, our by-laws and Oregon law could delay or deter tender offers or takeover attempts that may offer a premium for our common stock.*

Certain provisions in our articles of incorporation, our by-laws and Oregon law could make it more difficult for a third party to acquire control of us, even if that transaction could be beneficial to stockholders. These impediments include, but are not limited to; the classification of our Board of Directors (the "Board") into three classes serving staggered three-year terms, which makes it more difficult to quickly replace Board members; the ability of our Board, subject to certain limitations under the rules of the NASDAQ Stock Market, to issue shares of preferred stock with rights as it deems appropriate without stockholder approval; a provision that special meetings of our Board may be called only by our chief executive officer or at the request of holders of not less than half of all outstanding shares of our common stock; a provision that any member of the Board, or the entire Board, may be removed from office only for cause; and a provision that

our stockholders comply with advance-notice provisions to bring director nominations or other matters before meetings of our stockholders. The Board may implement other changes that further limit the potential for tender offers or takeover attempts.

### **Unresolved Staff Comments**

None.

### **Properties**

*Vineyards* – The Company owns or leases 827 acres of land, of which 534 acres is owned and 293 acres leased. Of the 827 acres of land owned or leased, 278 acres are productive vineyards, 379 acres are pre-productive vineyards or are suitable for future vineyard plantings, and 170 acres are not suitable for vineyard planting or are used for winery or hospitality purposes. See Item 1 Business - Vineyards, of this Annual Report on Form 10-K for the locations of each of the Company's vineyards (both owned and leased) and other information pertaining to the production capacity, harvest totals and other important characteristics of each such vineyard.

*Wine production facility* – We believe the Company's Estate Winery and production facilities are capable of efficiently producing up to 159,000 cases (378,000 gallons) of wine per year, depending on the type of wine produced. In 2016, the Winery produced approximately 141,416 cases (336,300 gallons) from its 2014 and 2015 harvest. The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, meeting rooms, and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,500 square foot insulated storage facility with a capacity of 30,000 cases of wine. The Company also has a 23,000 square foot storage building to store its inventory of bottled product. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations. The Hospitality Center located at the Company's Estate Winery is a large 35,642 square foot tasting and hospitality facility. The Hospitality Center sits above the underground barrel cellar and tunnel that connects with the Winery. The facility includes a basement cellar, tunnel and barrel room of 11,090 square feet used to store up to 1,800 barrels of wine for aging in the proper environment.

The Company's Tualatin Winery has 20,000 square feet of production capacity. This adds approximately 25,000 cases (59,000 gallons) of wine production capacity to the Company. The capacity at the Tualatin Winery is not currently used but is available to the Company to meet any anticipated future production needs. Additionally, the Company operates a small retail store and tasting room at the Tualatin Winery.

The Company carries Property and Liability insurance coverage in amounts deemed adequate by Management.

### **Legal Proceedings**

Although the Company from time to time may be involved with disputes, claims and litigation related to the conduct of its business, there are no material legal proceedings pending to which the Company is a party or to which any of its property is subject, and the Company's management does not know of any such action being contemplated.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Disclosure Controls and Procedures** – We carried out an evaluation as of the end of the period covered by this Annual Report on Form 10-K, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-5(e) under the Exchange Act) pursuant to paragraph (b) of Rules 13a-15 and 15d-5 under the Exchange Act. Based on that review, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by

this Annual Report on Form 10-K, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals.

### **Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act and includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework (2013)*. Based on this assessment, management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective.

### **Changes in Internal Control over Financial Reporting**

There have not been any other changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fourth fiscal quarter that our certifying officers concluded materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Willamette Valley Vineyards, Inc.

We have audited the accompanying balance sheets of Willamette Valley Vineyards, Inc. (the "Company") as of December 31, 2016 and 2015, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette Valley Vineyards, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Portland, Oregon  
March 23, 2017

**WILLAMETTE VALLEY VINEYARDS, INC.**  
**BALANCE SHEETS**

ASSETS		
	December 31, 2016	December 31, 2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,706,351	\$ 4,010,664
Restricted cash	-	1,476,232
Accounts receivable, net	1,871,450	1,684,502
Inventories (Note 3)	11,970,656	10,632,462
Prepaid expenses and other current assets	399,740	131,173
Income tax receivable	-	204,513
Total current assets	19,948,197	18,139,546
Investment in Kore Wine Company	59,186	60,000
Vineyard development costs, net	4,666,794	3,699,947
Property and equipment, net (Note 4)	20,196,945	16,729,162
<b>TOTAL ASSETS</b>	<b>\$ 44,871,122</b>	<b>\$ 38,628,655</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 505,085	\$ 386,137
Accrued expenses	995,405	604,580
Investor deposits for preferred stock	-	1,476,232
Current portion of note payable	245,417	245,417
Current portion of long-term debt	380,471	349,003
Income taxes payable	389,798	-
Current portion of deferred revenue-distribution agreement	142,857	142,857
Unearned revenue	213,612	73,200
Grapes payable	693,666	816,879
Total current liabilities	3,566,311	4,094,305
Note payable, net of current portion	-	245,417
Long-term debt, net of current portion and debt issuance costs	4,443,685	4,773,794
Deferred rent liability	113,567	140,756
Deferred revenue-distribution agreement, net of current portion	95,223	238,083
Deferred gain	89,172	121,267
Deferred income taxes	1,931,000	1,848,000
Total liabilities	10,238,958	11,461,622
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Redeemable preferred stock, no par value, 10,000,000 shares authorized, 2,396,954 shares, liquidation preference \$9,947,359, issued and outstanding at December 31, 2016 and 1,074,338 shares, liquidation preference \$4,458,710, issued and outstanding at December 31, 2015, respectively.	9,061,307	3,735,437
Common stock, no par value, 10,000,000 shares authorized, 5,016,685 and 4,989,216 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively.	8,971,575	8,998,760
Retained earnings	16,599,282	14,432,836
Total shareholders' equity	34,632,164	27,167,033
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 44,871,122</b>	<b>\$ 38,628,655</b>

The accompanying notes are an integral part of the financial statements.

