

WILLAMETTE VALLEY VINEYARDS INC  
Form 10-K  
March 10, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

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

Commission file number: 000-21522

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

Oregon  
(State or other jurisdiction of  
incorporation or organization)

93-0981021  
(I.R.S. Employer  
Identification No.)

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

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

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

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(Title of class)

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

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(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2015 was approximately \$30,560,166.

The number of outstanding shares of the registrant's Common Stock as of March 10, 2016 was 4,995,216.

The number of outstanding shares of the registrant's Preferred Stock as of March 10, 2016 was 1,424,841.

#### DOCUMENTS INCORPORATED BY REFERENCE

None

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

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

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report on Form 10-K, including any information incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, referred to as the “Securities Act”, and Section 21E of the Securities Exchange Act of 1934, as amended, referred to as the “Exchange Act”. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “foresee,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “seeks,” “estimates” or the negative of these terms or other comparable terminology, which when used are meant to signify the statement as forward-looking. However, not all forward-looking statements contain these words. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements that are not historical facts. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and situations that are difficult to predict and that may cause our own, or our industry’s actual results, to be materially different from the future results that are expressed or implied by these statements. Accordingly, actual results may differ materially from those anticipated or expressed in such statements as a result of a variety of factors, including those set forth under Item 1A “Risk Factors” in this Annual Report on Form 10-K.

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 Estates 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 2015, \$22 to \$100 per bottle; Chardonnay, \$25 to \$45 per bottle; Pinot Gris, \$16 per bottle; Rose, \$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.

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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, \$40 per bottle; Merlot, \$40 per bottle; Cabernet Sauvignon, \$40 per bottle; Cabernet Franc, \$40 per bottle; The Griffin (a Bordeaux style blend), \$60 per bottle; and Viognier, \$30 per bottle. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Oregon.

ITEM 1. BUSINESS - continued

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, GRIFFIN CREEK, PIERRE PANBRUM VINEYARDS, WILLAMETTE, SIP.SAVE, WHOLE CLUSTER, MADE IN OREGON CELLARS, OREGON BLOSSOM, and IT'S WILLAMETTE, DAMMIT marks.

Market overview – The United States wine industry has seen a rapid increase in the number of wineries that are being established throughout the country. From 1995 to 2015, U.S. wineries grew in number from 1,817 to 8,287. 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 2014, the most recent year such data is available, by 3% and produced approximately 335.7 million cases or 10.7% of total world wine production. Pinot Noir is one of the highest-priced varietals on the market, yet its sales have nearly tripled in the U.S. since the movie Sideways was released in 2004. Inexpensive Pinot Noir brands, which are those brands priced below the industry average, are now outpacing higher priced Pinot Noir brands, by roughly twice the rate for both domestic and imported wines, according to Impact Databank, a provider of data on the wine industry owned by M. Shanken Communications, the parent company of Wine Spectator.

In a 2015 American Wine Consumer Preference Survey, by Sonoma State University and the Wine Business Institute, American wine consumers from all 50 states were sampled regarding their wine consumption. Of those sampled, 56% reported they consume wine daily or several times per week making them “High Frequency Wine Drinkers” with the remaining 44% being occasional drinkers. Respondents demonstrated a preference for red wine, with 74% listing it as one of their favorites, and 78% considered themselves to have intermediate or advance knowledge of wine. Price and brand topped the list of decision making reasons when purchasing wine for home consumption with 32% listing the most common price being \$10 to \$15, 19% being \$15 to \$20 and 14% being more than \$20. Additionally, 89% of respondents thought red wine was most healthy.

The Oregon wine industry – Oregon is a relatively new wine-producing region in comparison to California and France. In 1966, there were only two commercial wineries licensed in Oregon. In 2014, the most recent year such data is available, there were 676 commercial wineries licensed in Oregon, an increase of 11.7% from 2013, and 27,390 planted acres of wine grape vineyards, 24,494 acres of which were harvested. Oregon wine grapes produced a 2014 crop with a total value of \$169 million, an increase of 31.7% from 2013. Pinot Noir leads all varieties accounting for 63% of harvested acreage. Total production of Oregon wines in 2014 is estimated at 4.4 million cases, up from 3.3 million cases in 2013. Oregon case sales in 2014 are estimated at 2.9 million, up from 2.7 million in 2013, a 6.9% increase. Case sales in dollars for 2014 are estimated to be \$430 million, a 14% increase from 2013.



Because of climate, soil and other growing conditions, the Willamette Valley in western Oregon is ideally suited to growing superior quality Pinot Noir, Chardonnay, Pinot Gris and Riesling wine grapes. Some of Oregon's Pinot Noir, Pinot Gris and Chardonnay wines have developed outstanding reputations, winning numerous national and international awards.

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

ITEM 1. BUSINESS - continued

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, 2015, 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.

2014 Oregon harvest – The Oregon Vineyard and Winery Census Report states that the total grapes crushed in Oregon rose 33%, compared to 2013, to a record high of 70,112 tons. Pinot Noir continued to lead statewide production representing 58% of the tonnage grown and crushed. Yield increased to an average 3.2 tons per acre from 24,494 harvested acres.

2015 Oregon harvest – There is no official data available on the 2015 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.

## ITEM 1. BUSINESS - continued

The Company believes the location of the Estate Winery next to Interstate 5, Oregon's major north-south freeway, significantly increases direct sales to consumers. The Company believes this location provides high visibility for the Winery to passing motorists, thus enhancing recognition of the Company's products in retail outlets and restaurants. The Company's 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 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. Additionally, the Company is developing a winery near Hopewell, Oregon adjacent to the current site of Elton Vineyards to produce wine under the Elton label. This winery is expected to produce primarily Pinot Noir and Chardonnay, also for sale in the ultra-premium space.

## Vineyards

The Company owns and leases approximately 697 acres of land, of which 556 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 70% of the grapes needed to meet the winery's production capacity, of 314,000 gallons (132,000 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 2015	Harvest 2014
<b>Owned Vineyards</b>							
WVV Estate	107	58	6	1	42	269	227
<b>Tualatin Estate</b>							
Vineyard	107	46	14	-	47	246	251
Ingram Vineyard	86	-	62	-	24	-	-
<b>Pambrun</b>							
Vineyard	42	-	-	31	11	-	-
Loeza Vineyard	62	-	-	58	4	-	-
Sub-Total	404	104	82	90	128	515	478
<b>Leased Vineyards</b>							
<b>Peter Michael</b>							
Vineyard	79	69	-	-	10	330	341
<b>Meadowview</b>							
Vineyard	45	45	-	-	-	292	189
Elton Vineyard	59	54	-	2	3	157	203
Ingram Vineyard	110	-	42	68	-	-	-
Sub-Total	293	168	42	70	13	779	733
<b>Contracted Vineyards*</b>							

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Various	227	227	-	-	-	1,094	970
Total	924	499	124	160	141	2,388	2,181

\*Contracted acreage is estimated

WVV 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 acre in 2015 and intends to plant an additional one 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.

ITEM 1. BUSINESS - continued

Ingram Estate and Elton Vineyard – The Company purchased 86 acres near Hopewell, Oregon, for vineyard plantings. Adjacent to the purchased land is an additional 109 leased acres, also for vineyard development. The Company believes the site is ideally situated to grow premium Pinot Noir and planted 42 acres in 2015. The Ingram site is also adjacent to Elton Vineyards, where the Company leases 54 acres of established vineyards. The Company intends to plant 31 leased acres at Ingram and one acre at Elton in 2016.

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 an option to buy another 45 acres. 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 intends to plant 15 acres in 2016 and the remaining plantable 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 intends to plant 50 acres in 2016.

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. The Company also planted 943 clones at its Estate and Ingram Vineyards in 2015.

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 2015, the Company’s producing acres in the Estate Vineyard yielded approximately 269 tons of grapes. Tualatin/Peter Michael/Meadowview Vineyards produced an aggregate of 868 tons of grapes in 2015. Elton Vineyards produced 157 tons of grapes in 2015.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices. In 2015, the Company purchased an additional 1,094 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.

ITEM 1. BUSINESS - continued

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 (42o–46o 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 Vineyard.

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 132,000 cases (314,000 gallons) of wine per year, depending on the type of wine produced. In 2015, the Winery produced approximately 120,794 cases (287,200 gallons) from its 2013 and 2014 harvest. The Company expects to produce approximately 135,700 cases (322,700 gallons) in 2016 from its 2014 and 2015 harvests. Because planned production exceeds existing capacity of the Estate Winery, the Company will use existing storage at the Tualatin Winery and temporary storage to accommodate the anticipated production volume.

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.

## ITEM 1. BUSINESS - continued

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 \$5,173,018 at December 31, 2015. 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

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

ITEM 1. BUSINESS - continued

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 are more profitable 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 2015 and 2014, direct sales contributed approximately 39% and 34% 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 6 non-domestic (export) customers. For 2015 and 2014, sales to distributors and wine brokers contributed approximately 61% and 66% of the

Company's revenue from continuing 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 two-thirds of the state's wineries and vineyards and is home to approximately 676 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.

