

WILLAMETTE VALLEY VINEYARDS INC  
Form 10-Q  
November 10, 2011

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

Commission File Number 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

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(Exact name of registrant as specified in charter)

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

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|  |       |
|--|-------|
| 8800 Enchanted Way, S.E., Turner, Oregon | 97392 |
|--|-------|

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|  |            |
|--|------------|
| (Address of principal executive offices) | (Zip Code) |
|--|------------|

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

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(§232.405 of this chapter) 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 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:

|   |  |
|---|--|
| <input type="radio"/> Large<br>accelerated<br>filer | <input type="radio"/> Accelerated<br>filer                       |
| <input type="radio"/> Non-accelerated<br>filer      | <input checked="" type="radio"/> Smaller<br>reporting<br>company |

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  YES  NO

Number of shares of common stock outstanding as of November 4, 2011: 4,892,977 shares

WILLAMETTE VALLEY VINEYARDS, INC.  
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## WILLAMETTE VALLEY VINEYARDS, INC.

## BALANCE SHEETS

## ASSETS

|   | September 30,<br>2011<br>(unaudited) | December 31,<br>2010<br>(audited) |
|---|--------------------------------------|-----------------------------------|
| <b>CURRENT ASSETS</b>                                     |                                      |                                   |
| Cash and cash equivalents                                 | \$ 2,904,328                         | \$ 1,518,864                      |
| Accounts receivable, net                                  | 1,559,832                            | 1,264,966                         |
| Inventories (Note 3)                                      | 9,499,982                            | 10,712,018                        |
| Prepaid expenses and other current assets                 | 144,413                              | 82,241                            |
| Current portion of note receivable                        | 109,831                              | 62,415                            |
| Current portion of distribution agreement receivable      | 500,000                              | -                                 |
| Income tax receivable                                     | -                                    | 115,063                           |
| Total current assets                                      | 14,718,386                           | 13,755,567                        |
|   |                                      |                                   |
| Vineyard development costs, net                           | 1,662,463                            | 1,662,292                         |
| Property and equipment, net (Note 4)                      | 7,159,542                            | 6,243,990                         |
| Debt issuance costs                                       | 50,523                               | 32,438                            |
| Distribution agreement receivable, net of current portion | 500,000                              | -                                 |
| Note receivable   | -                                    | 71,457                            |
| Other assets  | 4,456                                | 4,456                             |
| <b>TOTAL ASSETS</b>                                       | <b>\$ 24,095,370</b>                 | <b>\$ 21,770,200</b>              |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|   |           |           |
|---|-----------|-----------|
| <b>CURRENT LIABILITIES</b>                                      |           |           |
| Current portion of long-term debt                               | 125,879   | 452,226   |
| Accounts payable  | 990,037   | 748,813   |
| Accrued expenses  | 400,242   | 595,197   |
| Income taxes payable  | 39,270    | -         |
| Deferred income taxes   | 232,000   | 232,000   |
| Current portion of deferred revenue-distribution agreement      | 142,857   | -         |
| Grapes payable  | -         | 273,211   |
| Total current liabilities                                       | 1,930,285 | 2,301,447 |
|   |           |           |
| Long-term debt, net of current portion                          | 4,129,627 | 2,827,086 |
| Deferred rent liability   | 209,786   | 215,003   |
| Deferred revenue-distribution agreement, net of current portion | 845,238   | -         |
| Deferred gain   | 257,670   | 281,741   |
| Deferred income taxes   | 578,000   | 578,000   |
| Total liabilities   | 7,950,606 | 6,203,277 |

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Common stock, no par value, 10,000,000 shares authorized,  
 shares authorized, 4,892,977 and 4,892,977 issued and outstanding at

|  |            |            |
|--|------------|------------|
| September 30, 2011 and December 31, 2010 | 8,627,447  | 8,623,744  |
| Retained earnings                        | 7,517,317  | 6,943,179  |
| Total shareholders' equity               | 16,144,764 | 15,566,923 |

TOTAL LIABILITIES AND SHAREHOLDERS'

|        |               |               |
|--------|---------------|---------------|
| EQUITY | \$ 24,095,370 | \$ 21,770,200 |
|--------|---------------|---------------|

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.  
STATEMENTS OF OPERATIONS

|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |              |
|--|-------------------------------------|-------------|------------------------------------|--------------|
|  | 2011                                | 2010        | 2011                               | 2010         |
|  | (unaudited)                         | (unaudited) | (unaudited)                        | (unaudited)  |
| SALES  | \$4,344,920                         | \$4,600,344 | \$11,760,257                       | \$12,249,349 |
| COST OF SALES  | 2,255,390                           | 2,629,786   | 6,021,268                          | 6,952,178    |
| GROSS PROFIT   | 2,089,530                           | 1,970,558   | 5,738,989                          | 5,297,171    |
| SELLING GENERAL & ADMINISTRATIVE EXPENSES                    | 1,472,235                           | 1,638,320   | 4,675,864                          | 4,974,422    |
| INCOME FROM OPERATIONS                                       | 617,295                             | 332,238     | 1,063,125                          | 322,749      |
| OTHER INCOME (EXPENSE)                                       |                                     |             |                                    |              |
| Interest income  | 4,502                               | 3,419       | 9,348                              | 9,546        |
| Interest expense   | (51,480 )                           | (53,265 )   | (150,026 )                         | (162,962 )   |
| Other income, net  | 30,606                              | 3,182       | 34,449                             | 16,146       |
| INCOME BEFORE INCOME TAXES                                   | 600,923                             | 285,574     | 956,896                            | 185,479      |
| INCOME TAX PROVISION   | 227,516                             | 114,229     | 382,758                            | 74,191       |
| NET INCOME   | \$373,407                           | \$171,345   | \$574,138                          | \$111,288    |
| Retained earnings beginning of period                        | 7,143,910                           | 6,471,314   | 6,943,179                          | 6,531,371    |
| Retained earnings end of period                              | 7,517,317                           | 6,642,659   | 7,517,317                          | 6,642,659    |
| BASIC NET INCOME PER COMMON SHARE                            | \$0.08                              | \$0.04      | \$0.12                             | \$0.02       |
| DILUTED NET INCOME PER COMMON SHARE                          | \$0.08                              | \$0.03      | \$0.12                             | \$0.02       |
| Weighted average number of basic common shares outstanding   | 4,892,977                           | 4,891,760   | 4,892,977                          | 4,889,915    |
| Weighted average number of diluted common shares outstanding | 4,896,865                           | 4,898,203   | 4,897,423                          | 4,896,530    |