**WILLAMETTE VALLEY VINEYARDS, INC.**  
**STATEMENTS OF INCOME**

	<b>Twelve months ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>SALES, NET</b>	\$ 19,425,412	\$ 17,938,872
<b>COST OF SALES</b>	<u>7,204,884</u>	<u>7,092,111</u>
<b>GROSS PROFIT</b>	12,220,528	10,846,761
<b>SELLING, GENERAL &amp; ADMINISTRATIVE EXPENSES</b>	<u>8,053,127</u>	<u>7,573,801</u>
<b>INCOME FROM OPERATIONS</b>	4,167,401	3,272,960
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	9,851	2,237
Interest expense	(291,370)	(311,188)
Other income, net	<u>221,403</u>	<u>213,239</u>
<b>INCOME BEFORE INCOME TAXES</b>	4,107,285	3,177,248
<b>INCOME TAX PROVISION</b>	<u>(1,478,310)</u>	<u>(1,275,416)</u>
<b>NET INCOME</b>	<u>2,628,975</u>	<u>1,901,832</u>
<b>Preferred stock dividends</b>	(462,529)	(57,611)
<b>INCOME APPLICABLE TO COMMON SHAREHOLDERS</b>	<u>\$ 2,166,446</u>	<u>\$ 1,844,221</u>
<b>Basic income per common share after preferred dividends</b>	<u>\$ 0.43</u>	<u>\$ 0.37</u>
<b>Diluted income per common share after preferred dividends</b>	<u>\$ 0.43</u>	<u>\$ 0.37</u>
<b>Weighted average number of basic common shares outstanding</b>	<u>4,991,065</u>	<u>4,928,712</u>
<b>Weighted average number of diluted common shares outstanding</b>	<u>4,995,343</u>	<u>4,963,999</u>

The accompanying notes are an integral part of the financial statements.

**WILLAMETTE VALLEY VINEYARDS, INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

	<u>Redeemable Preferred Stock</u>		<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Dollars</u>	<u>Shares</u>	<u>Dollars</u>	<u>Earnings</u>	
<b>Balance at December 31, 2014</b>	-	\$ -	4,869,788	\$ 8,601,637	\$ 12,588,615	\$ 21,190,252
Issuance of preferred stock, net	1,074,338	3,735,437	-	-	-	3,735,437
Preferred stock dividends declared	-	-	-	-	(57,611)	(57,611)
Stock based compensation expense	-	-	-	17,685	-	17,685
Stock issued and options exercised	-	-	155,971	629,938	-	629,938
Stock repurchased	-	-	(36,543)	(250,500)	-	(250,500)
Net income	-	-	-	-	<u>1,901,832</u>	<u>1,901,832</u>
<b>Balance at December 31, 2015</b>	1,074,338	3,735,437	4,989,216	8,998,760	14,432,836	27,167,033
Issuance of preferred stock, net	1,322,616	5,325,870	-	-	-	5,325,870
Preferred stock dividends declared	-	-	-	-	(462,529)	(462,529)
Stock based compensation expense	-	-	-	748	-	748
Stock issued and options exercised	-	-	97,500	498,927	-	498,927
Stock repurchased	-	-	(70,031)	(526,860)	-	(526,860)
Net income	-	-	-	-	<u>2,628,975</u>	<u>2,628,975</u>
<b>Balance at December 31, 2016</b>	<u>2,396,954</u>	<u>\$ 9,061,307</u>	<u>5,016,685</u>	<u>\$ 8,971,575</u>	<u>\$ 16,599,282</u>	<u>\$ 34,632,164</u>

The accompanying notes are an integral part of the financial statements.

**WILLAMETTE VALLEY VINEYARDS, INC.**  
**STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,628,975	\$ 1,901,832
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,335,254	1,274,243
Gain on disposition of property & equipment	(2,500)	(1,900)
Stock based compensation expense	748	17,685
Non-cash loss from investment in Kore Wine Company	814	-
Deferred rent liability	(27,189)	(22,940)
Deferred income taxes	83,000	431,000
Deferred gain	(32,095)	(32,095)
Change in operating assets and liabilities:		
Accounts receivable, net	(186,948)	(72,378)
Inventories	(1,338,194)	(721,892)
Prepaid expenses and other current assets	(268,567)	18,851
Income taxes receivable	204,513	118,501
Income taxes payable	389,798	-
Unearned revenue	140,412	38,765
Deferred revenue-distribution agreement	(142,860)	(142,860)
Grapes payable	(123,213)	118,028
Accounts payable	35,140	(280,856)
Accrued expenses	390,825	52,993
Net cash from operating activities	<u>3,087,913</u>	<u>2,696,977</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in Kore Wine Company	-	(60,000)
Additions to vineyard development	(1,003,115)	(915,091)
Additions to property and equipment	(4,327,804)	(2,451,705)
Proceeds from sale of property and equipment	2,500	1,900
Net cash from investing activities	<u>(5,328,419)</u>	<u>(3,424,896)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from investor deposits held as restricted cash	1,476,232	(1,476,232)
Proceeds from investor deposits held as liability	(1,476,232)	1,476,232
Payment on installment note for property purchase	(245,417)	490,834
Payments on long-term debt	(348,923)	(329,276)
Issuance of preferred stock, net	5,325,870	3,735,437
Payment of preferred stock dividend	(462,529)	(57,611)
Proceeds from stock options exercised	194,052	629,938
Repurchase of common stock	(526,860)	(250,500)
Net cash from financing activities	<u>3,936,193</u>	<u>4,218,822</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,695,687	3,490,903
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>4,010,664</u>	<u>519,761</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,706,351</u>	<u>\$ 4,010,664</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of property with common stock	304,875	-
Purchase of equipment with long-term debt	45,899	-
Purchases of property and equipment included in accounts payable	99,896	16,088
	<u>\$ 450,670</u>	<u>\$ 16,088</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest paid (net of capitalized interest)	\$ 292,870	\$ 308,437
Income tax paid	\$ 801,250	\$ 719,550

The accompanying notes are an integral part of the financial statements.