## ITEM 1. BUSINESS - continued

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, an amusement park which operates from April through September each year and attracts approximately 130,000 paying visitors per year.

### Dependence on Major Customers

Historically, the Company's revenue has been derived from thousands of customers annually. In 2015, sales to one distributor represented approximately 18.2% of total Company revenue. In 2014, sales to one distributor represented approximately 16.6% 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 ultimate forecasted production level of 373,000 gallons (157,000 cases) per year, at its Estate Vineyards and Tualatin Vineyard locations, will 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 projected production 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.

ITEM 1. BUSINESS - continued

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. Much of the Company's expenses for protecting the environment are voluntary, however the Company is regulated by various local, state and federal agencies regarding environmental laws where these costs and processes are effectively integrated into the Company's regular operations and do not cause significant alternative processes or costs.

Employees

As of December 31, 2015 the Company had approximately 94 full-time employees and 47 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, on official business days during the hours of 10 a.m. to 3 p.m. 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.

ITEM 1A. RISK FACTORS

The following disclosures should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K. 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, 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. Since May of 1992, the Company's vineyard properties have been planted with rootstocks believed to be resistant to phylloxera. However, rootstocks planted by the Company prior to 1992 are not resistant. 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.

ITEM 1A. RISK FACTORS - continued

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 the 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, 2015, the Company's outstanding indebtedness was approximately \$5.2 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.



ITEM 1A. RISK FACTORS - continued

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.

ITEM 1A. RISK FACTORS - continued

Increased regulation could adversely affect the Company

The wine industry is subject to extensive regulation by the Federal Alcohol Tobacco Tax and Trade Bureau (“TTB”) and various foreign agencies, state liquor authorities, such as the Oregon Liquor Control Commission (“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).

ITEM 1A. RISK FACTORS - continued

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 into three classes serving staggered three-year terms, which makes it more difficult to quickly replace board members; the ability of our board of directors to issue shares of preferred stock with rights as it deems appropriate without stockholder approval; a provision that special meetings of our board of directors 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 Company's board of directors (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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vineyards – The Company owns or leases 697 acres of land, of which 404 acres is owned and 293 acres leased. Of the 697 acres of land owned or leased, 272 acres are productive vineyards, 284 acres are pre-productive vineyards or are suitable for future vineyard plantings, and 141 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 – The Company's Estate Winery and production facilities are capable of efficiently producing up to 132,000 cases (314,000 gallons) of wine per year, depending on the type of wine produced. In 2015, the Winery produced approximately 120,794 cases (287,200 gallons) from its 2013 and 2014 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 as 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 including an expansion of 2,190 square feet to store up to 1,800 barrels of wine for aging in the proper environment.

## ITEM 2. PROPERTIES - continued

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.

See additional discussion of vineyard and wine production facility under Item 1. Business.

## ITEM 3. 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.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## 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 intraday sales prices for the Company's common stock as reported on the NASDAQ Capital Market:

Quarters ended				
2015	12/31/2015	9/30/2015	6/30/2015	3/31/2015
High	\$ 8.20	\$ 8.10	\$ 7.23	\$ 6.24
Low	\$ 6.66	\$ 4.50	\$ 5.95	\$ 5.50
Quarters ended				
2014	12/31/2014	9/30/2014	6/30/2014	3/31/2014
High	\$ 5.95	\$ 6.20	\$ 6.52	\$ 6.60
Low	\$ 5.23	\$ 5.15	\$ 5.14	\$ 5.87

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, 2015 there was no established market for the recently issued stock.

Holders

As of March 3, 2016, the Company had approximately 2,328 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 estimate the total number of beneficial holders of our common stock represented by these record holders.

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## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES - continued

## 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, 2015 the Company paid \$.055 per share to Preferred Stock shareholders of record as of December 8, 2015. Total dividends paid were \$57,611 and the payment satisfied all accrued dividend liability through December 31, 2015. The Company anticipates paying Preferred Stock dividends annually in December of each year. Additionally, the Company may offer programs that allow Preferred Stock shareholders to use their dividends as credits for wine purchases at additional discounts.

## 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:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares
				that May Yet be Purchased Under the Plans or Programs
October 2015	-	-	-	\$ -
November 2015	-	-	-	250,000
December 2015	62	6.99	62	249,525
<b>Total</b>	<b>62</b>	<b>6.99</b>	<b>62</b>	<b>\$ 249,525</b>

In July of 2015 the Board approved a program to repurchase common stock of the Company. Under previous Board action the Company had maintained a stock repurchase program which resulted in 113,418 shares of common stock repurchased for \$425,102. Due to market pricing exceeding repurchase limitations under the plan, that program had

been inactive since August 2013. Under the July 2015 Board action, the previous plan was terminated and unused funds from the previous plan were combined with cash from the Company to fund a plan to repurchase up to \$250,000 of common stock through the open market.

During the three months ended September 30, 2015, the Company purchased 36,481 shares for a total cost of \$250,000. As of September 30, 2015, no remaining funds were authorized or unspent for use on future purchases of Company common stock.

In November of 2015 the Board approved an additional 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 common stock through the open market. 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, 2015, \$249,525 remained unspent under this plan.

## ITEM 6. SELECTED FINANCIAL DATA

Not required.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and related notes. Some statements and information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are not historical facts but are forward-looking statements. For a discussion of these forward-looking statements, and of important factors that could cause results to differ materially from the forward-looking statements contained in this report, see Item 1 of Part I, "Business – Forward-Looking Statements."

### 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.

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.

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.

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.

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 as a selling, general and administrative expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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.

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 the Hospitality Center remodel and expansion and growth in wine club membership. Wine club memberships had a net increase of approximately 655 for the year ended December 31, 2015 compared to 2014. 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 121,800 and 107,400 cases of produced wine during the years ended December 31, 2015 and 2014, respectively, an increase of 14,400 cases, or 13.4% 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, 2015, wine inventory includes approximately 67,000 cases of bottled wine and 453,000 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 120,794 cases during the year ended December 31, 2015.

Results of Operations

The Company had net sales of \$17,938,872 and \$15,156,159 for the years December 31, 2015 and 2014, respectively, an increase of \$2,782,713 or 18.4%, for the year ended December 31, 2015 over the prior year period. The reasons for this increase include increased sales in all categories; retail sales (24.7%), in-state sales (29.9%), out-of-state sales (4.1%) and sales of bulk products (213.6%).

Gross profit was \$10,846,761 and \$9,016,606 for the years ended December 31 2015 and 2014, respectively, an increase of \$1,830,155, or 20.3%, for the year ended December 31, 2015 over the prior year period. This increase was generally driven by an increase in the average price per case sold combined with direct-to-consumer sales being a larger percentage of total sales.

The gross margin percentage was 60.5% and 59.5% for the years ended December 31, 2015 and 2014, respectively, an increase of 1.6%, for the year ended December 31, 2015 over the prior year period. This increase in the gross profit percentage is primarily the result of increases in retail sales, as a percentage of total sales, combined with an overall



increase in per case margins and other factors.

Selling, general and administrative expenses were \$7,578,184 and \$6,210,384 for the years ended December 31, 2015 and 2014, respectively, an increase of \$1,367,800, or 22.0%, for the year ended December 31, 2015 over the prior year period. This increase was mainly the result of both increased selling expenses and increased general and administrative costs, much of which resulted from increased costs associated with operating the Company's remodeled Hospitality Center as well as efforts to increase sales through distributors.

Income from operations was \$3,268,577 and \$2,806,222 for the years ended December 31, 2015 and 2014, respectively, an increase of \$462,355, or 16.5%, for the year ended December 31, 2015 over the prior year period. The primary reason for this increase was increased gross profit, which was partially offset by increased selling expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Provision for income taxes was \$1,275,416 and \$775,999 for the years ended December 31, 2015 and 2014, respectively, an increase of \$499,417, or 64.4%, for the year ended December 31, 2015 over the prior year period. This increase in tax rate is primarily related to nonrecurring federal and state tax credits during 2014 related to the Company's facility expansions and remodels and an increase in the percentage of the Company's income reported in a higher state tax rate jurisdiction. The Company does not anticipate similar credits or significant changes in the allocation of state income in future periods.

Net income was \$1,901,832 and \$2,161,340, for the years ended December 31, 2015 and 2014, respectively, a decrease of \$259,508, or 12.0%, for the year ended December 31, 2015 over the prior year period. The primary reasons for this decrease was an overall increase in income from operations being more than offset by an increase in the income tax expense in 2015. Additionally, the Company recorded \$180,035, net of cost and deductible, in insurance proceeds from a wine spillage at the Estate Winery in March of 2014 that was included in other income for 2014 but did not recur in 2015.

Diluted income per common share after preferred dividends was \$0.37 and \$0.44 for the years ended December 31, 2015 and 2014, respectively, a decrease of \$0.07, or 15.2%, for the year ended December 31, 2015 over the prior year period. The primary reason for this decrease is a decrease in net income.

