

Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

WILLAMETTE VALLEY VINEYARDS INC  
Form 10KSB/A  
December 07, 2004

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

FORM 10-KSB/A

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

For the fiscal year ended December 31, 2003  
Commission File No 0-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Name of Small Business Issuer in Its Charter)

OREGON 93-0981021  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) identification number)

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

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

---

Securities registered pursuant to Section 12(b) of the Act: None

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

Check whether the Issuer (1) has filed all reports required to be  
filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the past 12 months (or for such shorter period that  
the Issuer was required to file such reports), and (2) has been  
subject to such filing requirements for the past 90 days.  
YES [X] NO [ ]

Check if there is no disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-B is not contained in this form, and no  
disclosure will be contained, to the best of the Issuer's  
knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this form 10-KSB or any  
amendment to this Form 10-KSB [X].

As of December 31, 2003

Issuer's revenues for its most recent fiscal year: \$7,356,646

Aggregate market value of the voting stock held by  
non-affiliates of the Issuer based upon the closing  
bid price of such stock: \$9,496,493

Number of shares of Common Stock outstanding: 4,479,478

Transitional Small Business Disclosure Format: YES [ ] No [X]

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

### DOCUMENTS INCORPORATED BY REFERENCE

The purpose of this Amendment No. 2 on Form 10-KSB/A to the Annual Report on Form 10-KSB of Willamette Valley Vineyards, Inc. (the "Company") for the fiscal year ended December 31, 2003 is to restate our financial statements for the years ended December 31, 2003, 2002 and 2001, for the quarters ended March 31, June 30, September 30 and December 31, 2003, 2002 and 2001, and related disclosures.

Generally, no attempt has been made in this Amendment No. 2 to modify or update other disclosures presented in the original report on Form 10-KSB except as required to reflect the effects of the restatement. This Form 10-KSB/A generally does not reflect events occurring after the filing of the Form 10-KSB or modify or update those disclosures affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-KSB on April 15, 2004. Accordingly, this Form 10-KSB/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-KSB, including any amendments to those filings.

In February and March 2004, the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department audited the Company's excise tax for 2003, 2002 and 2001. This audit resulted in additional excise taxes owing for those periods due principally to the Company's incorrect application of the federal small winery tax credit. The Company originally recorded a liability as of December 31, 2003 and a related expense in the year then ended of the estimated excise taxes owing of \$80,000. The Company has restated its financial statements for the years ended December 31, 2003, 2002, and 2001 and the quarterly periods within each of those years, to reflect the correct excise tax for each of the annual periods of \$25,135, \$38,615 and \$16,250, respectively, and to record the estimated interest and penalties of \$7,418, \$3,911 and \$893, respectively, with respect to the related estimated excise tax liability.

In addition, the Company previously capitalized certain label and package design costs totaling \$71,528 and was amortizing them over a 5 year period through 2004. Amortization expense of \$14,400 was included in selling, general and administrative expenses in 2003, 2002 and 2001. It has been determined that such costs should be expensed as incurred. Accordingly, the Company has restated its financial statements for the years ended December 31, 2003, 2002 and 2001 and for each of the quarters in the years then ended to adjust for the previously capitalized costs and related amortization.

In addition, the Company has restated its financial statements for the years ended December 31, 2002 and 2001 and for each of the quarters therein, and for the quarters ended March 31, June 30 and September 30, 2003, to reflect the reclassification of amortization of deferred gain arising from a sales-leaseback transaction from other income to an offset of the related lease expense included in selling, general and administrative expenses. The Company has also restated the three and six month periods ended June 30, 2003 and the nine month period ended September 30, 2003 to reflect the reclassification of an expense from other expense to cost of goods sold. The Company has also included additional disclosure related to providing living accommodations in a manufactured home on the Company's premises for the president and his family as additional compensation for security and lock-up services the president provides.

Our Chief Executive Officer and Chief Financial Officer have also reissued their certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act.

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

Additional detail regarding the restatement is included in Notes 10, 13 and Note 14 of the Notes to Financial Statements included in Part II-Item 7 and in Management's Discussion and Analysis or Plan of Operation in Part II-Item 6 of this Amendment No. 2 on Form 10-KSB/A.

### ITEM 1. DESCRIPTION OF BUSINESS.

#### Introduction

Willamette Valley Vineyards, Inc. (the "Company") was formed in May 1988 to produce and sell premium, super premium and ultra premium varietal wines (i.e., wine which sells at retail prices of \$7 to \$14, \$14 to \$20 and over \$20 per 750 ml bottle, respectively). Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company's wines are made from grapes grown at its vineyard (the "Vineyard") and from grapes purchased from other nearby vineyards. The grapes are crushed, fermented and made into wine at the Company's winery (the "Winery") and the wines are sold principally under the Company's Willamette Valley Vineyards label. The Company's Vineyard and Winery are located on 75 acres of Company-owned land adjacent to Interstate 5, approximately two miles south of Salem, Oregon.