## **NOTE 1 – SUMMARY OF OPERATIONS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and operations** – Willamette Valley Vineyards, Inc. (the “Company”) owns and operates vineyards and a winery located in the state of Oregon, and produces and distributes premium, super premium, and ultra-premium wines, primarily Pinot Noir, Pinot Gris, Chardonnay, and Riesling.

The Company has direct-to-consumer sales and national sales to distributors. These sales channels offer comparable products to customers and utilize similar processes and share resources for production, selling and distribution. Direct-to-consumer sales generate a higher gross profit margin than national sales to distributors due to differentiated pricing between these segments.

Direct-to-consumer sales, including bulk wine, miscellaneous sales, and grape sales, represented approximately 36.0% and 38.5% of total revenue for 2016 and 2015, respectively.

In state sales through distributors represented approximately 19.1% and 18.2% of total revenue for 2016 and 2015, respectively.

Out-of-state sales, including foreign sales, represented approximately 44.9% and 43.3% of total revenue for 2016 and 2015, respectively. Foreign sales represent approximately 0.8% of total revenue.

**Basis of presentation** – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at the time. Actual results could differ from those estimates under different assumptions or conditions.

**Financial instruments and concentrations of risk** – The Company has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, grapes payable and long-term debt.

Cash and cash equivalents are maintained at four financial institutions. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with a financial institution of reputable credit and therefore bear minimal credit risk.

In 2016, sales to one distributor represented approximately 19.0% of total Company revenue. In 2015, sales to one distributor represented approximately 18.2% of total Company revenue.

**Other comprehensive income** – The nature of the Company’s business and related transactions do not give rise to other comprehensive income.

**Cash and cash equivalents** – Cash and cash equivalents include money market funds.

**Accounts receivable** – The Company performs ongoing credit evaluations of its customers and does not require collateral. A reserve is maintained for potential credit losses. The allowance for doubtful accounts is based on an assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer’s ability to pay. The Company has credit risk associated with uncollateralized trade accounts receivable from all operations totaling \$1,871,450 and \$1,684,502 as of December 31, 2016 and 2015 exclusive of the allowance for doubtful accounts. The allowance for doubtful accounts is further discussed in Note 2.

**Inventories** – For Company produced wines, after a portion of the vineyard becomes commercially productive, the annual crop and production costs relating to such portion are recognized as work-in-process inventories. Such costs are accumulated with related direct and indirect harvest costs, wine processing and

production costs, and are transferred to finished goods inventories when the wine is produced, bottled, and ready for sale.

The cost of finished goods is recognized as cost of sales when the wine product is sold. Inventories are stated at the lower of first-in, first-out ("FIFO") cost or market by variety.

In accordance with general practices in the wine industry, wine inventories are generally included in current assets in the accompanying balance sheets, although a portion of such inventories may be aged for more than one year (Note 3).

**Vineyard development costs** – Vineyard development costs consist primarily of the costs of the vines and expenditures related to labor and materials to prepare the land and construct vine trellises. The costs are capitalized until the vineyard becomes commercially productive, at which time annual amortization is recognized using the straight-line method over the estimated economic useful life of the vineyard, which is estimated to be 30 years. Accumulated amortization of vineyard development costs aggregated \$1,185,823 and \$1,109,406 at December 31, 2016 and 2015, respectively.

Amortization of vineyard development costs are included in capitalized crop costs that in turn are included in inventory costs and ultimately become a component of cost of goods sold. For the years ending December 31, 2016 and 2015, approximately \$76,417 and \$75,669, respectively, was amortized into inventory costs.

**Property and equipment** – Property and equipment are stated at cost and are depreciated on the straight-line basis over their estimated useful lives. Land improvements are depreciated over 15 years. Winery buildings are depreciated over 30 years. Equipment is depreciated over 3 to 10 years, depending on the classification of the asset. Depreciation is discussed further in Note 4.

Expenditures for repairs and maintenance are charged to operating expense as incurred. Expenditures for additions and betterments are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

**Review of long-lived assets for impairment** - The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Long-lived assets consist primarily of property and equipment. Circumstances that might cause the Company to evaluate its long-lived assets for impairment could include a significant decline in the prices the Company or the industry can charge for its products, which could be caused by general economic or other factors, changes in laws or regulations that make it difficult or more costly for the Company to distribute its products to its markets at prices which generate adequate returns, natural disasters, significant decrease in demand for the Company's products or significant increase in the costs to manufacture the Company's products.

Recoverability of assets is measured by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company groups its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (or asset group). This would typically be at the winery level. The Company did not recognize any impairment charges associated with long-lived assets during the years ended December 31, 2016 and 2015.

**Debt issuance costs** – Debt issuance costs are amortized on the straight-line basis, which approximates the effective interest method, over the life of the debt. For the years ended December 31, 2016 and 2015, amortization of debt issuance costs included in interest expense was approximately \$4,383 and \$4,383 respectively. Debt issuance amortization costs are scheduled at \$4,383 for each of the next four years, and \$28,307 thereafter. Unamortized debt issuance costs are recorded as a reduction from the carrying amount of the related debt liability in the Company's Balance Sheets.