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 38.5%, 18.2% and 43.3%, of net sales for the year ended December 31, 2015, respectively. This compares to 34.1%, 16.6% and 49.2% of net sales for the year ended December 31, 2014, respectively. Miscellaneous and grape sales are included in direct-to-consumer sales.

The Company had cash balances of \$4,010,664, at December 31, 2015, and \$519,761 at December 31, 2014. The Company had no outstanding line of credit balance at December 31, 2015 and 2014.

#### EBITDA

In 2015, the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 10.6% to 4,756,056 from 4,300,065 in 2014, primarily as a result of higher income tax and depreciation and amortization expenses more than offsetting reduced net income in 2015 compared to 2014.

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.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The following table provides a reconciliation of net income to EBITDA for the periods indicated:

	Year Ended December 31,	
	2015	2014
Net Income	\$ 1,901,832	\$ 2,161,340
Depreciation and amortization expense	1,274,243	1,074,737
Interest Expense	306,805	289,020
Interest Income	(2,237 )	(1,031 )
Income tax expense	1,275,416	775,999
EBITDA	\$ 4,756,059	\$ 4,300,065

## Sales

Wine sales for the years ended December 31, 2015 and 2014 and ending inventory amounts for the year ended December 31, 2015, are shown on the following table, as well as planned production quantities for the year ending December 31, 2015:

Varietal/Product	Cases Sold 2015	Cases Sold 2014	Cases On-Hand December 31, 2015	Planned Bottling Production (Cases) 2016
Pinot Noir/Estate	14,000	12,500	16,000	16,000
Pinot Noir/Barrel Select	10,800	8,000	1,500	7,000
Pinot Noir/Founders Reserve	3,500	2,400	3,000	4,000
Pinot Noir/Special Designates	4,200	2,400	6,500	12,400
Pinot Noir/Whole Cluster	30,100	27,800	3,000	36,000
Pinot Gris	22,400	20,100	11,500	20,500
Riesling	20,100	20,300	10,500	19,000
Chardonnay	3,500	3,200	3,500	4,100
Table Wine	6,100	5,700	4,000	6,000
Other	7,100	5,000	7,500	10,700
Total	121,800	107,400	67,000	135,700

Approximately 51% of the Company's case sales during 2015 were of the Company's flagship varietal, Pinot Noir. Case sales of Pinot Gris and Riesling follow with approximately 18% and 17% of case sales each, respectively. The Company sold approximately 121,800 and 107,400 cases of Company-produced wine during the years ended December 31, 2015 and 2014, respectively. This represents an increase of approximately 14,400 cases, or 13.4% in 2015. This increase in case sales in 2015 was primarily the result of growth in both retail sales and sales through distributors.

## Wine Inventory

The Company had approximately 67,000 cases of bottled wine on-hand at the end of 2015. Sufficient bulk wine inventory is on-hand to bottle approximately 135,700 cases of wine in 2016. Management believes that sufficient stock is on hand to meet current demand levels until the 2016 vintage becomes available.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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 2015, approximately 120,794 cases were produced, and Management anticipates bottling approximately 135,700 cases in 2016. The Winery has capacity to comfortably store and process about 132,000 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 2015, 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 2015 and 2014 vintages, the Company grew approximately 54% and 56% of all grapes harvested, respectively. The remaining grapes harvested were purchased from other growers. In 2015 and 2014, 16% and 13% of grapes harvested were purchased under short-term contracts, and 30% and 31% 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 \$959,446 and \$787,696 worth of grapes from long-term contracts during the years ended December 31, 2015 and 2014, respectively. The Company received \$900,792 and \$644,910 worth of grapes from short-term contracts during the years ended December 31, 2015 and 2014, respectively. Total grapes payable were \$816,879 and \$698,851 as of December 31, 2015 and 2014, respectively. Grapes payable includes \$410,575 and \$398,142 of grapes payable from long-term contracts as of December 31, 2015 and 2014, 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 124 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 161 acres of land that is suitable for future vineyard development. Management currently has plans to plant approximately 98 acres and 46 acres in the years 2016 and 2017, which we anticipate will begin bearing fruit in years 2020 and 2021, 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 that expire after vintage years 2015 and 2016.

Wine Quality

Continued awareness of the Willamette Valley Vineyards brand and the quality of its wines, was enhanced by national and regional media coverage throughout 2015.

The Company's 2013 Pinot Gris and 2013 Riesling both received Gold Medals at The San Francisco Chronicle Wine Competition in January 2015.

In May 2015, Wine Spectator featured an online article titled, "Focused on Oregon's Great Wine Terroirs - Willamette Valley Vineyard staffers plan to start several single-vineyard wineries," highlighting the Company's new estate vineyard and winery efforts in the Eola-Amity Hills at Elton Vineyard and on the Oregon side of the Walla Walla Valley in SeVein. The Statesman Journal, Portland Business Journal, The East Oregonian, Oregon Wine Press, AgInfo.net, KATU News Channel 2, Walla Walla Union Bulletin and Great Northwest Wine also contributed feature articles on our plans to develop new wineries and vineyards on properties we currently own or lease.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The Wine Advocate rated the Company's 2012 O'Brien Pinot Noir with 92+ points, 2012 Fuller Pinot Noir 90 points, 2012 Signature Cuve'e 91 points in the April 2015 edition.

Wine Enthusiast Magazine rated the Company's 2012 Elton Chardonnay with 92 points, 2012 Dijon Clone Chardonnay 90 points and 2012 Signature Cuve'e Pinot Noir 91 points in the April 2015 issue.

Wine & Spirits Magazine rated the 2012 Signature Cuve'e Pinot Noir with 90 points in the April 2015 issue.

Tasting Panel reviewed the Company's current wine offerings and scored the 2012 O'Brien Pinot Noir 95 points, 2012 Fuller Pinot Noir 94 points, 2012 Elton Pinot Noir 93 points, 2012 Tualatin Estate Pinot Noir 92 points, 2012 Bernau Block Pinot Noir 91 points, 2013 Estate Pinot Noir 90 points, 2012 Estate Chardonnay 90 points and 2014 Whole Cluster Pinot Noir 89 points.

The Company's 2012 Bernau Block Pinot Noir earned the highest honor, a Platinum Medal, at the Wine Press Northwest Platinum Judging in April 2015.

The Company's 2011 Griffin Creek Syrah, Malbec and Cabernet Franc all earned 91 point scores from Wine Spectator.

The Company hosted a Chef Cook-off event with Food Network "toughest critic" Simon Majumdar on June 23, 2015 that was featured in The Statesman Journal and on the Tasting Pour blog.

In the November 2015 issue of Wine Enthusiast, the Company's Whole Cluster Pinot Noir was featured as one of America's Top 5 Best Value Pinot Noirs with a profile highlighting its unique fermentation process. In the same issue, the publication awarded 90 points and Editors' Choice for the 2014 Whole Cluster Pinot Noir, 90 points for the 2013 Estate Pinot Noir and 89 points and Best Buy for the 2014 Riesling. The 2014 Riesling was also included in the Top 100 Best Buys of the year at #87 and one of only 6 Oregon wines to make the list.

Wine Spectator awarded the 2012 Tualatin Estate Pinot Noir a 90 point score in the October 2015 issue with reviewer Harvey Steiman describing it as, "Bright and crisp, draping the juicy cherry, raspberry and floral flavors in a blanket of fine tannins, coming together with deft balance as the finish persists with precision."

Vinous, which recently purchased Stephen Tanzer's International Wine Cellar, reviewed the Company's 2012 Pinot Noirs and awarded 91 points to the O'Brien Pinot Noir, 91 points to the Elton Pinot Noir and 90 points to the Bernau Block Pinot Noir.

The Wall Street Journal published an article, "Oregon Vineyards Draw Out-Of-State Buyers," that included a profile and photo gallery of the Estate House at Willamette Valley Vineyards.

In August 2015, with the announcement of our offering of Preferred Stock, the Statesman Journal published the article, "Willamette Valley Vineyards raising \$6 million." They followed up on the progress of the offering after the Elton winery Groundbreaking Celebration with the article, "New Elton Winery a lasting legacy for couple," which detailed the event, winery plans and Elton Vineyard founders, Dick and Betty O'Brien's contributions to the Oregon wine industry. The Portland Business Journal also wrote an article about our offering of Preferred Stock and our business strategy called, "Putting Stock into Publicly Trade Wine." Beverage Industry News, Wine Searcher and Wine Business Monthly also ran stories on the offering.



Tualatin Vineyard founder Bill Fuller's return to winemaking with the Company's was featured in multiple press outlets celebrating the release of his 2013 Vintage 40 Pinot Noir and Chardonnay. Portland's KATU Newschannel featured a multi-segment story and harvest update with Mr. Fuller. An extended version of the interview was then published by the NBC affiliate station in Eugene Oregon, Wine Business Monthly, Albany Democrat and USA Today.