The Company owns 146 acres of vineyard land, fifty acres of planted vineyards-42 acres producing and 8 acres in development at the Turner site. In April 1997, the Company acquired 100 percent of the outstanding stock of Tualatin Vineyards, Inc. (TVI), adding 83 acres of producing vineyard, 60 additional plantable acres and an additional 20,000 cases of winemaking capacity. The purchase price paid by the Company to the Tualatin Vineyards' shareholders in exchange for their shares was \$1,824,000 plus Tualatin Vineyards' current assets minus TVI's current and long-term liabilities as reflected in its balance sheet dated April 15, 1997. The Company paid 35 percent of the purchase price in the form of cash with the balance paid through the issuance of shares of the Company's common stock at an agreed price per share. The final purchase price was \$1,988,601. In 1999, the Company purchased 33 acres of vineyard land adjoining Tualatin Estate for future plantings and used lot line adjustments to create three separate land parcels at Tualatin Estate.

In December 1999, the Company sold one parcel of three parcels offered for sale at its Tualatin Estate Vineyard. The Company entered into an agreement with the new owners to lease back the land for growing grapes for use in the Company's Estate bottling program. The final purchase price paid was \$1,500,000 for the 80-acre parcel. The lease is for twenty years with three 5-year renewals at the Company's option. The Company continues to offer the two remaining properties and equipment on the same type of sale/leaseback arrangement. One parcel contains 75 acres priced at \$725,000 and the last parcel, which contains the Tualatin Estate winery plus 115 acres, is priced at \$1,605,000.

The Company also leases Belle Provenance Vineyards, formerly known as O'Connor Vineyards, on a ten-year contract adding an additional 59 producing acres. All of these vineyards are within the Willamette Valley Appellation.

#### Products

Under its Willamette Valley Vineyards label, the Company currently produces and sells the following types of wine in 750 ml bottles: Pinot noir, the brand's flagship and its largest selling varietal in 2002, from \$15 to \$60 per bottle; Chardonnay, from \$14 to \$25 per bottle; Pinot gris, \$14 per bottle; Riesling and Oregon Blossom (blush blend), \$9 per bottle, all bottle prices included herein are the suggested retail prices. The Company's mission for this brand

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

is to become the premier producer of Pinot noir from the Pacific Northwest.

The Company currently produces and sells small quantities of Oregon's Nog (a seasonal holiday product), \$10 per bottle, and Edelweiss, \$9 per bottle, under a "Made in Oregon Cellars" label, all bottle prices are suggested retail prices.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following types of wine in 750 ml bottles: Pinot noir, the brand's flagship, \$28 per bottle; Chardonnay, \$14 per bottle; Semi-Sparkling Muscat, \$15 per bottle; Late Harvest Gewurztraminer, \$20 per bottle; and Pinot blanc, \$14 per bottle, all bottle prices are suggested retail prices. The Company's mission for this brand is to be among the highest quality estate producers of Burgundy and Alsatian varietals in Oregon.

In November 1998, the Company released a new label under the Griffin Creek brand name, which the Company owns. This represents a joint effort between the Company and Quail Run Vineyards to develop a new brand of wines from the Southern Oregon growing region. Currently, the Company has several varieties under this label: Merlot, the brand's flagship, \$30 per bottle; Syrah, \$35 per bottle; Cabernet Sauvignon, \$35 per bottle; Cabernet Franc, \$35 per bottle; The Griffin (a Bordeaux blend), \$70 per bottle; Pinot gris, \$18 per bottle; Viognier, \$25 per bottle; and Pinot noir, \$25 per bottle, all bottle prices are suggested retail prices. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Oregon.

### Market Overview

**Wine Consumption Trends:** Wine consumption in the United States declined from 1987 to 1994 due to increased consumer health concerns and a growing awareness of alcohol abuse. That decline was led by sharp reductions in the low-cost non-varietal ("jug") wine and wine cooler segments of the market, which, prior to 1987, were two of the fastest growing market segments. Beginning in 1994, per capita wine consumption began to rise. The Company estimates that premium, super premium and ultra premium wine consumption will experience a moderate increase over the next few years. Consumers have restricted their drinking of alcoholic beverages and view premium, super premium and ultra premium wines as a beverage of moderation. The Company believes this change in consumer preference from low quality, inexpensive wines to premium, super premium and ultra premium wines reflects, in part, a growing emphasis on health and nutrition as a principal element of the contemporary lifestyle as well as an increased awareness of the risks associated with alcohol abuse.

### 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. By contrast, in 2003, there were over 200 commercial wineries licensed in Oregon and over 13,400 acres of wine grape vineyards, 10,700 acres of which are currently producing. Total production of Oregon wines in 2003 is estimated to be approximately 1,379,162 cases. Oregon's entire 2003 production would have an estimated retail value of approximately \$206.9 million, assuming a retail price of \$150 per case, and a FOB value of approximately one-half of the retail value, or \$103.5 million.