The accompanying notes are an integral part of this financial statement



WILLAMETTE VALLEY VINEYARDS, INC.  
STATEMENTS OF CASH FLOWS

|   | Nine months ended September 30, |                   |
|---|---------------------------------|-------------------|
|   | 2011                            | 2010              |
|   | (unaudited)                     | (unaudited)       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |                                 |                   |
| Net income  | \$ 574,138                      | \$ 111,288        |
| Adjustments to reconcile net income to net cash:<br>from operating activities |                                 |                   |
| Depreciation and amortization   | 552,860                         | 531,864           |
| Stock based compensation expense  | 3,703                           | 8,836             |
| Deferred rent liability   | (5,217 )                        | (2,402 )          |
| Deferred revenue-distribution agreement                                       | (11,905 )                       | -                 |
| Deferred gain   | (24,071 )                       | (24,071 )         |
| Change in operating assets and liabilities:                                   |                                 |                   |
| Accounts receivable   | (294,866 )                      | (38,597 )         |
| Inventories   | 1,212,036                       | 1,136,220         |
| Prepaid expenses and other current assets                                     | (62,172 )                       | (79,730 )         |
| Income taxes receivable   | 115,063                         | 272,498           |
| Income taxes payable  | 39,270                          | -                 |
| Grapes payable  | (273,211 )                      | (657,371 )        |
| Accounts payable  | 241,224                         | 117,297           |
| Accrued expenses  | (194,955 )                      | 17,560            |
| Net cash from operating activities  | 1,871,897                       | 1,393,392         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                                 |                   |
| Additions to property and equipment   | (1,411,847 )                    | (348,665 )        |
| Additions to vineyard development   | (56,297 )                       | (3,063 )          |
| Payments received on note receivable  | 24,041                          | 20,850            |
| Net cash from investing activities  | (1,444,103 )                    | (330,878 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                                 |                   |
| Proceeds from stock options exercised   | -                               | 6,250             |
| Bank overdraft  | -                               | (271,911 )        |
| Net repayments on line of credit  | -                               | (140,964 )        |
| Payments on long-term debt  | (423,806 )                      | (319,426 )        |
| Borrowings on long-term debt  | 1,400,000                       | -                 |
| Payment of debt issuance costs  | (18,524 )                       | -                 |
| Net cash from financing activities  | 957,670                         | (726,051 )        |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                | <b>1,385,464</b>                | <b>336,463</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                         | <b>1,518,864</b>                | <b>-</b>          |
| <b>CASH AND CASH EQUIVALENTS, end of quarter</b>                              | <b>\$ 2,904,328</b>             | <b>\$ 336,463</b> |

The accompanying notes are an integral part of this financial statement

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1) BASIS OF PRESENTATION

The accompanying unaudited financial statements for the nine months ended September 30, 2011 and 2010 have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial information as of December 31, 2010 is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the "Company") Annual Report on Form 10-K for the year ended December 31, 2010. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2010, as presented in the Company's Annual Report on Form 10-K.

Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2011, or any portion thereof.

The Company consists of the retail, in-state self-distribution and out-of-state sales departments. These departments have mostly similar economic characteristics, offer comparable products to customers and utilize similar processes for production and distribution. The in-state self-distribution business known as Bacchus Fine Wines has the unique characteristic of selling wholesale purchased wines and glassware in addition to Company produced wines. The Company reports limited financial information for two operating segments as follows: Bacchus Distribution and Produced Wines.

Basic earnings per share are computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive common shares outstanding during the year. Potentially dilutive shares from stock options and other potentially dilutive shares are excluded from the computation when their effect is anti-dilutive. 3,888 and 4,446 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and nine month periods ended September 30, 2011, respectively. 6,443 and 6,615 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and nine month periods ended September 30, 2010, respectively.

### 2) STOCK BASED COMPENSATION

The Company has two stock option plans, the 1992 Stock Incentive Plan ("1992 Plan") and 2001 Stock Option Plan ("2001 Plan"). No additional grants may be made under the 1992 Plan. The 2001 Plan, which was approved by the shareholders, permits the grant of stock options and restricted stock awards for up to 900,000 shares. 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 to be granted, lies with the Board of Directors or a duly authorized committee of the Board of Directors. Options are generally granted based on employee performance with vesting periods ranging from date of grant to seven years. The maximum term before expiration for all grants is ten years.