**Distribution agreement receivable** – Effective September 1, 2011, the Company entered into an agreement with Young's Market Company for distribution of Company-produced wines in Oregon and Washington. The

terms of this contract include exclusive rights to distribute Willamette Valley Vineyard's wines in Oregon and Washington for seven years. In an effort to facilitate the transition, with as little disruption as possible, Young's Market Company agreed to compensate Willamette Valley Vineyards for ongoing Oregon sales and branding efforts. As a result, the Company was due to receive \$250,000 per year starting on September 2011 for each of the next four years for a total of \$1,000,000. As of December 31, 2016 and 2015, the Company has no distribution agreement receivable with the final payment having been made in 2014. The total amount of \$1,000,000 received by the Company related to this agreement is being recognized as revenue on a straight line basis over the seven year life of the agreement. For the years ended December 31, 2016 and 2015, the Company has recognized revenue related to this agreement in the amount of \$142,860 and \$142,860, respectively, recorded to other income.

**Income taxes** – Income taxes are recognized using enacted tax rates, and are composed of taxes on financial accounting income that is adjusted for requirements of current tax law, and deferred taxes. Deferred taxes are estimated using the asset and liability approach whereby deferred income taxes are calculated for the expected future tax consequences of temporary differences between the book basis and tax basis of the Company's assets and liabilities.

The Company had no unrecognized tax benefits as of December 31, 2016 or 2015. The Company recognizes interest assessed by taxing authorities as a component of tax expense. The Company recognizes any penalties assessed by taxing authorities as a component of tax expense. Interest and penalties for the years ended December 31, 2016 and 2015 were not material.

The Company files U.S. federal income tax returns with the Internal Revenue Service ("IRS") as well as income tax returns in Oregon, California and Connecticut. The Company may be subject to examination by the IRS for tax years 2013 through 2016. Additionally, the Company may be subject to examinations by state taxing jurisdictions for tax years 2012 through 2016. The Company is not aware of any current examinations by the IRS or the state taxing authorities.

**Deferred rent liability** – The Company leases land under a sale-leaseback agreement. The long-term operating lease has minimum lease payments that escalate every year. For accounting purposes, rent expense is recognized on the straight-line basis by dividing the total minimum rents due during the lease by the number of months in the lease. In the early years of a lease with escalation clauses, this treatment results in rental expense recognition in excess of rents paid, and the creation of a long-term deferred rent liability. As the lease matures, the deferred rent liability will decrease and the rental expense recognized will be less than the rents actually paid. For the years ended December 31, 2016 and 2015, rent costs paid in excess of amounts recognized totaled \$27,189 and \$22,940, respectively.

**Revenue recognition** – The Company recognizes revenue when the product is shipped and title passes to the customer. The Company's standard terms are 'FOB' shipping point, with no customer acceptance provisions. The cost of price promotions and rebates are treated as reductions of revenue. No products are sold on consignment. Credit sales are recorded as trade accounts receivable and no collateral is required. Revenue from items sold through the Company's retail locations is recognized at the time of sale. Net revenue reported herein is shown net of sales allowances and excise taxes.

The Company has price incentive programs with its distributors to encourage product placement and depletions. When recording a sale to the customer, an incentive program liability is recorded to accrued liabilities and sales are reported net of incentive program expenses. Incentive program payments are made when completed incentive program payment requests are received from the customers. Incentive payments to a customer reduce the incentive program accrued liability. For the years ended December 31, 2016 and 2015, the Company recorded incentive program expenses of \$503,334 and \$449,930, respectively, as a reduction in sales on the income statement. As of December 31, 2016 and 2015, the Company has recorded an incentive program liability in the amount of \$46,888 and \$42,456, respectively, which is included in accrued expenses on the balance sheet.

**Cost of goods sold** – Costs of goods sold include costs associated with grape growing, external grape costs, packaging materials, winemaking and production costs, vineyard and production administrative support and overhead costs, purchasing and receiving costs and warehousing costs.



Administrative support, purchasing, receiving and most other fixed overhead costs are expensed as selling, general and administrative expenses without regard to inventory units. Warehouse and winery production and facilities costs, which make up approximately 12% of total costs, are allocated to inventory units on a per gallon basis during the production of wine, prior to bottling the final product. No further costs are allocated to inventory units after bottling.

**Selling, general and administrative expenses** – Selling, general and administrative expenses consist primarily of non-manufacturing administrative and overhead costs, advertising and other marketing promotions. Advertising costs are expensed as incurred or the first time the advertising takes place. For the years ended December 31, 2016 and 2015, advertising costs incurred were approximately \$182,008 and \$152,867 respectively.

The Company provides an allowance to distributors for providing sample of products to potential customers. For the years ended December 31, 2016 and 2015, these costs, which are included in selling, general and administrative expenses, totaled approximately \$105,421 and \$153,299, respectively.

**Shipping and handling costs** – Amounts paid by customers to the Company for shipping and handling costs are included in the net revenue. Costs incurred for shipping and handling charges are included in selling, general and administrative expense. For the years ended December 31, 2016 and 2015, such costs totaled approximately \$412,331 and \$421,617, respectively. The Company's gross margins may not be comparable to other companies in the same industry as other companies may include shipping and handling costs as a cost of goods sold.