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

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

Oregon wine producers enjoy certain cost advantages over their California and French competitors due to lower costs for grapes, vineyard land and winery sites. For example, the average cost of unplanted vineyard land in Napa County, California is approximately \$40,000 per acre as compared to approximately \$6,000 per acre in Oregon. In the Burgundy region of France, virtually no new vineyard land is available for planting.

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

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

Finally, phylloxera, an aphid-like insect that feeds on the roots of grapevines, has been found in several commercial vineyards in Oregon. Contrary to the California experience, most Oregon phylloxera infestations have expanded very slowly and done only minimal damage. Nevertheless, phylloxera does constitute a significant risk to Oregon vineyards. Prior to the discovery of phylloxera in Oregon, all vine plantings in the Company's Vineyard were with non-resistant rootstock. As of December 31, 2003, the Company has not detected any phylloxera at its Turner site. Beginning with the Company's plantings in May 1992, only phylloxera-resistant rootstock was planted until 1997, when the previous management planted non-resistant rootstock on approximately 10 acres at the Tualatin Vineyard. In 1997, the Company purchased Tualatin Vineyards, which has phylloxera at its site. Since the third quarter of 1997, all plantings have been and all future planting will be on phylloxera resistant rootstock. The Company takes all necessary precautions to prevent the spread of phylloxera to its Turner site. Also phylloxera is active at the Belle Provenance Vineyard for which the Company has a 10-year lease. Any planting, training, and care of new plants at the Belle Provenance vineyard will not be at the expense of the Company, because under the terms of the lease, it would be the responsibility of the landowner.

In 1994, the largest development in the Oregon wine industry, King Estate Winery, was completed. The facility, which is located 22 miles southwest of Eugene, is approximately 100,000 square feet in size surrounded by a 180-acre vineyard. King Estate is focused on serving the national market. The Company views King Estate as a welcome addition to the Oregon wine industry and believes they could have the same positive effect on wine exports as St. Michelle Winery has had on the Washington wine industry. The most recent high-profile move in Oregon was the Benziger family's purchase of 65 acres, including 32 producing acres of vineyard, near Scholls. The Benziger family created the Glen Ellen wine brand in California, before selling it to Grand Metropolitan. Well-known California winemaker Tony Soter is making Oregon Pinot noir under the Etude label. The Company believes that further investments by other experienced wine producers will continue, ultimately benefiting the Company and the Oregon wine industry as a whole by bringing increased national and international recognition to the quality of Oregon wines.

As a result of these factors, subject to the risks and uncertainties identified above, the Company believes that long-term prospects for growth in the Oregon wine industry are excellent. The Company believes that over the next 20 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.

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

### Company Strategy

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

Based upon several highly regarded surveys of the US 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) development of the strong marketing advantages (such as a highly visible winery location and successful self-distribution).

The Company has designed its strategy to address each of these attributes.

To successfully execute this strategy, the Company has assembled a team of accomplished winemaking professionals, and has constructed and equipped a 22,934 square foot state-of-the-art Winery and a 12,500 square foot outdoor production area for the crushing, 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 (i) direct sales at the Winery, (ii) self-distribution to local and regional restaurants and retail outlets, and (iii) sales through independent distributors and wine brokers who market the Company's wine in specific targeted areas where self-distribution is not economically feasible.

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

### Vineyard

The Property. The Company's estate vineyard at the Turner site currently has 50 acres planted and 40 acres producing which includes 17 acres of Pinot noir and 8 acres of Riesling grape vines planted in 1985, which were grafted to Pinot noir in 1999. The Company planted 8 acres of Pinot gris vines in May 1992 and 6 acres of Chardonnay vines in 1993. In 1996, the Company planted its remaining 11 acres in Chardonnay and Pinot gris. Grapevines do not bear commercial quantities until the third growing season and do not become fully productive until the fifth to eighth growing season. Vineyards generally remain productive for 30 to 100 years, depending on weather conditions, disease and other factors.

The 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

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

and spreads these canes for additional solar exposure and air circulation. Research and practical applications of this trellis design indicate that it will increase production and improve grape quality over traditional designs.

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 adopted to the warmer climate over the many years it was grown there.

These new French clones are called "Dijon clones" after the University in Burgundy who assisted in their selection and shipment to a US government authorized quarantine site, and then seven years later to Oregon winegrowers. The most desirable of these new clones are numbered 113, 114, 115, 667 and 777. 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 new Pinot noir clones were planted at the Tualatin Estate on disease resistant rootstock and the 667 and 777 clones have been grafted onto 8 acres of self rooted, non disease resistant vines at the Company's Estate Vineyard near Turner.

New clones of Chardonnay preceded Pinot noir into Oregon also arranged by the University of Dijon, which were planted at the Company's Estate Vineyard on disease resistant rootstock.