The 25th annual Oregon Grape Stomp Championship & Harvest Celebration was featured in the August issue of Alaska Airlines/Horizon Air in-flight magazine, Statesman Journal, The Columbian and radio broadcast called VinVillage.

Southern Opulence Magazine published a multi-page feature story called "Indulge in a Romantic Oregon Winery Vacation," about the Company's history and hospitality offerings.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The Portland Business Journal included the Company in the "Most Admired Companies" within Food, Beverage & Natural Resources category.

Martha Stewart Living included the Company's 2014 Pinot Gris in a piece on "The 10 Best Wines for a Fall Picnic".

The Seattle Times named the Company's 2012 O'Brien Pinot Noir to its list of the Top 50 Best Wines of the 2015.

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

The Company's 2012 Bernau Block Pinot Noir was featured as Wine Press Northwest's "Wine of the Week" in January 2016.

Wine Spectator rated the 2014 Riesling with a 90 point and "Best Buy" in the February 2016 issue.

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.

## 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 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, 2015 and 2014:

	Three months ended		Twelve months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Retail sales	\$ 1,699,991	\$ 1,460,951	\$ 6,291,039	\$ 5,044,362
In-state sales	1,120,745	736,982	3,350,048	2,578,529
Out-of-state sales	2,225,228	2,301,888	7,940,977	7,631,019
Bulk wine/miscellaneous sales	131,148	50,215	777,538	247,975
Total revenue	5,177,112	4,550,036	18,359,602	15,501,885
Less excise taxes	(116,414 )	(105,369 )	(420,730 )	(345,726 )
Sales, net	\$ 5,060,698	\$ 4,444,667	\$ 17,938,872	\$ 15,156,159

2015 Compared to 2014

Retail sales for the years ended December 31, 2015 and 2014 were \$6,291,039 and \$5,044,362, respectively, an increase of \$1,246,677, or 24.7%, for the year ended December 31, 2015 over the prior year period. This increase was primarily driven by membership growth in the Company's wine club program, increased sales through the Winery's ambassador program and by increased visitor traffic to the Estate Winery's tasting room and McMinnville tasting room, including expanded sales from food and room rentals.

Bulk Wine/miscellaneous sales for the years ended December 31, 2015 and 2014 were \$777,538 and \$247,975, respectively, an increase of \$529,563. This increase represents the Company's sale of bulk wine in 2015, due to higher yields in the 2014 grape harvest, which resulted in wine quantities that were in excess of Company needs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

In-state sales for the years ended December 31, 2015 and 2014 were \$3,350,048 and \$2,578,529, respectively, an increase of \$771,519, or 29.9%, for the year ended December 31, 2015 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, 2015 and 2014 were \$7,940,977 and \$7,631,019, respectively, an increase of \$309,958, or 4.1%. Management believes this increase is primarily related to increased sales efforts outside of Oregon in 2015.

The Company pays alcohol excise taxes to both the OLCC and to the 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, 2015 and 2014 were \$420,730 and \$345,726, an increase of \$75,004, or 21.7%, for the year ended December 31, 2015 over the prior year period. This increase was due primarily to increased wine sales in 2015.

Cost of Sales was \$7,092,111 and \$6,139,553 for the years ended December 31, 2015 and 2014, respectively, an increase of \$952,558, or 15.5%, for the year ended December 31, 2015 over the prior year period. The increase in cost of sales can be attributed mainly to the overall increase in product sales.

As a percentage of net revenue, gross profit was 60.5% and 59.5% in the years ended December 31, 2015 and 2014, respectively, an increase of 1.6%, for the year ended December 31, 2015 over the prior year period. This increase in the gross profit percentage is primarily a result of increases in higher margin retail sales relative to sales through distributors, and the release of higher margin vintages.

The Company continued its focus in 2015 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 \$7,578,184 and \$6,210,384 for the years ended December 31, 2015 and 2014, respectively, an increase of \$1,367,800, or 22.0%, for the year ended December 31, 2015 over the prior year period. This increase was the primarily the result of the increased operating costs associated with the Hospitality Center and increase brand development efforts in distributor sales.

Interest income was \$2,237 and \$1,031 for the years ended December 31, 2015 and 2014, respectively, an increase of \$1,206 or 117.0%. 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 sale of Preferred Stock. Interest expense was \$306,805 and \$289,020 for the years ended December 31, 2015 and 2014, respectively, an increase of \$17,785, or 6.2%, for the year ended December 31, 2015 over the prior year period. The increase in interest expense was mainly due to additional interest expense associated with the Hospitality Center remodel loan. Interest on this new loan was partially capitalized in 2014 but was totally expensed in 2015.

Other income, net, was \$213,239 and \$419,106 for the years ended December 31, 2015 and 2014, respectively, a decrease of \$205,867, or 49.1%, for the year ended December 31, 2015 over the prior year period. The decrease in other income, net, relates primarily to the one-time receipt in 2014 of a net insurance proceed of \$180,035 associated with a wine spill at the Estate Winery that occurred in 2014.

The provision for income taxes and the Company's effective tax rate was \$1,275,416 and 40.1%, respectively of pre-tax income in the year ended December 31, 2015. The provision for income taxes and the Company's effective tax rate was \$775,999 and 26.4%, respectively of pre-tax income in the year ended December 31, 2014. This increase in tax rate is primarily related to nonrecurring federal and state tax credits during 2014 related to the Company's facility expansions and remodels and an increase in the percentage of the Company's income reported in a higher state tax rate jurisdiction. The Company does not anticipate similar credits or significant changes in the allocation of state income in future periods.

As a result of the above factors, net income was \$1,901,832 and \$2,161,340 for the years ended December 31, 2015 and 2014, respectively, a decrease of \$259,508, or 12.0%, for the year ended December 31, 2015 over the prior year period. The decrease in net income was primarily the result of increased income before income taxes that was offset by a larger income tax expense. Diluted income per common share after preferred dividends was \$0.37 and \$0.44 for the years ended December 31, 2015 and 2014, respectively, a decrease of \$0.07 or 15.2%. The decrease in earnings per share is primarily a result of decreased net income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Liquidity and Capital Resources

At December 31, 2015, the Company had a working capital balance of \$14.0 million and a current ratio of 4.43:1. At December 31, 2014, the Company had a working capital balance of \$9.8 million and a current ratio of 4.63:1. The Company had cash balances of \$4,010,664, at December 31, 2015, and \$519,761 at December 31, 2014. The increase in cash year over year was primarily due to cash received from the sale of Preferred Stock.

Total cash provided from operating activities for the years ended December 31, 2015 and 2014 was \$2,696,977 and \$3,006,548, respectively. In 2015 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 and decrease in accounts payable.

Total cash used in investing activities for the years ended December 31, 2015 and 2014 was \$3,424,896 and \$3,716,509, respectively. 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, 2015 and 2014 was \$4,218,822 and \$284,039. In 2015, these results were primarily due to the issuance of Preferred Stock, proceeds from the exercise of stock options and proceeds from a note issued to the Company in connection with the purchase of land. In 2014, these results were primarily due to the receipt of formerly restricted loan proceeds for the Hospitality Center remodel and other expansion projects, and proceeds from stock option exercises partially offset by payments of long-term debt.

At December 31, 2015, 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, 2015, 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 June 2016.

As of December 31, 2015, the Company had a total long-term debt balance of \$5,173,018 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.

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, 2015 including long-term debt, note payable, grape payables and commitments for future payments under non-cancelable lease arrangements are summarized below:

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

	Total	Payments Due by Period			
		Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Long-term debt	\$ 5,173,018	\$ 349,003	\$ 762,146	\$ 856,604	\$ 3,205,265
Note payable	490,834	245,417	245,417		
Grape payables	816,879	816,879	-	-	-
Operating leases	2,454,991	393,914	757,493	505,090	798,494
Total contractual obligations	\$ 8,935,722	\$ 1,805,213	\$ 1,765,056	\$ 1,361,694	\$ 4,003,759

## Inflation

The Company's management does not believe inflation has had a material impact on the Company's revenues or income during 2015 or 2014.

## Off Balance Sheet Arrangements

At December 31, 2015 and 2014, the Company had no off-balance sheet arrangements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.





ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 2015 and 2014, 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, 2015 and 2014, 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 10, 2016



WILLAMETTE VALLEY VINEYARDS, INC.  
BALANCE SHEETS

ASSETS

	December 31, 2015	December 31, 2014
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,010,664	\$ 519,761
Restricted cash (Note 1)	1,476,232	-
Accounts receivable, net	1,684,502	1,612,124
Inventories (Note 3)	10,632,462	9,910,570
Prepaid expenses and other current assets	131,173	150,024
Income tax receivable	204,513	323,014
Total current assets	18,139,546	12,515,493
Investment in Kore Wine Company	60,000	-
Vineyard development costs, net	3,699,947	3,368,545
Property and equipment, net (Note 4)	16,729,162	15,038,659
Debt issuance costs, net	50,221	54,604
<b>TOTAL ASSETS</b>	<b>\$ 38,678,876</b>	<b>\$ 30,977,301</b>

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 386,137	\$ 742,024
Accrued expenses	604,580	551,587
Investor deposits for preferred stock (Note 1)	1,476,232	-
Current portion of note payable	245,417	-
Current portion of long-term debt	349,003	329,255
Deferred income taxes	-	206,000
Current portion of deferred revenue-distribution agreement	142,857	142,857
Unearned revenue	73,200	34,435
Grapes payable	816,879	698,851
Total current liabilities	4,094,305	2,705,009
Note payable, net of current portion	245,417	-
Long-term debt, net of current portion	4,824,015	5,173,039
Deferred rent liability	140,756	163,696
Deferred revenue-distribution agreement, net of current portion	238,083	380,943
Deferred gain	121,267	153,362
Deferred income taxes	1,848,000	1,211,000
Total liabilities	11,511,843	9,787,049

## COMMITMENTS AND CONTINGENCIES

(Note 12)

## SHAREHOLDERS' EQUITY

Redeemable preferred stock, no par value, 10,000,000 shares authorized, 1,074,338 shares, liquidation preference \$4,458,710, issued and outstanding at December 31, 2015 and 0 shares issued and outstanding at December 31, 2014, respectively.	3,735,437	-
Common stock, no par value, 10,000,000 shares authorized, 5,139,177 and 4,983,206 shares issued at December 31, 2015 and December 31, 2014, respectively, 4,989,216 and 4,869,788 shares outstanding at December 31, 2015 and December 31, 2014, respectively.	9,674,362	9,026,739
Retained earnings	14,432,836	12,588,615
Less: Common stock held in treasury, at cost, 149,961 and 113,418 shares at December 31, 2015 and December 31, 2014, respectively	(675,602 )	(425,102 )
Total shareholders' equity	27,167,033	21,190,252
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 38,678,876</b>	<b>\$ 30,977,301</b>

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

WILLAMETTE VALLEY VINEYARDS, INC.  
STATEMENTS OF INCOME

	Twelve months ended December 31,	
	2015	2014
SALES, NET	\$ 17,938,872	\$ 15,156,159
COST OF SALES	7,092,111	6,139,553
GROSS PROFIT	10,846,761	9,016,606
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	7,578,184	6,210,384
INCOME FROM OPERATIONS	3,268,577	2,806,222
OTHER INCOME (EXPENSE)		
Interest income	2,237	1,031
Interest expense	(306,805 )	(289,020 )
Other income, net	213,239	419,106
INCOME BEFORE INCOME TAXES	3,177,248	2,937,339
INCOME TAX PROVISION	(1,275,416 )	(775,999 )
NET INCOME	1,901,832	2,161,340
Preferred stock dividends	(57,611 )	-
INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 1,844,221	\$ 2,161,340
Basic income per common share after preferred dividends	\$ 0.37	\$ 0.45
Diluted income per common share after preferred dividends	\$ 0.37	\$ 0.44
Weighted average number of basic common shares outstanding	4,928,712	4,849,614
Weighted average number of diluted common shares outstanding	4,963,999	4,930,494

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



WILLAMETTE VALLEY VINEYARDS, INC.  
STATEMENTS OF SHAREHOLDERS' EQUITY

	Redeemable Preferred Stock Shares	Dollars	Common Stock Shares	Dollars	Treasury Stock	Retain Earning			
Balance at December 31, 2013	-	\$	-	4,832,559	\$	8,857,085	\$	(425,102)	\$
Stock based compensation expense	-		-	-		21,164		-	
Stock issued and options exercised	-		-	37,229		148,490		-	
Net income	-		-	-		-		-	
Balance at December 31, 2014	-		-	4,869,788		9,026,739		(425,102)	
Issuance of preferred stock (net)	1,074,338		3,735,437		-			-	
Preferred stock dividends declared	-		-	-		-		-	
Stock based compensation expense	-		-	-		17,685		-	
Stock issued and options exercised	-		-	155,971		629,938		-	
Treasury stock purchased	-		-	(36,543)		-		(250,500)	
Net income	-		-	-		-		-	



Balance at December 31, 2015	1,074,338 \$	\$3,735,437	4,989,216 \$	9,674,362 \$	(675,602) \$
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The accompanying notes are an integral part of the financial statements.

WILLAMETTE VALLEY VINEYARDS, INC.  
STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS</b>		
Net income	\$ 1,901,832	\$ 2,161,340
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,274,243	1,074,737
Gain on disposition of property & equipment	(1,900 )	-
Stock based compensation expense	17,685	21,164
Deferred rent liability	(22,940 )	(18,794 )
Deferred income taxes	431,000	(20,000 )
Deferred revenue-distribution agreement	(142,860 )	(142,860 )
Deferred gain	(32,095 )	(32,094 )
Change in operating assets and liabilities:		
Accounts receivable, net	(72,378 )	(382,733 )
Inventories	(721,892 )	(77,258 )
Prepaid expenses and other current assets	18,851	27,745
Distribution agreement receivable	-	250,000
Income taxes receivable	118,501	(179,651 )
Unearned revenue	38,765	34,435
Grapes payable	118,028	9,823
Accounts payable	(280,856 )	185,949
Accrued expenses	52,993	94,745
Net cash from operating activities	2,696,977	3,006,548
<b>CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS</b>		
Investment in Kore Wine Company	(60,000 )	-
Additions to vineyard development	(915,091 )	(1,186,997 )
Additions to property and equipment	(2,451,705 )	(2,529,512 )
Proceeds from sale of property and equipment	1,900	-
Net cash from investing activities	(3,424,896 )	(3,716,509 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS</b>		
Proceeds from investor deposits held as restricted cash	(1,476,232 )	-
Proceeds from investor deposits held as liability	1,476,232	-
Proceeds from installment note for property purchase	490,834	-
Proceeds from long-term debt held as restricted cash	-	450,000
Payments on long-term debt	(329,276 )	(314,451 )
Issuance of preferred stock, net	3,735,437	-
Payment of preferred stock dividend	(57,611 )	-
Proceeds from stock options exercised	629,938	148,490

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Repurchase of common stock	(250,500 )	-
Net cash from financing activities	4,218,822	284,039
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>3,490,903</b>	<b>(425,922 )</b>
CASH AND CASH EQUIVALENTS, beginning of year	519,761	945,683
CASH AND CASH EQUIVALENTS, end of year	\$ 4,010,664	\$ 519,761
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchases of property and equipment included in accounts payable	\$ 16,088	\$ 92,119

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 38.5% and 34.1% of total revenue for 2015 and 2014, respectively.

In state sales through distributors represented approximately 18.2% and 16.6% of total revenue for 2015 and 2014, respectively.

Out-of-state sales, including foreign sales, represented approximately 43.3% and 49.2% of total revenue for 2015 and 2014, respectively. Foreign sales represent approximately 1% 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 2015, sales to one distributor represented approximately 18.2% of total Company revenue. In 2014, sales to one distributor represented approximately 16.6% 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.

Restricted cash - 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. Under the terms of this agreement, the Company remits cash received for stock subscriptions to the transfer agent who holds those funds in escrow until released in accordance with the registration statement. As of December 31, 2015, the Company held restricted cash of \$224,328 associated with funds for subscription agreements that had not yet been processed through

the transfer agent. Additionally, the Company held restricted cash of \$1,251,904 in escrow with the transfer agent for a total restricted cash of \$1,476,232. The Company established a corresponding liability for this preferred stock funding.

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 \$1,684,502 and \$1,612,124 as of December 31, 2015 and 2014 exclusive of the allowance for doubtful accounts. The allowance for doubtful accounts is further discussed in Note 2.

NOTE 1 – SUMMARY OF OPERATIONS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

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 \$1,109,406 and \$1,033,737 at December 31, 2015 and 2014, 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, 2015 and 2014, approximately \$75,669 and \$75,670, 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, 2015 and 2014.

NOTE 1 – SUMMARY OF OPERATIONS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2015 and 2014, amortization of debt issuance costs 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 \$32,689 thereafter.

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 or 2014. 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, 2015 and 2014 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 2012 through 2015. Additionally, the Company may be subject to examinations by state taxing jurisdictions for tax years 2011 through 2015. 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, 2015 and 2014, rent costs paid in excess of amounts recognized totaled \$22,940 and \$18,794, 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, 2015 and 2014, the Company recorded incentive program expenses of \$449,930 and \$325,509, respectively, as a reduction in sales on the income statement. As of December 31, 2015 and 2014, the Company has recorded an incentive program liability in the amount of \$42,456 and \$48,000, respectively, which is included in accrued expenses on the balance sheet.

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NOTE 1 – SUMMARY OF OPERATIONS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2015 and 2014, advertising costs incurred were approximately \$152,867 and \$99,915 respectively.