**Excise taxes** – The Company pays alcohol excise taxes based on product sales to both the Oregon Liquor Control Commission and to the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau. The Company is liable for the taxes upon the removal of product from the Company's warehouse on a per gallon basis. The federal tax rate is affected by a small winery tax credit provision which declines based upon the number of gallons of wine production in a year rather than the quantity sold. The Company also pays taxes on the grape harvest on a per ton basis to the Oregon Liquor Control Commission for the Oregon Wine Advisory. For the years ended December 31, 2016 and 2015, excise taxes incurred were approximately \$500,048 and \$420,729 respectively.

**Stock based compensation** – The Company expenses stock options on a straight line basis over the options' related vesting term. For the years ended December 31, 2016 and 2015, the Company recognized pretax compensation expense related to stock options of \$748 and \$17,685, respectively.

**Basic and diluted income per common share after preferred dividends** – Basic income per share is computed based on the weighted-average number of common shares outstanding each year. Diluted income per share is computed using the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the year. Potentially dilutive shares from stock options and other common stock equivalents are excluded from the computation when their effect is anti-dilutive.

Options to purchase 7,000 shares of common stock were outstanding at December 31, 2016 and diluted weighted-average shares outstanding at December 31, 2016 include the effect of 4,278 stock options. Options to purchase 67,000 shares of common stock were outstanding at December 31, 2015 and diluted weighted-average shares outstanding at December 31, 2015 include the effect of 35,287 stock options.

There were no potentially dilutive shares from stock options included in the computation of dilutive income per share for 2016 and 2015 as their impact would have been anti-dilutive.

**Reclassifications** – As a result of the retrospective adoption of ASU 2015-03 (see "Recent accounting pronouncements" below), the Company made certain reclassifications to the prior year's long-term debt to conform to the balance sheet presentation as of December 31, 2016. These reclassifications had no effect on the Company's financial position, shareholders' equity or net cash flows for any of the periods presented.

**Recently issued accounting standards** – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under GAAP. The original effective date for ASU 2014-09 would have required adoption by the Company in

the first quarter of fiscal 2017 with early adoption prohibited. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date* (“ASU 2015-14”), which defers the effective date of ASU 2014-09 for one year and permits early adoption in accordance with the original effective date of ASU 2014-09. The Company has evaluated the effect of the standard and does not believe it will be material to the Company’s financial reporting.

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which is designed to enhance the reporting model for financial instruments. This guidance requires equity investments, with exceptions, to be measured at fair value with changes in fair value recognized in net income. Additionally, it requires public businesses to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017. The Company has not yet selected a transition method or determined the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). This update requires that lessees recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative information. The effective date for ASU 2016-02 is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier adoption permitted. The Company is still evaluating the impact of ASU 2016-02 on its financial position and results of operations.

The accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

## NOTE 2 – ACCOUNTS RECEIVABLE

The Company’s accounts receivable balance is net of an allowance for doubtful accounts of \$15,921 and \$11,944 at December 31, 2016 and 2015, respectively. Changes in the allowance for doubtful accounts are as follows:

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Balance at Beginning of Period	\$ 11,944	\$ 11,944
Charged to costs and expenses	3,977	-
Charged to other accounts	-	-
Write-offs, net of recoveries	-	-
	<u>15,921</u>	<u>11,944</u>
Balance at End of Period	<u>\$ 15,921</u>	<u>\$ 11,944</u>

## NOTE 3 – INVENTORIES

	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>
Winemaking and packaging materials	\$ 817,836	\$ 690,292
Work-in-process (costs relating to unprocessed and/or unbottled wine products)	6,634,014	6,058,701
Finished goods (bottled wine and related products)	<u>4,518,806</u>	<u>3,883,469</u>
Current inventories	<u>\$ 11,970,656</u>	<u>\$ 10,632,462</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

	December 31, 2016	December 31, 2015
Construction in progress	\$ 449,409	\$ 482,284
Land, improvements and other buildings	8,063,716	5,089,472
Winery buildings and hospitality center	14,458,309	13,756,320
Equipment	10,122,593	9,055,987
	33,094,027	28,384,063
Less accumulated depreciation	<u>(12,897,082)</u>	<u>(11,654,901)</u>
	<u>\$ 20,196,945</u>	<u>\$ 16,729,162</u>

Depreciation expense was \$1,254,455 and \$1,194,191 during the years ended December 31, 2016 and 2015, respectively.

**NOTE 5 – LINE OF CREDIT FACILITY**

In December of 2005 the Company entered into a revolving line of credit agreement with Umpqua Bank that allows borrowings of up to \$2,000,000 against eligible accounts receivables and inventories as defined in the agreement. The revolving line bears interest at prime, is payable monthly, and is subject to renewal. The Company renewed the credit agreement in June of 2016 for a period of 12 months. The interest rate was 3.75% at December 31, 2016 and 3.5% at December 31, 2015. At December 31, 2016 and 2015 there were no borrowings on this revolving line of credit.

The line of credit agreement includes various covenants, which among other things, requires the Company to maintain minimum amounts of tangible net worth, debt-to-equity, and debt service coverage as defined, and limits the level of acquisitions of property and equipment. As of December 31, 2016, the Company was in compliance with these financial covenants.

**NOTE 6 – NOTE PAYABLE**

In April of 2015 the Company purchased approximately 42 acres of farmland in the Walla Walla AVA under terms that included paying one third of the price upon closing and one third in each of the two subsequent years. As of December 31, 2016 the Company had a balance due of \$245,417 on April 1, 2017. No interest accrues under the terms of this note.

