WILLAMETTE VALLEY VINEYARDS INC
Form 10-K
March 27, 2012

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

FORM 10-K

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2011 or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _________________ to ________________________

Commission file number: 000-21522

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2011 was approximately $15,119,299.

The number of outstanding shares of the registrant's Common Stock as of March 27, 2012 was 4,892,977.

DOCUMENTS INCORPORATED BY REFERENCE

None

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

PART I

ITEM 1. BUSINESS

Forward Looking Statements

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

Business

Introduction – Willamette Valley Vineyards, Inc. (the “Company” or WVV) was formed in May 1988 to produce and sell premium, super premium and ultra premium varietal wines (i.e., wine which sells at retail prices of $7 to $14, $14 to $20 and over $20 per 750 ml bottle, respectively). Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company is headquartered in Turner, Oregon, where the Company’s Turner Vineyard and Winery are located on 110 acres of Company-owned land adjacent to Interstate 5, approximately two miles south of Salem, Oregon. The Company’s wines are made from grapes grown on the 791 acres of vineyard owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are harvested, fermented and made into wine at the Company’s Turner winery (the “Winery”) and the wines are sold principally under the Company’s Willamette Valley Vineyards label. Willamette Valley Vineyards is the owner of Tualatin Estate Vineyards and Winery located on approximately 125 acres near Forest Grove, Oregon, and leases an additional 114 acres of vineyard land at the Forest Grove location.

Products – Under its Willamette Valley Vineyards label, the Company produces and sells the following types of wine in 750 ml bottles: Pinot Noir, the brand’s flagship and its largest selling varietal in 2011, $22 to $100 per bottle; Chardonnay, $25 to $35 per bottle; Pinot Gris, $15 to $18 per bottle; Riesling and Oregon Blossom (blush blend), $10 to $12 per bottle (all bottle prices included herein are the suggested retail prices). The Company’s mission for this brand is to become the premier producer of Pinot Noir from the Pacific Northwest.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following type of wine in 750 ml bottles: Semi-Sparkling Muscat, $19 per bottle.

Under its Griffin Creek label, the Company produces and sells the following types of wine in 750 ml bottles: Syrah, the brand's flagship, $38 per bottle; Merlot, $38 per bottle; Cabernet Sauvignon, $38 per bottle; Cabernet Franc, $38 per bottle; The Griffin (a Bordeaux style), $60 per bottle; and Viognier, $25 per bottle. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Oregon.

ITEM 1. BUSINESS - continued

The Company holds U.S. federal and/or Oregon state trademark registrations for the trademarks material to the business, including but not limited to, the WILLAMETTE VALLEY VINEYARDS, GRIFFIN CREEK, WILLAMETTE and SIP.SAVE marks.

Market overview – The United States wine industry has seen a rapid increase in the number of wineries that are being established throughout the country. Since 1999, there has been an increase of 83 percent in the number of wineries located in the United States. In addition, wineries are classified as one of the fastest growing segments in agriculture with an annual growth of 10–15 percent.

In spite of the sluggish economy, the United States is also experiencing growth in the revenue generated from the sale of wine. United States wine consumption registered its 16th consecutive annual gain in 2009 with a mere 0.5 percent increase (30 percent increase in the past decade). According to the Gomberg-Fredrikson 2010 Annual Wine Industry Review, America is now the No. 1 wine consuming country in the world, surpassing France. America shows no signs of slowing down by posting the highest sales by value in January 2011 for the past five years. Domestically-produced red wines are projected to be the industry's fastest-growing segment, led by Pinot Noir and Cabernet Sauvignon, according to The U.S. Wine Market: Impact Databank Review and Forecast, 2009 Edition. Domestic white varietals are also expected to record volume gains, led by Pinot Gris and Riesling.

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

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

The Oregon wine industry – Oregon is a relatively new wine-producing region in comparison to California and France. In 1966, there were only two commercial wineries licensed in Oregon. In 2009 there were 387 commercial wineries licensed in Oregon and 19,400 acres of wine grape vineyards, 15,600 acres of which are currently producing. Total production of Oregon wines in 2009 is estimated to be approximately 2.3 million cases versus 2.1 million cases in 2008. The increase in cases produced is mainly due to the higher harvest yields in 2009 versus 2008. Oregon's entire 2009 production has an estimated retail value of approximately $466 million, assuming a retail price of $200 per case, and a FOB value of approximately one-half of the retail value, or $233 million.

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

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

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

Finally, phylloxera, an aphid-like insect that feeds on the roots of grapevines, has been found in several commercial vineyards in Oregon. Contrary to the California experience, most Oregon phylloxera infestations have expanded very slowly and done only minimal damage. Nevertheless, phylloxera does constitute a significant risk to Oregon vineyards. Prior to the discovery of phylloxera in Oregon, all vine plantings in the Company's Vineyard were with non-resistant rootstock. As of December 31, 2011, the Company has not detected any phylloxera at its Turner site. Beginning with the Company's plantings in May 1992, only phylloxera-resistant rootstock is used. In 1997, the Company purchased Tualatin Vineyards, which has phylloxera at its site. All plantings are with, and all future planting will be with phylloxera-resistant rootstock. The Company takes commercially reasonable precautions in an effort to prevent the spread of phylloxera to its Turner site.

ITEM 1. BUSINESS - continued

As a result of these factors, subject to the risks and uncertainties identified above, the Company believes that long-term prospects for growth in the Oregon wine industry are excellent. The Company believes that over the next several years the Oregon wine industry will grow at a faster rate than the overall domestic wine industry, and that much of this growth will favor producers of premium, super premium and ultra premium wines such as the Company's.