## 2) STOCK BASED COMPENSATION - continued

The following table presents information related to the value of outstanding stock options for the periods shown:

|                                       | Three months ended<br>September 30, 2011 |         | Nine months ended<br>September 30, 2011 |         |
|---------------------------------------|--|---------|---|---------|
|                                       | Weighted Average Exercise<br>Shares      | Price   | Weighted Average Exercise<br>Shares     | Price   |
| Outstanding at beginning of<br>period | 208,700                                  | \$ 4.12 | 208,700                                 | \$ 4.12 |
| Granted                               | 155,000                                  | 3.17    | 155,000                                 | 3.17    |
| Exercised                             | -  | -       | -                                       | -       |
| Forfeited                             | (7,500 )                                 | 4.17    | (7,500 )                                | 4.17    |
| Outstanding at end of<br>period       | 356,200                                  | \$ 3.71 | 356,200                                 | \$ 3.71 |

In accordance with the current accounting guidance for share-based payments, the Company recognizes compensation expense for options awarded under its stock incentive plans. Current accounting guidance requires the grant-date fair value of all share-based payment awards, including employee stock options, to be recognized as employee compensation expense over the requisite service period. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes 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 the grant.

## Black-Scholes assumptions

|                             | September 30,<br>2011<br>155,000 Shares |
|-----------------------------|---|
| Risk free interest<br>rates | 1.37%                                   |
| Expected dividend           | \$0.00                                  |
| Expected lives, in<br>years | 5.2                                     |
| Expected volatility         | 32.6%                                   |

The Company expenses stock options on a straight-line basis over the options' related vesting term. For the three months ended September 30, 2011, the Company recognized pretax compensation expense related to stock options of \$5,708, in comparison to pretax compensation expense related to stock options of \$6,626 for the three months ended September 30, 2010. For the nine months ended September 30, 2011, the Company recognized pretax compensation expense related to stock options of \$5,708, in comparison to pretax compensation expense related to stock options of \$8,836 for the nine months ended September 30, 2010.

During the nine months ended September 30, 2011, there were no transactions related to stock options exercise activity.

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## 3) INVENTORIES

The Company's inventories, by major classification, are summarized as follows, as of the dates shown:

|   | September 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| Winemaking and packaging materials  | \$ 313,493                           | \$ 296,012           |
| Work-in-progress (costs relating to unprocessed and/or unbottled wine products) | 2,728,589                            | 3,209,692            |
| Finished goods (bottled wine and related products)                              | 6,479,201                            | 7,226,730            |
| Obsolescence reserve  | (21,301 )                            | (20,416 )            |
| Current inventories   | \$ 9,499,982                         | \$ 10,712,018        |

## 4) PROPERTY AND EQUIPMENT

The Company's property and equipment consists of the following, as of the dates shown:

|  | September 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| Construction in progress               | \$ 1,394,805                         | \$ 152,039           |
| Land and improvements                  | 2,610,374                            | 2,608,960            |
| Winery building and hospitality center | 5,614,653                            | 5,516,343            |
| Equipment                              | 6,100,063                            | 6,030,706            |
|  | \$ 15,719,895                        | \$ 14,308,048        |
| Less accumulated depreciation          | (8,560,353 )                         | (8,064,058 )         |
|  | \$ 7,159,542                         | \$ 6,243,990         |

## 5) LONG TERM DEBT

On September 30, 2011, the Company entered into a long term debt agreement with Farm Credit Services in the amount of \$1,400,000. This loan requires monthly payments of \$12,004 principal and interest for the 15 year term of the loan, at an annual interest rate of 6.25%. The purpose of the loan was to make capital improvements to the facility in Turner.

## 6) DISTRIBUTION AGREEMENT

On August 1, 2011, the Company entered into an exclusive distribution agreement with Young's Market Company of Oregon, LLC, an Oregon limited liability company, and Young's Market Company of Washington, LLC, an Oregon

limited liability company (Young's Market Company of Oregon, LLC and Young's Market Company of Washington, LLC are referred to collectively herein as "Young's Market") concerning the distribution of wines produced by the Company. Under the terms of the Exclusive Distribution Agreement, for a period of seven years commencing on September 1, 2011, Young's Market will be the exclusive distributor of the Company's Willamette Valley Vineyards and Griffin Creek wines in the State of Washington and in all counties in the State of Oregon other than Morrow, Umatilla, Union, Wallowa, Grant, Baker and Malheur counties. Bacchus Fine Wines will continue to promote the Company's wine as well as distribute other brands in its portfolio.



## 7) INTEREST AND TAXES PAID

For the three months ended September 30, 2011, the Company paid \$60,689 in payroll tax, a decrease of \$46,712, or 43.5% in comparison with the corresponding prior year period. The large decrease was due to a refund in the third quarter of an overpayment of prior period payroll taxes. For the nine months ended September 30, 2011, the Company paid \$273,141 in payroll tax, a decrease of \$46,711 or 14.6% in comparison with the corresponding prior year period. For the three months ended September 30, 2011, the Company paid \$51,480 in interest on the long-term debt and revolving credit line, a decrease of \$1,785, or 3.4% in comparison with the corresponding prior year period. For the nine months ended September 30, 2011, the Company paid \$150,026 in interest on the long-term debt and revolving credit line, a decrease of 12,936, or 7.9% in comparison with the corresponding prior year period.