The purchase of Tualatin Vineyards, Inc. in April 1997 (including the subsequent sale-leaseback of a portion of the property in December 1999) added 83 acres of additional producing vineyards and approximately 60 acres of bare land for future plantings. In 1997, the Company planted 19 acres at the Tualatin site and planted another 41 acres in 1998, the majority being Pinot noir, which is the Company's flagship varietal. All of the new planting will be available to harvest in the next one to two years.

Also in 1997, the Company entered into a 10-year lease with O'Connor Vineyards, now known as Belle Provenance, (59 acres) located near Salem to manage and obtain the supply of grapes from Belle Provenance Vineyards.

In 1999, the Company purchased 33 acres of vineyard land adjoining Tualatin Estate for future plantings and used lot line adjustments to create three separate land parcels at Tualatin Estate.

The Company now controls 280 acres of vineyard land. At full production, these vineyards should enable the Company to grow approximately 50% of the grapes needed to meet the Winery's ultimate production capacity of 298,000 gallons (124,000 cases).

Grape Supply. In 2003, the Company's 40 acres of producing estate vineyard yielded approximately 119 tons of grapes for the Winery's thirteenth crush. Tualatin Vineyards produced 503 tons of grapes in 2003. Belle Provenance Vineyards produced 102 tons of grapes in 2003. In 2003, the Company purchased an additional 193 tons of grapes from other growers. The Winery's 2003 total wine production was 219,227 gallons (92,208 cases) from its 2001 and 2002 crushes. The Company expects to produce 141,713 gallons in 2004 (59,605 cases) from its 2002 crush. The Vineyard cannot and will not provide the sole supply of grapes for the Winery's near-term production requirements. The Company has also entered into grape purchase contracts with certain directors or their respective affiliates of the Company. See "CERTAIN TRANSACTIONS."

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices. The Company believes high quality grapes will be available for purchase in sufficient quantity to meet the

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

Company's requirements except in the Pinot noir varietal, where there is increasing demand. The grapes grown on the Company's vineyards establish a foundation of quality upon which the purchase of additional grapes is built. In addition, wine produced from grapes grown in the Company's own vineyards may be labeled as "Estate Bottled" wines. These wines traditionally sell at a premium over non-estate bottled wines.

Viticultural Conditions. Oregon's Willamette Valley is recognized as a premier location for growing certain varieties of high quality wine grapes, particularly Pinot noir, Chardonnay, Riesling and Pinot gris. The Company believes that the 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 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. These conditions are unduplicated anywhere else in the world except the great wine grape regions of Northern Europe.

The 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 Vineyard's elevation ranges from 533 feet to 700 feet above sea level with slopes from 2 percent to 30 percent (predominately 12-20 percent). The Vineyard's slope is oriented to the south, southwest and west. Average annual precipitation at the 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 is not required. The average annual rainfall provides sufficient moisture to avoid the need to irrigate the Vineyard. However, if the need should arise, the Company's property contains one water well which can sustain sufficient volume to meet the needs of the Winery and to provide auxiliary water to the Vineyard for new plantings and unusual drought conditions.

### Winery

Wine Production Facility. The Company's Winery and production facilities, built at an initial cost of approximately \$1,500,000, were originally capable of producing up to 75,000 cases of wine per year, depending on the type of wine produced. In 1996 the Company invested an additional \$750,000 to increase its capacity from 75,000 cases to its present capacity of 104,000 cases (250,000 gallons). It added one large press, six stainless steel fermenters, and handling equipment to increase its capacity to the new level. It also expanded the size of its crush pad to meet the needs of the additional tons of grapes crushed. In 2003, the Winery produced 219,227 gallons (92,208 cases) from its 2001 and 2002 crushes. The Winery is 12,784 square feet in size and contains areas for the processing, fermenting, aging and bottling of wine, as well as an underground wine cellar, a tasting room, a retail sales room and administrative offices. A 12,500 square foot outside production area was added for the crushing, pressing and fermentation of wine grapes. In 1993, a 4,000 square foot insulated storage facility with a capacity of 30,000 cases of wine was constructed at a cost of approximately \$70,000. This facility was converted to barrel storage in 1998 in order to accommodate an additional 750 barrels for



## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

aging wines. This change increases the Company's barrel aging capacity at the Turner site. 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 settling tank and sprinkler system were installed at a total cost of approximately \$20,000.

In 1997, the Company constructed a 20,000 square foot storage building to store all of its bottled product at an approximate cost of \$750,000. Previously, the Company rented a storage facility with an annual rental cost to the Company of \$96,000.

With the purchase of Tualatin Vineyards, Inc., the Company added 20,000 square feet of additional production capacity. Although the Tualatin facility was constructed over twenty years ago, it adds 20,000 cases of wine production capacity to the Company, which the Company felt at the time of purchase was needed. To date, production and sales volumes have not expanded enough to necessitate the utilization of the Tualatin facilities. The Company decided to move current production to its Turner site to meet short-term production requirements. The capacity at Tualatin is available to the Company to meet any anticipated future production needs.