**NOTE 7 – LONG-TERM DEBT**

Long-term debt consists of:

	December 31,	
	2016	2015
Northwest Farm Credit Services Loan #1	\$ 1,081,296	\$ 1,162,073
Northwest Farm Credit Services Loan #2	981,263	1,070,991
Northwest Farm Credit Services Loan #3	1,056,491	1,131,912
Northwest Farm Credit Services Loan #4	1,705,046	1,808,042
Toyota Credit Corporation	45,899	-
	4,869,995	5,173,018
Debt issuance costs	(45,839)	(50,221)
Current portion of long-term debt	<u>(380,471)</u>	<u>(349,003)</u>
	<u>\$ 4,443,685</u>	<u>\$ 4,773,794</u>

The Company has four agreements with Northwest Farm Credit Services ("FCS"). Loan #1 requires monthly payments of \$12,266, bears interest at a rate of 5.90%, is collateralized by real estate and equipment, and matures in 2026. Loan #2 requires monthly payments of \$13,232, bears interest at a rate of 6.70%, is collateralized by real estate and equipment, and matures in 2024. Loan #3 requires monthly payments of \$12,004, bears interest at a rate of 6.25%, is collateralized by real estate and equipment, and matures in 2026. Loan #4 requires monthly payments of \$15,556, bears interest at a rate of 4.75%, is collateralized by real estate and equipment, and matures in 2028.

The loan agreements contain covenants, which require the Company to maintain certain financial ratios and balances. At December 31, 2016, the Company was in compliance with these covenants. In the event of future noncompliance with the Company's debt covenants, FCS would have the right to declare the Company in default, and at FCS' option without notice or demand, the unpaid principal balance of the loan, plus all accrued unpaid interest thereon and all other amounts due shall immediately become due and payable.

Future minimum principal payments of long-term debt mature as follows for the years ending December 31:

2017	380,471
2018	403,659
2019	427,253
2020	452,290
2021	468,341
Thereafter	<u>2,737,981</u>
	<u>\$ 4,869,995</u>

The weighted-average interest rates on the aforementioned borrowings for the fiscal years ended December 31, 2016 and 2015 was 5.68% and 5.74% respectively.

#### **NOTE 8 – SHAREHOLDERS' EQUITY**

The Company is authorized to issue 10,000,000 shares of its common stock. Each share of common stock is entitled to one vote. At its discretion, the Board of Directors may declare dividends on shares of common stock so long as the Company has paid or set aside funds for all cumulative dividends on its preferred stock. The Board does not anticipate paying dividends on its common stock in the foreseeable future.

The Company is authorized to issue 10,000,000 shares of preferred stock. Each share of the Company's currently issued preferred stock is non-voting. The Company's Series A Redeemable Preferred Stock includes an annual dividend of \$0.22 per share and is payable annually. Additionally, the Series A Redeemable Preferred Stock contains a liquidation preference over the Company's common stock and is subject to optional redemption after June 1, 2021 at the sole discretion of the Company's Board of Directors. The liquidation preference is calculated at the original issue price of \$4.15 per share plus all accrued but unpaid dividends. The optional redemption, if implemented, would be at the original issue price of \$4.15 per share plus all accrued but unpaid dividends plus a redemption premium of 3% of the original issue price. The Company is current on its dividend obligations.

#### **NOTE 9 – STOCK INCENTIVE PLAN**

The Company has a stock incentive plan, originally created in 1992, most recently amended in 2001. No additional grants may be made under the plan. All stock options have an exercise price that is equal to the fair market value of the Company's stock on the date the options were granted. Administration of the plan, including determination of the number, term, and type of options granted, resides with the Board of Directors or a duly authorized committee of the Board of Directors. Options were generally granted based on employee performance with vesting periods ranging from date of grant to seven years. At the date of the grant, the maximum term before expiration is ten years.

The following table presents information on stock options outstanding for the periods shown:

	2016		2015	
	Weighted Average Exercise		Weighted Average Exercise	
	Shares	Price	Shares	Price
Outstanding at beginning of period	67,000	\$ 3.22	222,971	\$ 3.79
Granted	-	-	-	-
Exercised	(60,000)	3.23	(155,971)	4.04
Forfeited	-	-	-	-
Outstanding at end of period	<u>7,000</u>	<u>\$ 3.09</u>	<u>67,000</u>	<u>\$ 3.22</u>

The following table presents information on stock options outstanding for the periods shown:

	2016	2015
Intrinsic value of options exercised in the period	\$ 260,685	\$ 427,363
Stock options fully vested and expected to vest	7,000	67,000
Weighted average exercise price	\$ 3.09	\$ 3.22
Aggregate intrinsic value	\$ 34,440	\$ 258,678
Weighted average contractual term of options	4.55	1.37
Stock options vested and currently exercisable	7,000	60,000
Weighted average exercise price	\$ 3.09	\$ 3.23
Aggregate intrinsic value	\$ 34,440	\$ 230,748
Weighted average contractual term of options	4.55	0.89

Weighted-average options outstanding and exercisable at December 31, 2016 are as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2016	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2016	Weighted Average Exercise Price
<u>\$3.09</u>	<u>7,000</u>	<u>4.55</u>	<u>\$ 3.09</u>	<u>7,000</u>	<u>\$ 3.09</u>

All share-based compensation is measured at the grant date based on the fair value of the award, and is recognized as an expense in earnings over the requisite service period. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model uses the assumptions listed in the table below. Expected volatilities are based on implied volatilities from the Company's stock, historical volatility of the Company's stock, and other factors. Expected dividends are based on the Company's plan not to pay dividends for the foreseeable future. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no stock options granted during the years ended December 31, 2016 and 2015.

Stock compensation expense was \$748 and \$17,685 for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, there was no unrecognized compensation expense related to stock options.