## 8) SEGMENT REPORTING

The Company has identified two operating segments, Produced Wine and Bacchus Distribution. Bacchus Distribution (dba Bacchus Fine Wines), is the Company's in-state distribution department. Bacchus distributes produced wine, purchased wine and Riedel glassware at wholesale prices to in-state customers. Produced wine represents all Willamette Valley Vineyard branded wine which is produced at the winery. Purchased wines and Riedel glassware are brands purchased from other wine distributors and wineries for sale to in-state customers. For segment reporting, the produced wines distributed by Bacchus are consolidated with Retail and Out-of-State sales and shown as Produced Wines.

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 segment. Sales, 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 inventory, is not available and that information continues to be aggregated.

## 8) SEGMENT REPORTING - continued

The following tables outline the sales, cost of sales and gross profit, for the three month and nine month periods ended September 30, 2011 and 2010 by operating segment:

|                     | Three Months Ended September 30, 2011 |                         |    |                  |    |           |
|---------------------|---------------------------------------|-------------------------|----|------------------|----|-----------|
|                     |                                       | Bacchus<br>Distribution |    | Produced<br>Wine |    | Total     |
| Net sales           | \$                                    | 883,103                 | \$ | 3,461,817        | \$ | 4,344,920 |
| Cost of sales       |                                       | 717,340                 |    | 1,538,050        |    | 2,255,390 |
| Gross profit        |                                       | 165,763                 |    | 1,923,767        |    | 2,089,530 |
| Percentage of sales |                                       | 18.8                    | %  | 55.6             | %  | 48.1      |

|                     | Three Months Ended September 30, 2010 |                         |    |                  |    |           |
|---------------------|---------------------------------------|-------------------------|----|------------------|----|-----------|
|                     |                                       | Bacchus<br>Distribution |    | Produced<br>Wine |    | Total     |
| Net sales           | \$                                    | 1,078,711               | \$ | 3,521,633        | \$ | 4,600,344 |
| Cost of sales       |                                       | 884,087                 |    | 1,745,699        |    | 2,629,786 |
| Gross profit        |                                       | 194,624                 |    | 1,775,934        |    | 1,970,558 |
| Percentage of sales |                                       | 18.0                    | %  | 50.4             | %  | 42.8      |

|                     | Nine Months Ended September 30, 2011 |                         |    |                  |    |            |
|---------------------|--------------------------------------|-------------------------|----|------------------|----|------------|
|                     |                                      | Bacchus<br>Distribution |    | Produced<br>Wine |    | Total      |
| Net sales           | \$                                   | 2,641,883               | \$ | 9,118,374        | \$ | 11,760,257 |
| Cost of sales       |                                      | 2,034,148               |    | 3,987,120        |    | 6,021,268  |
| Gross profit        |                                      | 607,735                 |    | 5,131,254        |    | 5,738,989  |
| Percentage of sales |                                      | 23.0                    | %  | 56.3             | %  | 48.8       |

|                     | Nine Months Ended September 30, 2010 |                         |    |                  |    |            |
|---------------------|--------------------------------------|-------------------------|----|------------------|----|------------|
|                     |                                      | Bacchus<br>Distribution |    | Produced<br>Wine |    | Total      |
| Net sales           | \$                                   | 3,082,062               | \$ | 9,167,287        | \$ | 12,249,349 |
| Cost of sales       |                                      | 2,457,273               |    | 4,494,905        |    | 6,952,178  |
| Gross profit        |                                      | 624,789                 |    | 4,672,382        |    | 5,297,171  |
| Percentage of sales |                                      | 20.3                    | %  | 51.0             | %  | 43.2       |

Total inventory for Bacchus Distribution was \$1,081,871 of purchased wines and \$389,287 of non-wine merchandise at September 30, 2011. At September 30, 2010 total inventory for Bacchus Distribution was \$1,371,656 of purchased wines and \$367,348 of non-wine merchandise, a reduction of \$289,785 of purchased wines and an increase of \$21,939 of non-wine merchandise from 2010 to 2011. Total inventory for produced wine inventory was \$4,955,583 and \$3,073,241 of non-wine merchandise and work-in-process at September 30, 2011. At September 30, 2010 total produced wine inventory of \$6,471,438 and \$2,822,743 of non-wine merchandise and work-in-process for the same period, a reduction of \$1,515,855 for produced wine inventory and an increase of \$250,498 in work-in-process from 2010 to 2011.

9) SUBSEQUENT EVENT: MANAGEMENT PLAN TO REPURCHASE STOCK

On November 2, 2011, the Company's Board of Directors authorized the repurchase of up to \$200,000 of its common stock through April 1, 2012. Common stock will be purchased from time to time, in the open market or through private transactions, subject to market conditions.

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. 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. Therefore, 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 disclosed from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions. The forward-looking statements are made as of the date hereof, and, except as otherwise required by law, the Company disclaim any intention or obligation to update or revise any forward-looking statements or to update the reasons why the actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

The foregoing discussion and analysis of the Company's financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted the United States of America. The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of the Company's critical accounting policies and related judgments and estimates that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Such policies were unchanged during the three months ended September 30, 2011.