Construction of Hospitality Facility. In May 1995, the Company completed construction of a large tasting and hospitality facility of 19,470 square feet (the "Hospitality Center"). The first floor of the Hospitality Center includes retail sales space and a "great room" designed to accommodate approximately 400 persons for gatherings, meetings, weddings and large wine tastings. An observation tower and decking around the Hospitality Center enable visitors to enjoy the view of the Willamette Valley and the Company's Vineyard. The Hospitality Center is joined with the present Winery by an underground cellar tunnel. The facility includes a basement cellar of 10,150 square feet (including the 2,460 square foot underground cellar tunnel) to expand storage of the Company's wine in a proper environment. The cellar provides the Winery with ample space for storing up to 1,600 barrels of wine for aging.

Just outside the Hospitality Center, the Company has planned a landscaped park setting consisting of one acre of terraced lawn for outdoor events and five wooded acres for picnics and social gatherings. The area between the Winery and the Hospitality Center forms a 20,000 square foot quadrangle. As designed, a removable fabric top making it an all-weather outdoor facility to promote sale of the Company's wines through outdoor festivals and social events can cover the quadrangle. The Company utilizes this space to host numerous events, most notably the annual fundraiser for the Marion-Polk Food Share, "Chefs' Nite Out."

The Company believes the addition of the Hospitality Center and the park and quadrangle has made the Winery an attractive recreational and social destination for tourists and local residents, thereby enhancing the Company's ability to sell its wines.

Mortgages on Properties. The Company's winery facilities are subject to two mortgages with a principal balance of \$2,777,779 at December 31, 2003 and \$3,003,720 at December 31, 2002. The mortgages are payable in annual aggregate installments including interest of approximately \$350,000 through 2012. After 2012, the Company's annual aggregate mortgage payment including interest will be approximately \$75,000 until the year 2014. The mortgage on the Turner site had a principal balance of \$2,140,159 on December 31, 2003. The mortgage on the Tualatin Valley property, issued in April 1997 to fund the acquisition of the property and development of its vineyard, had a principal balance of \$637,620 on December 31, 2003

Wine Production. The Company operates on the principle that winemaking is a natural but highly technical process requiring the attention and dedication of

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

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.

Beginning with the Company's first vintage in 1989, the Company's annual grape harvest and wine production are as follows:

Crush Year	Tons of Grapes Crushed	Production Year	Cases Produced
1989	203		
1990	206	1990	13,200
1991	340	1991	13,400
1992	565	1992	22,100
1993	633	1993	38,237
1994	590	1994	41,145
1995	885	1995	40,411
1996	1290	1996	53,693
1997	1426	1997	91,793
1998	1109	1998	77,064
1999	1383	1999	81,068
2000	1223	2000	98,936
2001	1859	2001	85,554
2002	1091	2002	110,063
2003	917	2003	92,208

The quantity of grapes crushed in 1997 does not include 228 tons of grapes that were purchased and resold on the open market because the Company had contracted for more grapes than were needed. The Company was unable to sell 270 tons of grapes before crush; this tonnage converts to 44,000 gallons of bulk wine that the Company sold in 1998.

### Sales and Distribution

**Marketing Strategy.** The Company markets and sells its wines through a combination of direct sales at the Winery, sales directly and indirectly through its shareholders, self-distribution to local restaurants and retail outlets in Oregon, directly through mailing lists, and through distributors and wine brokers who sell in specific targeted areas outside of the state of Oregon. As the Company has increased production volumes and achieved greater brand recognition, sales to other domestic markets have increased both in terms of absolute dollars and as a percentage of total Company sales.

**Direct Sales.** The Company's Winery is located adjacent to the state's major north-south freeway (Interstate 5), approximately 2 miles south of the state's third largest metropolitan area (Salem), and 50 miles in either direction from the state's first and second largest metropolitan areas (Portland and Eugene, respectively). The Company believes the Winery's unique location along Interstate 5 has resulted in a greater amount of wines sold at the Winery as compared to the Oregon industry standard. Direct sales from the Winery are an important distribution channel and an effective means of product promotion. To increase brand awareness, the Company offers educational Winery tours and product presentations by trained personnel.

The Company holds four major festivals and events at the Winery each year. In addition, open houses are held at the Winery during major holiday weekends such as Memorial Day, Independence Day, Labor Day and Thanksgiving, where barrel tastings and cellar tours are given. Numerous private parties, wedding receptions, political and other events are also held at the Winery. Finally, the Company participates in many wine and food festivals throughout Oregon.

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

Each of these events results in direct sales of the Company's wines and promotion of its label to event attendees.

Direct sales are profitable because the Company is able to sell its wine directly to consumers at retail prices rather than to distributors or retailers at wholesale prices. Sales made directly to consumers at retail prices result in an increased profit margin equal to the difference between retail prices and distributor or wholesale prices, as the case may be. For 2003, direct sales make up approximately 22% of the Company's revenue.