The Company provides an allowance to distributors for providing sample of products to potential customers. For the years ended December 31, 2015 and 2014, these costs, which are included in selling, general and administrative expenses, totaled approximately \$153,299 and \$129,918, 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, 2015 and 2014, such costs totaled approximately \$421,617 and \$384,836, 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, 2015 and 2014, excise taxes incurred were approximately \$420,729 and \$345,726 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, 2015 and 2014, the Company recognized pretax compensation expense related to stock options of \$17,685 and \$21,164, 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 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. Options to purchase 222,971 shares of common stock were outstanding at December 31, 2014 and diluted weighted-average shares outstanding at December 31, 2014 include the effect of 80,800 stock options.

There were no potentially dilutive shares from stock options included in the computation of dilutive income per share for 2015 and 2014 as their impact would have been anti-dilutive.

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

	Year ended December 31,	
	2015	2014
Numerator		
Net income	\$ 1,901,832	\$ 2,161,340
Preferred stock dividends	(57,611 )	-
Net income applicable to common shares	\$ 1,844,221	\$ 2,161,340
Denominator		
Basic weighted average common shares	4,928,712	4,849,614
Dilutive stock options	35,287	80,880
	4,963,999	4,930,494
Basic income per common share after preferred dividends	\$ 0.37	\$ 0.45
Diluted income per common share after preferred dividends	\$ 0.37	\$ 0.44

## Statement of cash flows – Supplemental disclosure of cash flow information:

	2015	2014
Income tax paid	\$ 719,550	\$ 975,650
Interest paid (net of capitalized interest)	\$ 308,437	\$ 282,490
Supplemental schedule of noncash investing and financing activities:		
Purchases of property, plant, and equipment included in accounts payable	\$ 16,088	\$ 92,119

Recently issued accounting standards – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates a single source of revenue recognition guidance for all companies. This guidance is more principles-based than current revenue guidance and also addresses accounting for items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain nonfinancial assets. ASU 2015-14, issued in August 2015, amended ASU 2015-09 and changed the implementation date requirement for public entities from annual reporting periods beginning after December 15, 2016 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted only as for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has not yet selected a transition method or determined the effect of the standard on its ongoing financial reporting.

In November 2015, FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which eliminated the requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a

classified balance sheet. Under the guidance, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The Company early adopted ASU 2015-17 on a prospective basis, resulting in a reclassification of the net current deferred tax liability to the net non-current deferred tax liability in the Consolidated Balance Sheet as of December 31, 2015. The Company has not retrospectively adjusted prior periods.

NOTE 2 – ACCOUNTS RECEIVABLE

The Company's accounts receivable balance is net of an allowance for doubtful accounts of \$11,944 and \$11,944 at December 31, 2015 and 2014, respectively. Changes in the allowance for doubtful accounts are as follows:

## NOTE 2 – ACCOUNTS RECEIVABLE - continued

	Year ended December 31,	
	2015	2014
Balance at Beginning of Period	\$ 11,944	\$ 14,740
Charged to costs and expenses	-	-
Charged to other accounts	-	-
Write-offs, net of recoveries	-	(2,796 )
Balance at End of Period	\$ 11,944	\$ 11,944

## NOTE 3 – INVENTORIES

	December 31, 2015	December 31, 2014
Winemaking and packaging materials	\$ 690,292	\$ 629,841
Work-in-process (costs relating to unprocessed and/or unbottled wine products)	6,058,701	4,796,223
Finished goods (bottled wine and related products)	3,883,469	4,484,506
Current inventories	\$ 10,632,462	\$ 9,910,570

## NOTE 4 – PROPERTY AND EQUIPMENT

	December 31, 2015	December 31, 2014
Construction in progress	\$ 482,284	\$ 69,588
Land, improvements and other buildings	5,089,472	3,622,434
Winery buildings and hospitality center	13,756,320	13,566,863
Equipment	9,055,987	8,256,983
	28,384,063	25,515,868
Less accumulated depreciation	(11,654,901)	(10,477,209)
	\$ 16,729,162	\$ 15,038,659

Depreciation expense was \$1,194,191 and \$994,685 during the years ended December 31, 2015 and 2014, respectively. Capitalized interest was \$0 and \$40,039 for the years ended December 31, 2015 and 2014, 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 biannual renewal. The Company renewed

the credit agreement in June of 2014 for a period of 24 months. The interest rate was 3.5% at December 31, 2015 and 3.25% at December 31, 2014. At December 31, 2015 and 2014 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, 2015, 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, 2015 the Company had a balance due of \$490,834 with \$245,417 due on April 1, 2016 and \$245,417 due 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,	
	2015	2014
Northwest Farm Credit Services Loan #1	\$ 1,162,073	\$ 1,238,256
Northwest Farm Credit Services Loan #2	1,070,991	1,154,945
Northwest Farm Credit Services Loan #3	1,131,912	1,202,799
Northwest Farm Credit Services Loan #4	1,808,042	1,906,294
	5,173,018	5,502,294
Current portion	(349,003 )	(329,255 )
	\$ 4,824,015	\$ 5,173,039

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, 2015, 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:

2016	\$349,003
2017	369,956
2018	392,190
2019	415,783
2020	440,821
Thereafter	3,205,265
	\$5,173,018



The weighted-average interest rates on the aforementioned borrowings for the fiscal years ended December 31, 2015 and 2014 was 5.74% and 5.75% 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.

## NOTE 8 – SHAREHOLDERS’ EQUITY - continued

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:

	2015		2014	
	Weighted Average Exercise Shares	Price	Weighted Average Exercise Shares	Price
Outstanding at beginning of period	222,971	\$ 3.79	260,200	\$ 3.82
Granted	-	-	-	-
Exercised	(155,971 )	4.04	(37,229 )	3.99
Forfeited	-	-	-	-
Outstanding at end of period	67,000	\$ 3.22	222,971	\$ 3.79

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

	2015	2014
Intrinsic value of options exercised in the period	\$ 427,363	\$ 64,383
Stock options fully vested and expected to vest	67,000	222,971
Weighted average exercise price	\$ 3.22	\$ 3.79
Aggregate intrinsic value	\$ 258,678	\$ 447,611
Weighted average contractual term of options	1.37 years	1.64 years
Stock options vested and currently exercisable	60,000	188,971
Weighted average exercise price	\$ 3.23	\$ 3.90
Aggregate intrinsic value	\$ 230,748	\$ 358,561
Weighted average contractual term of options	0.89	1.28 years



## NOTE 9 – STOCK INCENTIVE PLAN - continued

Weighted-average options outstanding and exercisable at December 31, 2015 are as follows:

Exercise Price	Options Outstanding		Weighted Average	Options Exercisable	
	Number Outstanding at December 31, 2015	Weighted Average Remaining Contractual Life		Number Exercisable at December 31, 2015	Weighted Average Exercise Price
3.09	11,000	5.56	3.09	4,000	3.09
3.24	56,000	0.55	3.24	56,000	3.24
\$ 3.09 - \$ 3.24	67,000	1.37	\$ 3.22	60,000	\$ 3.23

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, 2015 and 2014.

Stock compensation expense was \$17,685 and \$21,164 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, unrecognized compensation expense related to stock options was \$1,483.

## NOTE 10 – INCOME TAXES

The provision (benefit) for income taxes consists of:

	Year Ended December 31,	
	2015	2014
Current tax expense:		
Federal	\$ 641,822	\$ 663,096
State	202,592	132,903
	844,414	795,999
Deferred tax expense (benefit):		
Federal	376,226	(18,087 )
State	54,774	(1,913 )

	431,000	(20,000 )
Total	\$ 1,275,414	\$ 775,999

## NOTE 10 – INCOME TAXES - continued

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

	Year Ended December 31,			
	2015		2014	
Federal statutory rate	34.00	%	34.00	%
State taxes, net of federal benefit	4.95	%	3.60	%
Permanent differences	-1.13	%	-1.70	%
Tax credits	-0.23	%	-5.74	%
Prior year adjustments	1.35	%	-2.42	%
Changes in tax rates and other	1.20	%	-1.32	%
	40.14	%	26.42	%

Permanent differences for the periods consist primarily of tax deductions for domestic production activities and federal and state tax credits, as offset in the current year by an increase in the percentage of the Company's income reported in a higher state tax rate jurisdiction.

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

	2015	2014
Accounts receivable	\$ -	\$ 4,000
Deferred gain on sale-leaseback	-	58,000
Stock compensation	-	21,000
Other	-	148,000
Net current deferred tax assets	\$ -	\$ 231,000
Deferred gain on sale-leaseback	47,000	-
Other	27,000	-
Prepays	(49,000 )	(54,000 )
Depreciation	(1,463,000 )	(1,273,000 )
Inventory	(410,000 )	(321,000 )
Net noncurrent deferred tax liability	(1,848,000 )	(1,648,000 )
Net deferred tax liability	\$ (1,848,000 )	\$ (1,417,000 )

## 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 2015, the annual costs of this lease, including utility reimbursements, were \$123,414. 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 along with her husband Dick O'Brien.

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 2015, the annual costs of this lease were \$123,414. 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. The terms of the lease currently call for a monthly payment of \$10,102, 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 \$984.