Overview

Net income for the three months ended September 30, 2011 increased \$202,062 or 117.9%, from the comparable prior year period. Net income for the nine months ended September 30, 2011 increased \$462,850 or 415.9% from the corresponding prior year period. Sales for the three months ended September 30, 2011 to out-of-state distributors through the Company's national sales department decreased \$149,609 or 7.8% from the corresponding prior year period and decreased \$ 102,906 or 2.1% for the nine months ended September 30, 2011 from the corresponding prior year period. Sales for the three months ended September 30, 2011 through the Company's in-state wholesale department, Bacchus Fine Wines, decreased by \$4,896 or .3% from the corresponding prior year period and decreased

\$ 321,407 or 6.0% for the nine months ended September 30, 2011 from the corresponding prior year period. Sales for the three months ended September 30, 2011 through the Company's direct sales department increased \$ 43,633 or 5.7% from the corresponding prior year and increased \$65,347 or 3.2% for the nine months ended September 30, 2011 from the corresponding prior year period. The increase in net income was attributed to a combination of better overall gross margins and the reduction of sales, general and administrative expenses for the company. Overall gross margins increased \$118,972 or 6.0% and sales, general and administrative expenses decreased \$166,085 or 10.1% for the three months ended September 30, 2011 from the corresponding prior year period. Overall gross margins increased \$ 441,818 or 8.3% and sales, general and administrative expenses decreased \$298,558 or 6.0% for the nine months ended September 30, 2011 from the corresponding prior year period.

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

The Company sold approximately 35,052 cases during the three months ended September 30, 2011, a decrease of 3,816 cases or 9.8% from the corresponding prior year period. Of these cases sold, approximately 26,835 cases were produced brands, a decrease of 2,116 cases or 7.3% from the corresponding prior period and another 8,217 cases were purchased brands, a decrease of 1,700 cases or 17.1% from the corresponding prior period. The Company sold approximately 106,630 cases during the nine months ended September 30, 2011, a decrease of 4,951 cases or 4.4% from the corresponding prior period. Of these cases sold, approximately 81,658 were produced brands, a decrease of 1,917 or 2.3% from the corresponding prior period and another 24,972 cases were purchased brands, a decrease of 3,034 or 10.8% from the corresponding prior year period.

Distributed sales of wine purchased from other wineries are declining and are expected to continue to decline as the winery is discontinuing its wholesale operations called Bacchus Fine Wines by year end. Management has determined that the winery, as a small public company, can no longer afford the public reporting compliance costs of distributing wines. The winery's own wines are now distributed by Young's Northwest as they have been in California, Washington, Hawaii and Alaska.

Gross margins on the Company's produced wine have moved towards returning to historical levels resulting in an increase in Gross Profit of \$147,833 or 8.3% for the three months ended September 30, 2011 from the corresponding prior year period. Gross profit for the Company's produced wine increased \$ 458,872 or 9.8% for the nine months ended September 30, 2011 from the corresponding prior year period.

The increase in gross margin in addition to a decrease in administrative costs produced a net income of \$373,407 for the three months ended September 30, 2011 compared to a net income of \$171,345, an increase of \$202,062 or 117.9% over the corresponding prior year period. As a result, the Company generated \$0.08 basic earnings per share during the three months ended September 30, 2011, an increase of \$0.04 from the corresponding prior year period and a basic earnings per share during the nine month period ended September 30, 2011 of \$0.12, an increase of \$0.10 from the corresponding prior year period.

The winery bottled approximately 894 cases in the third quarter of 2011.

The Company has an asset-based loan agreement (the "line of credit") with Umpqua Bank that allows it to borrow up to \$2,000,000. The maturity date on this loan agreement is June 2012. The index rate at September 30, 2011 is 3.25%. The loan agreement contains 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 September 30, 2011, the Company was in compliance with all of the financial covenants.

At September 30, 2011, the Company had no amount outstanding on the line of credit. At September 30, 2011, the availability on the line of credit was \$2,000,000.

At December 31, 2010, the Company had no amount outstanding on the line of credit. At December 31, 2010, the availability on the line of credit was \$2,000,000.

Willamette Valley Vineyards continued to receive recognition as a high quality wine producer. In September, the nationally distributed magazine, Wine & Spirits, recognized the winery as one of the "Top 100 Wineries in the World for 2011." Editor, Joshua Greene states, "Willamette Valley Vineyards' performance makes it a great ambassador for the wines of Oregon."

Recent reviews factored into their decision:

2008 South Block Pinot Noir, 93 pts.;

2008 Signature Cuvée Pinot Noir, 92 pts.;

2008 Estate Pinot Noir, 92 pts.;

2008 Pinot Noir, 90 pts. and Best Buy

2009 Pinot Gris - One of the Top 5 (number 4) "Most Popular" Pinot Gris & Grigio in their annual Restaurant Poll.

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

In the spring edition of Wine Press Northwest, Willamette Valley Vineyards was also named "Oregon Winery of the Year." Andy Perdue, Editor-in-chief said, "This was an easy decision this year as Willamette Valley Vineyards has been a leader in the industry for decades with their sustainability efforts and high quality Pinot Noir."

The September issue of Portland Monthly Magazine declared the 2008 Tualatin Estate Pinot Noir as one of the "50 Best Wines in Oregon" giving it a 90pt score. Coined as "The Ultimate Burgundy Reference," Allen Meadows' Burghound.com recently reviewed Willamette Valley Vineyards' Pinot Noirs:

2008 Pinot Noir, 90pts.;  
2008 Elton Pinot Noir, 90pts.;  
2008 Estate Pinot Noir, 91pts.;  
2008 Hannah Pinot Noir, 90pts.;  
2008 O'Brien Pinot Noir, 91pts.;  
2008 Tualatin Estate Pinot Noir, 90pts.;  
2008 Whole Cluster Pinot Noir, 91pts..