**Self-Distribution.** The Company has established a self-distribution system to sell its wines to restaurant and retail accounts located in Oregon. Eighteen sales representatives who take wine orders and make deliveries on a commission-only basis, currently carry out the self-distribution program. Company provided trucks and delivery drivers support several of these sales representatives. The Company believes this program of self-representation and delivery has allowed its relatively new wines to gain a strong presence in the Oregon market with over 1,200 restaurant and retail accounts established as of December 31, 2003. The Company further believes that the location of its Winery along Interstate 5 facilitates self-distribution throughout the entire Willamette Valley, where approximately 70% of Oregon's population resides.

The Company has expended significant resources to establish its self-distribution system. The system initially focused on distribution in the Willamette Valley, but then expanded to the Oregon coast, and then into southern Oregon. For 2003, approximately 46% of the Company's net revenues were attributable to self-distribution.

**Distributors and Wine Brokers.** The Company uses both independent distributors and wine brokers primarily to market the Company's wines in specific targeted areas where self-distribution is not feasible. 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.

**Shareholders.** As a public company, the Company has a unique marketing opportunity available to only a few of its competitors. The Company has approximately 3,091 shareholders of record, which represents approximately 5,000 wine consumers since family members hold many shares jointly. The Company's shareholders, as a group, purchase a significant portion of the Company's cork-finished wines directly from the Winery.

**Tourists.** Oregon wineries are experiencing an increase in on-site visits by consumers. In California, visiting wineries is a very popular leisure time activity. Napa Valley is one of California's largest tourist attractions with over 3.4 million visitors in 2001. Wineries in Washington are also experiencing strong interest from tourists. Chateau Ste. Michelle, located near Woodinville, Washington, attracts approximately 200,000 visitors per year.

The Winery is located less than one mile from The Enchanted Forest, a gingerbread village/forest theme park that, in 2002, was Oregon's twentieth most visited tourist attraction. The Enchanted Forest, which operates from March 15 to September 30 each year, attracts approximately 130,000 paying visitors per year. Adjacent to the Enchanted Forest is the Thrillville Amusement Park and the Forest Glen Recreational Vehicle Park, which contains approximately 110 overnight recreational vehicle sites. Many of the visitors to the Enchanted Forest and RV Park visit the Winery. More importantly, the Company believes its convenient location, adjacent to Interstate 5, enables the Winery to attract a significant number of visitors.

### Competition

The wine industry is highly competitive. In a broad sense, wines may be

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

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 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 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 its current level of production is adequate to meet that demand for the foreseeable future. Furthermore, the Company believes that its ultimate forecasted production level of 298,000 gallons (124,000 cases) per year 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 Winery. 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 Federal Bureau of Alcohol, Tobacco and Firearms 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; 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 on all wine sold in Oregon. In addition, all 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. The Company estimates that its costs of compliance with federal and state environmental laws is \$3,000 per year.

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. Recently,

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

there have been national efforts to reduce the legal blood alcohol level to .08 to combat driving under the influence. The Company believes that if such legislation is passed, it may discourage wine consumption in restaurants. Although the .08 rule is in effect in Oregon, the Company's principal sales territory, it has not yet affected local restaurant sales although it is possible that it will on a national level.

### Employees

As of December 31, 2003 the Company had 49 full-time employees and 31 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 continues to believe it maintains positive relations with its employees.

### Additional Information

The Company files quarterly and annual reports with the Securities and Exchange Commission. The public may read and copy any material that the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As the Company is an electronic filer, filings may be obtained via the SEC website at ([www.sec.gov](http://www.sec.gov)). Also visit the Company's website ([www.wvv.com](http://www.wvv.com)) for links to stock position and pricing.

### ITEM 2. DESCRIPTION OF PROPERTY.

See "DESCRIPTION OF BUSINESS -- Winery" and "-- Vineyard".

### ITEM 3. LEGAL PROCEEDINGS.

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the Company's Fourth Quarter ended December 31, 2003.

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the NASDAQ Small Cap Market under the symbol "WVVI." As of December 31, 2003, there were 3,091 stockholders of record of the Common Stock.

The table below sets forth for the quarters indicated the high and low bids for the Company's Common Stock as reported on the NASDAQ Small Cap Market. The Company's Common Stock began trading publicly on September 13, 1994.

#### Quarter Ended

	3/31/03	6/30/03	9/30/03	12/31/03
High	\$1.74	\$1.53	\$2.05	\$2.30
Low	\$1.26	\$1.08	\$1.18	\$1.64

#### Quarter Ended

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

	3/31/02	6/30/02	9/30/02	12/31/02
High	\$1.94	\$1.84	\$1.60	\$1.77
Low	\$1.51	\$1.10	\$1.18	\$1.00

The Company has not paid any dividends on the Common Stock, and it is not anticipated that the Company will pay any dividends in the foreseeable future. The Company intends to use its earnings to grow the distribution of its brands, improve quality and reduce debt. The Management does not intend to use earnings to pay dividends and if it chooses to recommend to the Board it approve such an action, management would first seek approval of its lender providing the credit facility.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