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. 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, expire in 2015, 2016 and 2016, respectively. 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 \$959,446 and \$787,696 worth of grapes from these long-term contracts during the years ended December 31, 2015 and 2014, respectively. The Company is in negotiations to extend expiring and soon to expire long-term contracts.





## NOTE 12 – COMMITMENTS AND CONTINGENCIES - continued

As of December 31, 2015, future minimum lease payments are as follows for the years ending December 31:

2016	\$393,914
2017	377,626
2018	379,867
2019	342,319
2020	162,771
Thereafter	798,494
Total	\$2,454,991

The Company is also committed to lease payments for various pieces of office equipment. Total rental expense for these operating leases amounted to \$8,353 and \$8,500 in 2015 and 2014, respectively. In addition, payments for the leased vineyards have been included in inventory or vineyard developments costs and aggregate approximately \$363,566 and \$346,750 for the years ended December 31, 2015 and 2014, respectively.

Vineyard development – The Company has approximately 160 acres of undeveloped plantable vineyard land at December 31, 2015. This estimated cost to develop this for grape production is approximately \$15,500 per acre or \$2.5 million in total. The Company estimates that this acreage will be developed as projected sales demand dictates the need for increased grape supply.

## NOTE 13 – EMPLOYEE BENEFIT PLAN

In February 2006, the Company instituted a 401(k) profit sharing 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, 2015 and 2014 there were \$71,609 and \$64,664 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 WVVIP. The initial issue has 1,445,783 shares registered with an aggregate initial offering price not to exceed \$6,000,000.

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. At December 31, 2015 \$1,251,904 in stock sale proceeds were held in escrow and subsequently released to the Company in January 2016. As of December 31, 2015 the Company had on deposit \$224,328 in investor stock subscription payments that had not completed processing. Total funds, held by the Company as restricted cash, were \$1,476,232 associated with this offering.

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.

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## NOTE 15 – SEGMENT REPORTING - continued

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, 2015 and 2014. Sales figures are net of related excise taxes.

	Twelve Months Ended December 31,					
	Direct Sales		Distributor Sales		Total	
	2015	2014	2015	2014	2015	2014
Sales, net	\$ 6,948,210	\$ 5,197,121	\$ 10,990,662	\$ 9,959,038	\$ 17,938,872	\$ 15,156,159
Cost of Sales	2,027,451	1,307,687	5,064,660	4,831,866	7,092,111	6,139,553
Gross Margin	4,920,759	3,889,434	5,926,002	5,127,172	10,846,761	9,016,606
Selling Expenses	3,070,473	2,435,865	1,545,944	1,274,313	4,616,417	3,710,178
Contribution Margin	\$ 1,850,286	\$ 1,453,569	\$ 4,380,058	\$ 3,852,859	\$ 6,230,344	\$ 5,306,428
Percent of Sales	38.7%	34.3%	61.3%	65.7%	100.0%	100.0%

Direct sales include \$777,538 and \$247,975 of bulk wine sales in the years ended December 31, 2015 and 2014, respectively.

Direct-to-consumer sales, including bulk wine, miscellaneous sales, and grape sales, represented approximately 38.5% and 34.2% of total revenue for 2015 and 2014, respectively.

In state sales through distributors represented approximately 18.2% and 16.6% of total revenue for 2015 and 2014, respectively.

Out-of-state sales, including foreign sales, represented approximately 43.3% and 49.2% of total revenue for 2015 and 2014, respectively. Foreign sales represent approximately 1% of total revenue.



## NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Following is a summary of unaudited quarterly financial information for fiscal 2015 and 2014:

Year ended December 31, 2015	Condensed Consolidated Statements of Income			
	Q1	Q2	Q3	Q4
	(in thousands, except per share data)			
Revenue	\$3,912	\$4,721	\$4,245	\$5,061
Gross profit	2,304	2,760	2,636	3,147
Income from operations	499	845	747	1,178
Net income	314	510	454	624
Basic net income per share	\$0.06	\$0.10	\$0.09	\$0.14
Diluted net income per share	\$0.06	\$0.10	\$0.09	\$0.13
Shares used in calculation of net income per share:				
Basic	4,884,503	4,908,605	4,956,163	4,965,050
Diluted	4,957,041	4,983,207	5,007,883	5,002,746

Year ended December 31, 2014	Condensed Consolidated Statements of Income			
	Q1	Q2	Q3	Q4
	(in thousands, except per share data)			
Revenue	\$2,972	\$3,693	\$4,046	\$4,445
Gross profit	1,722	2,241	2,500	2,554
Income from operations	249	760	973	824
Net income	175	547	574	865
Basic net income per share	\$0.04	\$0.11	\$0.12	\$0.18
Diluted net income per share	\$0.04	\$0.11	\$0.12	\$0.18
Shares used in calculation of net income per share:				
Basic	4,839,149	4,847,188	4,847,765	4,863,468
Diluted	4,939,412	4,933,550	4,930,860	4,939,777

## NOTE 17 – 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 December 2015, the Company filed a Universal Shelf Offering with the SEC. This offering provides up to \$18,000,000 in a combination of debt and equity securities to be determined in subsequent prospectus supplements. Additionally, in February 2016, the Company conducted a proxy vote of preferred shareholders asking to increase the number of authorized Series A Preferred Stock shares and to delegate authority to the Board of

Directors to approve future increases in the number of shares. Those actions were approved and vote results were published in an 8-K on March 1, 2016. If and when the Company decides to issue additional shares of Series A Preferred Stock the Company intends to issue a prospectus supplement to register with the SEC the issuance of such shares.

In March 2016 the Company switched common stock transfer agent functions from Broadridge Financial Solutions to OTR, Inc. in Portland, Oregon. OTR, Inc. has been the transfer agent for the Company's Series A Redeemable Preferred Stock and now provide this function for all the Company's equity securities.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### ITEM 9A. CONTROLS AND PROCEDURES

#### 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 pursuant to paragraph (b) of Rule 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, 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

##### Management's report on 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, 2015. 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 (1992). Based on this assessment, management has concluded that, as of December 31, 2015, 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.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information regarding the Company's directors and executive officers:

Name	Position(s) with the Company	Age
James W. Bernau (3)	Chairperson of the Board, President and Director	62
Craig Smith (2)(3)	Secretary and Director	69
Richard F. Goward Jr.	Chief Financial Officer	60
James L. Ellis (3)	Director	71
Sean M. Cary (2)	Director	42
Christopher Sarles (1)	Director	51
Betty M. O'Brien (1)	Director	72
Stan G. Turel (2)(3)	Director	67

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of the Executive Committee

All directors hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. Executive officers are appointed by the Board of Directors and serve at the pleasure of the Board of Directors. 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. Set forth below is additional information as to each director and executive officer of the Company.

James W. Bernau – Mr. Bernau has been President 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 since October 2007 and as Secretary 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.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - continued

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 Masters in Business Administration from Willamette University.

James L. Ellis – Mr. Ellis has served as a director 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 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 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. Sales 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 since July 1991. Ms. O’Brien is co-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 is a member of the Oregon Winegrowers Association, having previously served as its President and Treasurer and as a director. 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 leading to a two-year degree at CCC. She taught Wine Marketing classes there for seven years. Ms. Obrien 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.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - continued

Stan G. Turel – Mr. Turel has served as a director 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 company to Fiducial, one of Europe’s largest accounting firms, Columbia 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.

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, 2015 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 a Form 4 filing for Christopher Riccardi that was filed late.

Code of Ethics

The Company has adopted a code of ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, which is a “code of ethics” as defined by applicable rules of the SEC. A copy of the Company’s Code of Business Conduct and Ethics is posted on the Company’s web site, [www.wvv.com](http://www.wvv.com). Amendments to the Company’s Code of Business Conduct and Ethics or any grant of a waiver from a provision of the Company’s Code of Business Conduct and Ethics requiring disclosure under applicable SEC rules, if any, will be disclosed on the Company website at [www.wvv.com](http://www.wvv.com). Any person may request a copy of the Company’s Code of Business Conduct and Ethics, at no cost, by writing to the Company at the following address:

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

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of 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 the NASDAQ Stock Market, as currently in effect.

Audit Committee Financial Expert

Chairperson Craig Smith serves as the Audit Committee's "financial expert" as defined in applicable SEC rules and NASDAQ listing standards. Mr. Smith is independent as defined under the applicable rules and regulations of the SEC and the director independence standards of the NASDAQ Stock Market, as currently in effect.