Up against more than 2,000 wines, the 2009 Riesling took "Wine of the Year" at the 20th Annual Indy International Wine Competition in Indiana.

The July issue of Runner's World ran a feature, "Elite runners reveal their pour of choice." Famed runner, Sage Canady chose our 2007 Pinot Noir and said, "Its hearty taste is perfect after long runs. Plus it's full of healthy antioxidants!"

## RESULTS OF OPERATIONS

### Revenue

Net sales to out-of-state distributors during the three months ended September 30, 2011 through the Company's national sales department decreased \$149,609 or 7.8% from the corresponding prior year period, the Company's direct sales department increased by \$43,633 or 5.7% from the corresponding prior year period and the Company's in-state wholesale department, Bacchus Fine Wines, decreased by \$4,896 or .3% from the corresponding prior year period. Net sales to out-of-state distributors during the nine months ended September 30, 2011 through the Company's national sales department decreased \$102,906 or 2.1% from the corresponding prior year period, the Company's direct sales department increased \$65,347 or 3.2% from the corresponding prior year period and the Company's in-state wholesale department, Bacchus Fine Wines, decreased \$321,407 or 6.0% from the corresponding prior year period.

The Company sold approximately 35,052 cases during the three months ended September 30, 2011. Of these cases sold, approximately 26,835 cases were produced brands and another 8,217 cases were purchased brands. The Company sold approximately 106,630 cases during the nine months ended September 30, 2011. Of these cases sold, approximately 81,658 were produced brands and another 24,972 cases were purchased brands.



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

The Company's revenues from winery operations are summarized as follows:

|  | Three months ended<br>September 30 |              | Nine months ended<br>September 30 |               |
|--|------------------------------------|--------------|-----------------------------------|---------------|
|  | 2011                               | 2010         | 2011                              | 2010          |
| Retail sales, rental income and events | \$ 804,153                         | \$ 760,520   | \$ 2,132,767                      | \$ 2,067,420  |
| In-state sales                         | 1,894,182                          | 1,899,078    | 5,064,012                         | 5,385,419     |
| Out-of-state sales                     | 1,752,367                          | 1,901,976    | 4,866,403                         | 4,969,309     |
| Bulk wine/miscellaneous sales          | 80                                 | 138,340      | 610                               | 148,989       |
| Total revenue                          | 4,450,782                          | 4,699,914    | 12,063,792                        | 12,571,137    |
| Less excise taxes                      | (105,862 )                         | (99,570 )    | (303,535 )                        | (321,788 )    |
| Net revenue                            | \$ 4,344,920                       | \$ 4,600,344 | \$ 11,760,257                     | \$ 12,249,349 |

## Cost of Goods Sold

The Company's cost of goods on produced wines is moving back to historical levels resulting in an increase in gross profit for the three months and nine months ended September 30, 2011

## Gross Profit

Gross profit showed an increase for the three months ended September 30, 2011 of \$118,972 or 6.0% from the corresponding prior year period and an increase of gross profit for the nine months ended September 30, 2011 of \$441,818 or 8.3% from the corresponding prior year period.

As a percentage of net revenue, gross profit margin from winery operations was 48.0% in the three months ended September 30, 2011, compared to 42.8% in the corresponding prior year period. The increase in gross profit as a percentage of net revenue for the three months ended September 30, 2011 is mainly due to the decrease in the cost of the Company's produced brands across the Company's product lines. Gross profit margin from winery operations was 48.8% in the nine months ended September 30, 2011, compared to 43.2% in the corresponding prior year period.

## Selling, General and Administrative Expense

Selling, general and administrative expense decreased for the three months ended September 30, 2011 by \$166,085 or 10.1% compared to the corresponding prior year period and decreased for the nine months ended September 30, 2011 by \$298,558 or 6.0% compared to the corresponding prior year period. This decrease is due primarily to a reduction in salaries expense as a result of streamlining the Company's overhead operations as well as a decrease in professional service fees for accounting and legal services. In total, as a percentage of net revenues from winery operations, selling, general and administrative expenses were 33.9% for the three months ended September 30, 2011 as compared to 35.6% for the corresponding prior year period and were 39.8% for the nine months ended September 30, 2011 as compared to 40.6% for the corresponding prior year period.

Interest Income, Interest Expense

Interest income for the three months ended September 30, 2011 was \$4,502, an increase of \$1,083 or 31.7% over the corresponding prior year period. Interest income for the nine months ended September 30, 2011 was \$ 9,348, a decrease of \$ 198 or 2.1% over the corresponding prior year period. Interest expense for the three months ended September 30, 2011 was \$51,480 a decrease of \$1,785 or 3.4% compared to the corresponding prior year period. Interest expense for the nine months ended September 30, 2011 was \$150,026, a decrease of \$ 12,936 or 7.9% compared to the corresponding prior year period. The average interest rate paid for the nine months ended September 30, 2011 was 6.3%.

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

Income Taxes

The income tax expense for the three months ended September 30, 2011 was \$227,516 for the three months ended September 30, 2010, an increase of \$ 113,287 or 99.2% compared to the corresponding prior year period. The Company's estimated tax rate for the three months ended September 30, 2011 and 2010 was 37.9% and 40.0%, respectively. The income tax expense for the nine months ended September 30, 2011 was \$ 382,758, an increase of \$308,567 or 415.9% compared to the corresponding prior year period. The Company's estimated tax rate for the nine months ended September 30, 2011 and 2010 was 40.0% and 40.0%, respectively.