#### Forward Looking Statement

This Management's discussion and Analysis of Financial Condition and Results of Operation and other sections of this Form 10KSB contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements include, for example, statements regarding general market trends, predictions regarding growth and other future trends in the Oregon wine industry, expected availability of adequate grape supplies, expected positive impact of the Company's Hospitality Center on direct sales effort, expected positive impacts on future operating results from restructuring efforts, expected increases in future sales, expected improvements in gross margin. These forward-looking statements involve risks and uncertainties that are based on current expectations, estimates and projections about the Company's business, and beliefs and assumptions made by management. Actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to: availability of financing for growth, availability of adequate supply of high quality grapes, successful performance of internal operations, impact of competition, changes in wine broker or distributor relations or performance, impact of possible adverse weather conditions, impact of reduction in grape quality or supply due to disease, impact of governmental regulatory decisions, and other risks detailed below as well as those discussed elsewhere in this Form 10KSB and from time to time in the Company's Securities and Exchange Commission filing and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions.

The Management's Discussion and Analysis or Plan of Operation presented below reflects the effects of the restatement of our financial statements for the years ended December 31, 2003, 2002 and 2001, as further discussed below and in Note 13 to the financial statements.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses Willamette Valley Vineyards' consolidated 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

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

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. Revenue is recognized from wine sales at the time of shipment and passage of title. Our payment arrangements with customers provide primarily 30 day terms and, to a limited extent, 60, 90 or 120 day terms. Shipping and handling costs are included in general and administrative expenses.

The Company values inventories at the lower of actual cost to produce the inventory or market value. We regularly review inventory quantities on hand and adjust our 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 our inventory cost is determined to be greater than the net realizable value of the inventory upon sale, we would be required to recognize such excess costs in our cost of goods sold at the time of such determination. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the ultimate selling price and, therefore, the carrying value of our inventory and our reported operating results.

We capitalize internal vineyard development costs subsequent to the developing 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 expensed in that month as a reduction of revenues. The Company also pays a sample allowance to the Company's distributors in the form of a 1.5% discount applied to invoices for product sold to the Company's distributors. The expenses for samples are expensed at the time of sale in the selling, general and administrative expense. The Company's distributors use the allowance to sample product to prospective customers.

Amounts paid by customers to the Company for shipping and handling expenses are included in the net revenue. Expenses incurred for 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.

In connection with its ongoing transition to a national network of affiliated distributors, the Company has entered into an agreement with fourteen affiliated distributors under which the Company's products are distributed in certain states. As part of that agreement, the distributors paid the company \$1,500,000 for a base amount of bottled wine to be retained by the Company,

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

which was not recorded as a sale. The Company recorded a Distributor Obligation liability to recognize the future obligation of the Company to deliver the wine to the distributors, and recorded the wine as an asset at cost. The Company will hold the base amount of \$1,500,000 of wine until 2006, when the balance will be depleted on a straight-line basis until 2010. Also as part of that agreement, the Company has agreed to pay the distributors incentive compensation if certain sales goals are met over the next five years. The incentive compensation will be paid only in the event of a transaction in excess of \$12 million in value in which either the Company sells all or substantially all of its assets or a merger, sale of stock, or other similar transaction occurs, the result of which is that the Company's current shareholders do not own at least a majority of the outstanding shares of capital stock of the surviving entity. Assuming the \$12 million threshold is met and the distributors meet certain sales goals, the distributors will be entitled to incentive compensation equal to 20% of the total proceeds from the sale or transaction and up to 17.5% of the difference between the transaction value and approximately \$8.5 million.

### OVERVIEW

### RESULTS OF OPERATIONS

The Company's net income in the first three Quarters of 2003 is primarily a result of increased margins from the sale of wines that have lower production costs. Since Management reduced production volumes due to higher inventories, per unit costs are increasing, reducing gross margins and net income per case in the final quarter of 2003. Production costs were reduced in 2003 and are expected to decline over the next several years due to new lower cost winegrape contracts. Per unit costs will not decline until bottled inventory is reduced and wine production returns to current sales levels.

Annual operating performance was affected significantly by Fourth Quarter events. A large portion of the higher expenses was the result of planned investment by the Company. Management took advantage of the stronger net profits and recent federal business tax incentives by making substantial repairs to the winery buildings and equipment, adding delivery vehicles to its Wholesale Department, a warehouse office, new network servers, group software, accounting software upgrades permitting wholesale sales orders to be entered contemporaneously with remote handheld devices, a new Retail Point of Sale system and new computers for the Retail Key Customer Service Representatives for recording sales and customer information.

Management chose the Fourth Quarter to expand the sales and delivery infrastructure of its Oregon Wholesale Department named Bacchus Fine Wines. The Company is increasing its representation of brands other than its own through its Oregon sales force. The Company expects to increase its inventories of these wines, which will place additional demands on the use of cash. The Company is protecting the loyalty and focus of its sales force by limiting representation of only Oregon brands the Company owns and out-of-state brands which fill other product needs of retail licensees the Company does not produce. The Company is engaging in this strategy to provide more value to its retail licensees, improve sales management and representation and increase profits.