#### NOTE 10 - INCOME TAXES

The provision (benefit) for income taxes consists of:

	Year Ended December 31,	
	2016	2015
Current tax expense:		
Federal	\$ 1,094,647	\$ 641,822
State	300,663	202,592
	<u>1,395,310</u>	<u>844,414</u>
Deferred tax expense (benefit):		
Federal	72,452	376,226
State	10,548	54,774
	<u>83,000</u>	<u>431,000</u>
Total	<u>\$ 1,478,310</u>	<u>\$ 1,275,414</u>

The effective income tax rate differs from the federal statutory rate as follows:

	Year Ended December 31,	
	2016	2015
Federal statutory rate	34.00%	34.00%
State taxes, net of federal benefit	4.95%	4.95%
Permanent differences	-2.27%	-1.13%
Tax credits	0.00%	-0.23%
Prior year adjustments	-0.71%	1.35%
Changes in tax rates and other	0.02%	1.20%
	<u>35.99%</u>	<u>40.14%</u>

Permanent differences for the periods consist primarily of tax deductions for domestic production activities.

Net deferred tax assets and (liabilities) at December 31 consist of:

	2016	2015
Deferred gain on sale-leaseback	35,000	47,000
Other	110,000	27,000
Prepays	(48,000)	(49,000)
Depreciation	(1,784,000)	(1,463,000)
Inventory	(244,000)	(410,000)
Net noncurrent deferred tax liability	<u>(1,931,000)</u>	<u>(1,848,000)</u>
Valuation allowance	-	-
Net deferred tax liability	<u>\$ (1,931,000)</u>	<u>\$ (1,848,000)</u>

#### NOTE 11 – RELATED PARTY TRANSACTIONS

The Company provides living accommodations in a residence on the Company's premises, at its convenience, for the Company's President. The President provides security and lock-up services and is required to live on premises as a condition of his employment. Over the years the Company has recorded annual expenses less than \$12,000, exclusive of depreciation, related to the housing provided for its president.

In February 2007, the Company entered into a lease agreement for 59 acres of vineyard land at Elton Vineyards. This lease is for a 10-year term with four five-year renewals at the Company's option and a first right of refusal in the event of the vineyard's sale. For 2016, the annual costs of this lease, including utility

reimbursements, were \$121,344. For subsequent years there is an escalation provision tied to the CPI not to exceed 2% per annum. Betty M. O'Brien, a Director of the Company, is a principal owner of Elton Vineyards.

## **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**Litigation** – From time to time, in the normal course of business, the Company is a party to legal proceedings. Management believes that these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows, but, due to the nature of litigation, the ultimate outcome of any potential actions cannot presently be determined.

**Operating leases** – In December 1999, under a sale-leaseback agreement, the Company sold approximately 79 acres of the Tualatin Vineyards property with a net book value of approximately \$1,000,000 for approximately \$1,500,000 cash and entered into a 20-year operating lease agreement. The gain of approximately \$500,000 is being amortized over the life of the lease. This property is referred to as the Peter Michael Vineyard, and includes approximately 69 acres of producing vineyards.

In December 2004, under a sale-leaseback agreement, the Company sold approximately 75 acres of the Tualatin Vineyards property with a net book value of approximately \$551,000 for approximately \$727,000 cash and entered into a 14-year operating lease agreement for the vineyard portion of the property. Approximately \$99,000 of the total gain of \$176,000 has been deferred and is being amortized over the life of the lease. This property is referred to as the Meadowview Vineyard, and includes approximately 45 acres of producing vineyards.

The amortization of the deferred gain totals approximately \$25,000 per year for the 1999 sale-leaseback agreement and \$7,000 for the 2004 sale-leaseback agreement, and is recorded as an offset to the related lease expense in selling, general and administrative expenses.

In February 2007, the Company entered into a lease agreement for 59 acres of vineyard land at Elton Vineyards. This lease is for a 10-year term with four five-year renewals at the Company's option and a first right of refusal in the event of the vineyard's sale. For 2016, the annual costs of this lease were \$121,344. For subsequent years there is an escalation provision tied to the CPI not to exceed 2% per annum. Betty M. O'Brien, a Director of the Company, is principal owner of Elton Vineyards. The terms of the lease currently call for a monthly payment of \$10,112, plus utility costs not to exceed \$1,500 per year, with the annual adjustment ending January 2017 unless renewed.

In July 2008, the Company entered into a 34-year lease agreement with a property owner in the Eola Hills for approximately 109 acres adjacent to the existing Elton Vineyards site. These 109 acres is being developed into vineyards. Terms of this agreement contain rent escalation that rises as the vineyard is developed. The current terms call for monthly payments of \$1,427.

In September 2014, the Company entered into a two year lease, with an option to renew for an additional two years, for its McMinnville tasting room. In September 2016 the Company exercised its option to renew the lease until August 31, 2018. The monthly payment for this lease is \$3,000 with potential negotiated escalations not to exceed 5%.

**Grape Purchases** - The Company has entered into three long-term grape purchase agreements with one of its Willamette Valley wine grape growers. These contracts, entered into in 2004, 2006 and 2007, were extended through harvest year 2019. With these contracts, the Company is obligated to purchase, at pre-determined prices, 100% of the crop produced within the strict quality standards and crop loads, equating to maximum payments of approximately \$1,500,000 per year. The Company cannot calculate the minimum payment as such a calculation is dependent in large part on an unknown – the amount of grapes produced that meet the strict quality standards in any given year. If no grapes are produced that meet the contractual quality levels, the grapes may be refused and no payment would be due. The Company received \$233,122 and \$959,446 worth of grapes from these long-term contracts during the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, future minimum lease payments are as follows for the years ending December 31:

2017	415,230
2018	405,356
2019	352,861
2020	173,612
2021	171,569
Thereafter	<u>937,061</u>
Total	<u>\$ 2,455,689</u>

The Company is also committed to lease payments for various pieces of office equipment. Total rental expense for these operating leases amounted to \$9,770 and \$8,353 in 2016 and 2015, respectively. In addition, payments for the leased vineyards have been included in inventory or vineyard developments costs and aggregate approximately \$380,096 and \$363,566 for the years ended December 31, 2016 and 2015, respectively.