#### ITEM 11. EXECUTIVE COMPENSATION

##### 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., for the fiscal years ended December 31, 2015 and December 31, 2014. No other executive officer of the Company other than Mr. Bernau and Mr. Goward received total compensation in 2015 in excess of \$100,000, and thus disclosure is not required for any other person. Summary compensation information is as follows:

## ITEM 11. EXECUTIVE COMPENSATION - continued

		Summary Compensation Table							
Name, Principal Position	Year	Salary	Bonus	Stock Awards	Option Award	Nonqualified		All Other Comp.*	Total
						Plan Compensation	Deferred Earnings		
Bernau, James W., President, Chief Executive	2015	\$ 256,389	\$ 128,195	\$ -	\$ -	\$ -	\$ -	\$ 51,862	\$ 436,446
Bernau, James W., President, Chief Executive	2014	\$ 252,351	\$ 126,176	\$ -	\$ -	\$ -	\$ -	\$ 45,334	\$ 423,861
Goward, Richard F. Jr Chief Financial Officer	2015	\$ 106,134	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 21,817	\$ 137,951
Goward, Richard F. Jr Chief Financial Officer	2014	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,350	\$ 115,350

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

**Bernau Employment Agreement** – The Company and Mr. Bernau are parties to an employment agreement dated August 3, 1988 as amended on February 20, 1997, in January of 1998, in November 2010, and again on November 8, 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 bonus is calculated as a percentage of Company net income before taxes; 5% on the first \$1.5 million of pre-tax income, and 7.5% on the pre-tax net income over \$1.5 million, not to exceed 50% of Mr. Bernau's base salary. 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.

**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.



## Outstanding Equity Awards at Fiscal 2014 Year End

The following table summarizes the outstanding equity award holdings held by our named executive officers. The amounts are not stated in thousands. As indicated above, disclosure is not required for any other executive officer. No stock awards were held by any of our named executive officers as of December 31, 2015.

Name, Principal Position	Number of Securities Underlying Unexercised Options Exercisable	Option Exercise Price (\$)	Option Expiration Date
Bernau, James W., Chief Executive Officer	56,000	\$ 3.24	7/20/2016

## Stock options

In order to reward performance and retain high-quality employees, the Company has, in the past, granted stock options to its employees. 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.

## ITEM 11. EXECUTIVE COMPENSATION - continued

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 and does not intend to do so at this time.

## 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, 2015:

Name	Fees Earned  or Paid in Cash	Stock Awards	Option Awards (1)	Non-equity Incentive Plan Compensation	Change in Pension Value and Nonqualified	All Other Compensation	Total
					Deferred Compensation Earnings		
James L. Ellis	\$3,600	-	-	-	-	\$ 8,100	\$11,700
Sean M. Cary	4,200	-	-	-	-	-	4,200
Christopher L. Sarles	2,200	-	-	-	-	-	2,200
Craig Smith	4,100	-	-	-	-	-	4,100
Betty M. O'Brien	3,650	-	-	-	-	-	3,650
Stan G. Turel	4,900	-	-	-	-	-	4,900

(1) There were no option awards granted to the Company's directors in the fiscal year ended December 31, 2015. The aggregate number of option awards outstanding for each director as of December 31, 2015 is as follows: Mr. Ellis – 0, Mr. Cary – 0, Mr. Sarles – 0, Mr. Smith – 0, Ms. O'Brien – 0, and Mr. Turel – 0.

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 of directors' level.

The members of the Company's Board of Directors (the "Board") received cash compensation for their service on the Board in 2015, 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. Other than Mr. Bernau, 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.

#### Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is a current or former employee of the Company. 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.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Equity compensation plan information – The following table summarizes information, as of December 31, 2015, 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)	67,000	\$ 3.22	-
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>67,000</b>	<b>\$ 3.22</b>	<b>-</b>

(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.

**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 March 10, 2016, 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.

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

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS - continued

	Number of Shares Outstanding Stock		Percent of Shares Beneficially Owned (3)	
James W. Bernau, President/CEO, Chair of the Board	521,734	(1)	10.3	%
Richard F. Goward Jr., CFO	500		**	
James L. Ellis, Director	33,320		**	
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		**	
Christopher Riccardi 100 Tall Pine Ln., Apt 2102, Naples, FL 34105	385,485		7.7	%
Carl D. Thoma 300 N. LaSalle St, Suite 4350. Chicago, IL 60654	364,189		7.3	%
All Directors and Executive Officers as a group (8 persons)	619,570	(2)	12.3	%

\*\* Less than one percent

(1) Includes 50,000 shares issuable upon the exercise of options exercisable within 60 days of the date of March 10, 2016.

(2) Includes an aggregate of 50,000 shares issuable upon exercise of options exercisable within 60 days of the date of March 10, 2016.

(3) The percentage of outstanding shares of common stock is calculated out of a total of 4,995,216 shares of common stock outstanding as of March 10, 2016 (including 50,000 options exercisable within 60 days of such date).

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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 a 50% owner of the lessor, Elton Vineyards, LLC, while her husband owns the remaining equity interests of Elton Vineyards, LLC. As such, she is therefore entitled to 50% of the net income of Elton Vineyards, LLC, while her husband is entitled to the remaining net income of Elton Vineyards, LLC. In 2015 the Company paid Elton Vineyards, LLC \$123,414 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 Affiliated Transactions Committee 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 the NASDAQ Stock market, Inc. ("NASDAQ").

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE - continued

Except for payments to Elton Vineyards, LLC described above, during 2015 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 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 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.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Moss Adams LLP served as the Company’s independent registered public accounting firm for the years ended December 31, 2015 and 2014. 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,	
	2015	2014
Audit fees (1)	\$ 151,895	\$ 138,250
Tax fees (2)	34,101	46,679
All other fees (3)	33,550	-
	\$ 219,546	\$ 184,929

(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 2015 or 2014.

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.





ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements

See “Index to Financial Statements” in Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

All financial statement schedules are omitted either because they are not required, not applicable or the required information is included in the financial statements or notes thereto.

(3) Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
3.2	Amended and Restated Bylaws of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company’s Current Reports on Form 8-K filed with the SEC on November 20, 2015 [File No. 001-37610])
10.1*	Employment Agreement between Willamette Valley Vineyards, Inc. and James W. Bernau dated August 3, 1988 as amended on February 20, 1997, in January of 1998, in November 2010, and on November 8, 2012 (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
10.2	Indemnity Agreement between Willamette Valley Vineyards, Inc. and James W. Bernau dated May 2, 1988 (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
10.3	Indemnity Agreement between Willamette Valley Vineyards, Inc. and Donald E. Voorhies dated May 2, 1988 (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
10.4	Shareholders Agreement among Willamette Valley Vineyards, Inc. and its founders, James Bernau and Donald Voorhies, dated May 2, 1988 (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
10.5	Revolving Note and Loan Agreement dated May 28, 1992 by and between Northwest Farm Credit Services, Willamette Valley Vineyards, Inc. and James W. and Cathy Bernau (incorporated by reference from the Company’s Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

- 10.6 Founders' Escrow Agreement among Willamette Valley Vineyards, Inc., James W. Bernau, Donald Voorhies and First Interstate Bank of Oregon, N.A. dated September 20, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
- 10.7 Amendment to Founders' Escrow Agreement dated September 20, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
- 10.8 Stock Escrow Agreement among Willamette Valley Vineyards, Inc., Betty M. O'Brien and Charter Investment Group, Inc. dated July 7, 1992 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
- 10.9 Stock Escrow Agreement among Willamette Valley Vineyards, Inc., Daniel S. Smith and Piper Jaffray & Hopwood, Inc. dated July 7, 1992 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])
- 10.10\*\* Exclusive Distribution Agreement by and amount Young's Market Company of Oregon, LLC an Oregon limited liability company, Young's Market Company of Washington, LLC, and Oregon limited liability company, and the Company dated August 1, 2011 (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 [File No. 000-21522])
- 14.1 Code of Ethics (incorporated by reference from the Company's Proxy Statement on Schedule 14A, filed on June 30, 2004)
- 23.1 Consent of Moss Adams LLP, Independent Registered Public Accounting Firm (Filed herewith)
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934 (Filed herewith)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES - continued

32.1      Certification of James W. Bernau pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, herewith)

32.2      Certification of Richard F. Goward Jr. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, herewith)

101      The following financial information from the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Shareholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. (Filed herewith)

\*Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 15(b) thereof.

\*\*Confidential treatment of certain portions of this exhibit has been granted by the SEC pursuant to a request for confidential treatment dated November 10, 2011.

(1)The exhibits listed under Item 15(a)(3) hereof are filed as part of this Form 10-K, other than Exhibits 32.1 and 32.2, which shall be deemed furnished.

(2)All financial statement schedules are omitted either because they are not required, not applicable or the required information is included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLAMETTE VALLEY VINEYARDS, INC.  
(Registrant)

By: /s/ James W. Bernau  
James W. Bernau,  
Chairperson of the Board, President

Date: March 10, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James W. Bernau James W. Bernau	Chairperson of the Board, President (Principal Executive Officer)	March 10, 2016
/s/ Richard F. Goward Jr. Richard F. Goward Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2016
/s/ James L. Ellis James L. Ellis	Director	March 10, 2016
/s/ Christopher L. Sarles Christopher L. Sarles	Director	March 10, 2016
/s/ Craig Smith Craig Smith	Director	March 10, 2016
/s/ Betty M. O'Brien	Director	

March 10,  
2016

Betty M. O'Brien

/s/ Stan G. Turel

Director

March 10,  
2016

Stan G. Turel

/s/ Sean M. Cary

Director

March 10,  
2016

Sean M. Cary

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