Although the Bacchus Fine Wines department experienced record growth of 42% in the Fourth Quarter, net results declined from the same period in the prior year due to this expansion. This department finished the year contributing the most increase in net operating results as compared to other departments. Bacchus gross margins were expected to decline and are expected to continue to decline as sales of wines purchased from other suppliers and resold to retail accounts at lower margins increase.



## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

During the first part of 2003, many of the lower cost 2001 Willamette Valley Vineyards vintage wines were sold and replaced later in the year by new higher cost vintages reducing gross margins, particularly in the Retail Department. Combined with unplanned and substantially higher expenses, Retail posted its weakest financial performance in the Fourth Quarter in some time. Management has identified the causes of the higher sample use, higher sales commissions and inventory losses and has taken corrective action. Prior to the Fourth Quarter, Retail outperformed the prior year.

Out-of-state sales to distributors grew in the Fourth Quarter by 30%. This sales growth more than offset the higher cost of goods. The CEO continued in 2003 the extensive travel schedule making sales presentations to distributor staffs and their retail customers. The Company increased its role in the industry's Oregon Pinot Camp and conducted a national sales contest for selected distributor sales staffs that resulted in a trip to Oregon. Among the winners was top performer Premier Beverage of Florida increasing sales 93% earning nine places on the trip.

During 2003 Company officials discovered a significant loss of wine inventory in the control of a now former sales representative of approximately \$100,000 at wholesale prices. This inventory was WVW wines and was not a result of the new distribution enterprise, Bacchus Fine Wines. The Company filed an insurance claim, which was accepted, paid and is recorded under Other Income.

Management has strengthened inventory controls in the wake of this significant loss of wine inventory. Sales representative handling of inventory is physically inspected at random and all samples reviewed by the General Sales Manager. Tasting Room daily sales and sampling are reconciled against daily deliveries from the warehouse. Management is implementing a system where all inventory movements in and out of the warehouse are to be recorded in the Company's accounting system contemporaneously with the movement.

Management is planning to reduce wine inventories and its accompanying credit line requirements by reducing the 2004 and 2005 crush volumes from historic highs and focus its production operations by reducing the number of products to those that most contribute to the reputation of its core brand and product, Willamette Valley Vineyards vintage Pinot noir and the Company's earnings and sales growth.

### Wine Quality

The Company's wine ratings are among the highest given to Oregon produced wines. By focusing on expanding vineyard plantings at Tualatin Estate over the last several years, the Company has greatly enhanced control over producing high quality fruit in that unique microclimate.

Plantings of the new French Pinot noir clones (113, 114, 115, 667 & 777) on selected resistant rootstock have accelerated ripening and improved flavor attributes. The Company now has 55 acres of young, closely spaced Pinot noir vines, including these new clones on computer controlled drip irrigation at the Forest Grove vineyard, and 8 acres of 667 & 777 clones on self-rooted, grafted vines at the Turner vineyard. The management believes this investment will begin to be realized as these vines mature and their fruit find their way into the market through the distribution of Willamette Valley Vineyards Pinot noir. The Tualatin Estate Pinot noir is made from a small, designated block of 25-year-old Pommard clone vines and a designated block in the new French clone planting.

As noted below, the following publications review wines according to the

## Edgar Filing: WILLAMETTE VALLEY VINEYARDS INC - Form 10KSB/A

testing procedures described.

### WINE SPECTATOR

The Wine Spectator is one of the most popular magazines for wine connoisseurs. It is a monthly magazine with thorough reports on wineries, restaurants and travel, along with a highly reputable wine rating system. The wine writers are among the most experienced and knowledgeable and their goals are to cover every aspect of wine, from buying to tasting, with descriptions of different varietals and wine-growing regions.

Their wine rating system is as follows:

95-100: Classic

90-94: Outstanding

85-89: Very good

80-84: Good

70-79: Average

Below 70: Below Average

### WINE ENTHUSIAST

As the fastest growing wine publication in the world today, Wine Enthusiast's mission is to promote the wine "lifestyle" and to educate its readers on how to buy, taste, and appreciate wine. It is also a catalog, which sells anything related to wine, from cellars to cork screws. They provide an in-depth wine descriptions and a reputable rating scale. Within their rating system, they note their "Best Buys", which incorporates both price and taste, to ensure the best value. Both wine novices and experienced connoisseurs enjoy and respect this monthly publication.

Rating system:

96-100: Classic, Highest Recommendation

90-95: Superb, Highly Recommended

85-89: Very good, Recommended

There are over 100,000 paid subscriptions to Wine Enthusiast today.

### BEVERAGE TESTING INSTITUTE

This is a journal strictly for wine ratings. They have a very technical rating system and numerous tasters are involved in one score. First they start with a 4-point scale:

1)