#### **NOTE 13 – EMPLOYEE BENEFIT PLAN**

In February 2006, the Company instituted a 401(k) profit sharing plan (the “Plan”) covering all eligible employees. Employees who participate may elect to make salary deferral contributions to the Plan up to 100% of the employees’ eligible payroll subject to annual Internal Revenue Code maximum limitations. The Company may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan. For the years ended December 31, 2016 and 2015 there were \$67,090 and \$71,609 contributions made by the Company to the 401(k) plan, respectively.

#### **NOTE 14 - SALE OF PREFERRED STOCK**

In August 2015, the Company commenced a public offering of Series A Redeemable Preferred Stock pursuant to a registration statement filed with the Securities and Exchange Commission. The preferred stock under this issue is non-voting and ranks senior in rights and preferences to the Company’s common stock. Shareholders of this issue are entitled to receive dividends, when and as declared by the Company’s Board of Directors, at a rate of \$0.22 per share. Dividends accrued but not paid will be added to the liquidation preference of the stock until the dividend is declared and paid. The Company registered this transaction with the securities authorities of the States of Oregon and Washington and, in November 2015, obtained listing status on the NASDAQ stock exchange under the trading symbol WVIP. The initial issue has 1,445,783 shares registered with an aggregate initial offering price not to exceed \$6,000,000 and was fully subscribed as of December 31, 2015.

On December 22, 2015 the Company filed a Registration Statement on Form S-3 with the SEC pertaining to the potential future issuance of one or more classes or series of debt, equity or derivative securities. On February 28, 2016 shareholders of the Series A Redeemable Preferred Stock approved an increase in shares designated as Series A Redeemable Preferred Stock, from 1,445,783 to 2,857,548 shares, and amended the certificate of designation for those shares to allow the Company’s Board of Directors to make future increases. On March 10, 2016 the Company filed a Prospectus Supplement to the December 2015 Form S-3, pursuant to which the Company proposed to offer and sell, on a delayed or continuous basis, up to 970,588 additional shares of Series A redeemable Preferred stock having proceeds not to exceed \$4,125,000. This stock was established to be sold in four offering periods beginning with an offering price of \$4.25 per share and concluding at \$4.55 per share. The Company sold substantially all preferred stock, available under this offering, as of June 30, 2016.

Under the terms of the offering, proceeds from the sale of preferred stock for the three months ended December 31, 2015 were held in escrow until the stock was subsequently issued effective January 1, 2016. As of December 31, 2015 \$1,476,232 in stock sale proceeds were held as restricted cash and subsequently released to the Company in January 2016. As of December 31, 2016 the Company had no cash that was considered restricted.



## NOTE 15 – SEGMENT REPORTING

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 the 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.

The two segments reflect how the Company's operations are evaluated by senior management and the structure of its internal financial reporting. The Company evaluates performance based on the gross profit of the respective business segments. Selling expenses that can be directly attributable to the segment, including depreciation of segment specific assets, are included however centralized selling expenses and general and administrative expenses are not allocated between operating segments. Therefore, net income information for the respective segments is not available. Discrete financial information related to segment assets, other than segment specific depreciation associated with selling, is not available and that information continues to be aggregated.

The following table outlines the sales, cost of sales, gross margin, directly attributable selling expenses, and contribution margin of the segments for the twelve month periods ending December 31, 2016 and 2015. Sales figures are net of related excise taxes.

	Twelve Months Ended December 31,					
	Direct Sales		Distributor Sales		Total	
	2016	2015	2016	2015	2016	2015
Sales, net	\$ 7,032,287	\$ 6,948,210	\$ 12,393,125	\$ 10,990,662	\$ 19,425,412	\$ 17,938,872
Cost of Sales	1,876,751	2,027,451	5,328,133	5,064,660	7,204,884	7,092,111
Gross Margin	5,155,536	4,920,759	7,064,992	5,926,002	12,220,528	10,846,761
Selling Expenses	3,226,831	3,070,473	1,568,433	1,545,944	4,795,264	4,616,417
Contribution Margin	\$ 1,928,705	\$ 1,850,286	\$ 5,496,559	\$ 4,380,058	\$ 7,425,264	\$ 6,230,344
Percent of Sales	36.2%	38.7%	63.8%	61.3%	100.0%	100.0%

Direct sales include \$245,097 and \$777,538 of bulk wine and grape sales in the years ended December 31, 2016 and 2015, respectively.

Net direct-to-consumer sales, including bulk wine, miscellaneous sales, and grape sales, represented approximately 36.2% and 38.7% of total net revenue for 2016 and 2015, respectively.

Net sales through distributors represented approximately 63.8% and 61.3% of total net revenue for 2016 and 2015, respectively.

## NOTE 16 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued.

In February 2017, the Company completed the purchase of approximately 16 acres in the Dundee Hills AVA. In March 2017, the Company completed the purchase of approximately 45 acres in the Walla Walla AVA.

In February 2017, the Board of Directors authorized an increase in funding for the repurchase of common stock of \$250,000.

In February 2017, the Board of Directors authorized the refinancing of three of the Company's Northwest Farm Credit loans and securing additional debt against the Estate Winery property. The Company refinanced approximately \$3.1 million in debt with a new \$5.8 million loan. After fees and prepayment costs, the Company received approximately \$2.6 million in cash. This activity is part of the Company's long-range development plan and takes advantage of the current low interest rate environment.