Net Income and Earnings per Share

The increase in gross margin in addition to a reduction in selling and administrative costs produced a net income for the three months ended September 30, 2011 of \$373,407, an increase of \$202,062 or 117.9% compared to the corresponding prior year period. As a result, the Company generated \$0.08 basic earnings per share during the three months ended September 30, 2011, an increase of \$0.04 basic earnings per share versus the corresponding prior year period. Net income for the nine months ended September 30, 2011 was \$ 574,138, an increase of \$462,850 or 415.9% compared to the corresponding prior year period. As a result, the Company generated \$0.12 basic earnings per share during the nine months ended September 30, 2011, an increase of \$0.10 basic earnings per share compared to the corresponding prior year period.

The winery bottled approximately 894 cases in the third quarter of 2011.

Liquidity and Capital Resources

At September 30, 2011, the Company had a working capital balance of \$12.8 million and a current working capital ratio of 7.63:1. At December 31, 2010, the Company had a working capital balance of \$11.5 million and a current working capital ratio of 5.98:1. The Company had a cash balance of \$2,904,328 at September 30, 2011, compared to a cash balance of \$1,518,864 at December 31, 2010.

Total cash provided by operating activities in the nine months ended September 30, 2011 was \$1,871,897 compared to cash provided by operating activities of \$1,393,392 for the same period in the prior year.

Total cash used in investing activities in the nine months ended September 30, 2011 was \$1,444,103, compared to \$330,878 used in the comparable prior year period. The increase was due to an increase in the current period of capital expenditures for property and equipment costs versus the prior year.

Total cash provided by financing activities in the nine months ended September 30, 2011 was \$957,670 compared to \$726,051 used in financing activities in the comparable prior year period. Cash provided by financing activities in the current year primarily consists of the obtaining of a new long term loan that was offset by payments on the long-term debt.

The Company has an asset-based loan agreement (the "line of credit") with Umpqua Bank that allows it to borrow up to \$2,000,000. The maturity date on this loan agreement is June 2012. The index rate at September 30, 2011 is 3.25%. The loan agreement contains 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 September 30, 2011, the Company was in compliance with all of the financial covenants.

At September 30, 2011, the Company had no amount outstanding on the line of credit. At September 30, 2011, the availability on the line of credit was \$2,000,000.

At December 31, 2010, the Company had no amount outstanding on the line of credit. At December 31, 2010, the availability on the line of credit was \$2,000,000.

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

As of September 30, 2011, the Company had a total long-term debt balance of \$4,255,506, including the portion due in the next year, owed to Farm Credit Services and Kubota. As of December 31, 2010, the Company had a total long-term debt balance of \$3,279,312. New long-term debt was secured during the second quarter. The total loan amount is \$1.4 million, the proceeds to be used for retirement of existing debt, the purchase of land, equipment and capital improvements to the winery facility.

At September 30, 2011, the Company owed \$0 on grape contracts. For the 2011 harvest, there are grape purchase contracts in place with local growers that will be accrued when the grapes are received, typically in October.

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

Segment Reporting

The Company has identified two operating segments, Produced Wine and Bacchus Distribution. Bacchus Distribution (dba Bacchus Fine Wines), is the Company's in-state distribution department. Bacchus distributes produced wine, purchased wine and Riedel glassware at wholesale prices to in-state customers. Produced wine represents all Willamette Valley Vineyard branded wine which is produced at the winery. Purchased wines and Riedel glassware are brands purchased from other wine distributors and wineries for sale to in-state customers. For segment reporting, the produced wines distributed by Bacchus are consolidated with Retail and Out-of-State sales and shown as Produced Wines.

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 segment. Sales, 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 inventory, is not available and that information continues to be aggregated.

The following tables outline the sales, cost of sales and gross profit, for the three month and nine month periods ended September 30, 2011 and September 30, 2010 by operating segment:

|                     | Three Months Ended September 30, 2011 |                         |   |                  |           |              |
|---------------------|---------------------------------------|-------------------------|---|------------------|-----------|--------------|
|                     |                                       | Bacchus<br>Distribution |   | Produced<br>Wine |           | Total        |
| Net sales           | \$                                    | 883,103                 |   | \$               | 3,461,817 | \$ 4,344,920 |
| Cost of sales       |                                       | 717,340                 |   |                  | 1,538,050 | 2,255,390    |
| Gross profit        |                                       | 165,763                 |   |                  | 1,923,767 | 2,089,530    |
| Percentage of sales |                                       | 18.8                    | % |                  | 55.6      | % 48.1       |

|                     | Three Months Ended September 30, 2010 |                         |   |                  |           |              |
|---------------------|---------------------------------------|-------------------------|---|------------------|-----------|--------------|
|                     |                                       | Bacchus<br>Distribution |   | Produced<br>Wine |           | Total        |
| Net sales           | \$                                    | 1,078,711               |   | \$               | 3,521,633 | \$ 4,600,344 |
| Cost of sales       |                                       | 884,087                 |   |                  | 1,745,699 | 2,629,786    |
| Gross profit        |                                       | 194,624                 |   |                  | 1,775,934 | 1,970,558    |
| Percentage of sales |                                       | 18.0                    | % |                  | 50.4      | % 42.8       |

|                     | Nine Months Ended September 30, 2011 |                         |   |                  |           |               |
|---------------------|--------------------------------------|-------------------------|---|------------------|-----------|---------------|
|                     |                                      | Bacchus<br>Distribution |   | Produced<br>Wine |           | Total         |
| Net sales           | \$                                   | 2,641,883               |   | \$               | 9,118,374 | \$ 11,760,257 |
| Cost of sales       |                                      | 2,034,148               |   |                  | 3,987,120 | 6,021,268     |
| Gross profit        |                                      | 607,735                 |   |                  | 5,131,254 | 5,738,989     |
| Percentage of sales |                                      | 23.0                    | % |                  | 56.3      | % 48.8        |

|                     | Nine Months Ended September 30, 2010 |                         |   |                  |           |               |
|---------------------|--------------------------------------|-------------------------|---|------------------|-----------|---------------|
|                     |                                      | Bacchus<br>Distribution |   | Produced<br>Wine |           | Total         |
| Net sales           | \$                                   | 3,082,062               |   | \$               | 9,167,287 | \$ 12,249,349 |
| Cost of sales       |                                      | 2,457,273               |   |                  | 4,494,905 | 6,952,178     |
| Gross profit        |                                      | 624,789                 |   |                  | 4,672,382 | 5,297,171     |
| Percentage of sales |                                      | 20.3                    | % |                  | 51.0      | % 43.2        |

Total inventory for Bacchus Distribution was \$1,081,871 of purchased wines and \$389,287 of non-wine merchandise at September 30, 2011. At September 30, 2010 total inventory for Bacchus Distribution was \$1,371,656 of purchased wines and \$367,348 of non-wine merchandise, a reduction of \$289,785 of purchased wines and an increase of \$21,939 of non-wine merchandise from 2010 to 2011. Total inventory for produced wine inventory was \$4,955,583 and \$3,073,241 of non-wine merchandise and work-in-process at September 30, 2011. At September 30, 2010 total produced wine inventory of \$6,471,438 and \$2,822,743 of non-wine merchandise and work-in-process for the same period, a reduction of \$1,515,855 for produced wine inventory and an increase of \$250,498 in work-in-process from 2010 to 2011.



Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

Item 4

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – The Company carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of the effectiveness of the Company’s 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 the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports the Company files 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 the Company’s management, including the Company’s principal executive officer and principle financial officer, as appropriate to allow timely decisions regarding required disclosure.

The Company does not expect that the Company’s disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The Company considered these limitations during the development of the Company’s disclosure controls and procedures, and will continually reevaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

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 September 30, 2011. 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. Based on this assessment, management has concluded that, as of September 30, 2011, the Company's internal control over financial reporting was effective.

Management's remediation initiatives – Management commenced in 2010 an initiative to address the material weakness disclosed in the Company's 2009 report on Internal Control over Financial Reporting, which initiative included the following:

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CONTROLS AND PROCEDURES - continued

- Management implemented the use of an Excel spreadsheet for accurately tracking of produced wine inventory costs. This tracking mechanism accumulates the costs associated with the finished product from initial vineyard costs through the full production cycle to the finished case goods.
- Key managers and accounting personnel worked closely with the Company's independent audit firm in evaluating the Company's progress in remediating the previously identified material weakness, all with oversight by the Audit Committee.
- Management developed key control and compensating control procedures have been developed to ensure that material weaknesses are properly addressed and related financial reporting risks are mitigated. Periodic control validation and testing will also be implemented to ensure that controls continue to operate consistently and as designed.

It is management's belief that this former material weakness was fully remediated in 2010.

Changes in Internal Control over Financial Reporting –

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Company is a party to various judicial and administrative proceedings arising in the ordinary course of business. The Company's management and legal counsel have reviewed the probable outcome of any proceedings that were pending during the period covered by this report, the costs and expenses reasonably expected to be incurred, the availability and limits of the Company's insurance coverage, and the Company's established liabilities. While the outcome of legal proceedings cannot be predicted with certainty, based on the Company's review, the Company believes that any unrecorded liability that may result as a result of any legal proceedings is not likely to have a material effect on the Company's liquidity, financial condition or results from operations.

Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information required by this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

On November 2, 2011, the Company's Board of Directors authorized the repurchase of up to \$200,000 of its common stock through April 1, 2012. Common stock will be repurchased from time to time in the open market or through private transactions, subject to market conditions.

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|-------------|
|-------------|-------------|

No.

|     |  |
|-----|--|
| 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 | Articles of Amendment, dated August 22, 2000 (incorporated herein by reference to Exhibit 3.4 to the Company's Form 10-Q for the quarterly period ended June 30, 2008, filed August 14, 2008, File No. 000-21522) |
|-----|---|

|     |   |
|-----|---|
| 3.3 | Bylaws of Willamette Valley Vineyards, Inc. (incorporated herein by reference to Exhibit 3.5 to the Company's Form 10-Q for the quarterly period ended June 30, 2008, filed August 14, 2008 File No. 000-21522) |
|-----|---|

10.10†

Exclusive Distribution Agreement between Young's Market Company of Washington, LLC and the Willamette Valley Vineyards, Inc. entered into August 1, 2011

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

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 (Filed herewith)

32.2 Certification of R. Steven Caldwell pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

101 The following financial information from the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. (Filed herewith)

† Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.

SIGNATURES

Pursuant to the requirements of the Security 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.

Date: November 10, 2011 By: /s/ James W. Bernau

James W. Bernau  
President

Date: November 10, 2011 By: /s/ R. Steven Caldwell

R. Steven Caldwell  
Chief Financial Officer