2010 Oregon harvest – The National Agricultural Statistics report states that the total yield per harvested acre in Oregon was down 29.0% in 2010. The planting of new grape acreage slowed again in 2010 with 900 acres of new acres planted compared to 1,098 in 2009. There was a net gain of 40 wineries in Oregon with a 4.4% increase in total cooperage. Case sales of Oregon wine increased 16.0% in 2010 and wine sales in dollars increased 25.0% from a year ago. The average price per ton for all grapes harvested in Oregon increased from $1,910 per ton in 2009 to $2,030 per ton in 2010. Total wine production in Oregon decreased 24.0% in 2010.

2011 Oregon harvest – There is no available data on the 2011 Oregon harvest as of the date of this report.

Company Strategy

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

Based upon several highly regarded surveys of the U.S. wine industry, the Company believes that successful wineries exhibit the following four key attributes: (i) focus on production of high-quality premium, super premium and ultra premium varietal wines; (ii) achieve brand positioning that supports high bottle prices for its high quality wines; (iii) build brand recognition by emphasizing restaurant sales; and (iv) develop strong marketing advantages (such as a highly visible winery location, successful support of distribution, and life-long customer service programs).

To successfully execute this strategy, the Company has assembled a team of accomplished winemaking professionals and has constructed and equipped a 12,784 square foot state-of-the-art Winery and a 12,500 square foot outdoor production area for the harvesting, pressing and fermentation of wine grapes.

The Company's marketing and selling strategy is to sell its premium, super premium and ultra premium cork-finished-wine through a combination of direct sales at the Winery and sales through independent distributors and wine brokers who market the Company's wine in specific targeted areas.

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

Vineyard – The Company now owns and leases for 460 acres of vineyard land. The vineyards the company owns and leases are all certified sustainable by LIVE (Low Input Viticulture and Enology) and Salmon Safe. At full production, we anticipate these vineyards, along with the existing grape purchase contracts, will enable the Company to grow approximately 85% of the grapes needed to meet the Winery's ultimate production capacity of 297,000 gallons

(125,000 cases).

ITEM 1. BUSINESS - continued

The property – The Company's estate vineyard at the Turner site currently has 56 acres planted and producing, with 24 acres of "certified organic" (by Oregon Tilth) Pinot Noir and 24 acres of Pinot Gris and Chardonnay. The oldest grapevines were planted in 1985, with additional grapevines planted in 1992, 1993, and 1999. Vineyards generally remain productive for 30 to 100 years, depending on weather conditions, disease and other factors. We estimate these vines will continue to produce for another 35 years under conditions known today. In 2009 an additional 8.8 acres of Pinot Noir was planted at the Estate on property acquired through lot line adjustment and purchase that will begin producing as part of the 2012 harvest.

The Estate Vineyard uses an elaborate trellis design known as the Geneva Double Curtain. The Company has incurred the additional expense of constructing this trellis because it doubles the number of canes upon which grape clusters grow and spreads these canes for additional solar exposure and air circulation. Research and practical applications of this trellis design indicate that it should improve grape quality through smaller clusters and berries over traditional designs.

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

These new French clones are called "Dijon clones" after the University of Dijon in Burgundy, which assisted in their selection and shipment to a U.S. government authorized quarantine site, and then seven years later to Oregon winegrowers. The most desirable of these new Pinot Noir 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 with phylloxera-resistant rootstock and the 667 and 777 clones have been grafted onto 7 acres of self-rooted, non-phylloxera-resistant vines at the Company's Estate Vineyard near Turner.

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

The purchase of Tualatin Vineyards, Inc. in April 1997 (including the subsequent sale-leasebacks of portions of the property in December 1999 and 2004) 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. In 2009 an additional 5 acres was planted at Tualatin Vineyards on property acquired though lot line adjustment and purchase.

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 2005 and 2006, the Company planted 23 acres and 10 acres, respectively, of mainly Pinot Gris and Pinot Noir.

In 2011, the Company purchased 17 acres of vineyard land adjoining the Turner Estate for future plantings. This land was acquired through lot line adjustment and purchase.

Grape supply – In 2011, the Company's 56 acres of producing estate vineyard yielded approximately 135 tons of grapes for the Winery's twenty third harvest. Tualatin Vineyards produced 461 tons of grapes in 2011. Elton Vineyards produced 122 tons of grapes in 2011. In 2011, the Company purchased an additional 609 tons of grapes from other growers. The Winery's 2011 total wine production was 190,000 gallons (80,200 cases) from its 2009 and 2010 harvests. The Company expects to produce approximately 230,000 gallons in 2012 (97,000 cases) from its 2011 harvest. The Vineyard cannot and will not provide the sole supply of grapes for the Winery's near-term production requirements.

In 2005, the Company entered into a long-term grape purchase agreement with one of its Willamette Valley wine grape growers whereby the grower agreed to plant 40 acres of Pinot Gris and 50 acres of Riesling and the Winery agreed to purchase the yield at fixed contract prices through 2015, with the first crop received in 2007. In 2006, the Company entered into a long-term grape purchase agreement with the same Willamette Valley wine grape grower whereby the grower agreed to plant 100 acres of Pinot Noir, 50 acres of Pinot Gris and 20 acres of Riesling and the Winery agreed to purchase the yield at fixed contract prices through 2016. The wine grape grower must meet strict quality standards for the wine grapes to be accepted by the Winery at time of harvest and delivery. The Company is obligated to purchase 100% of the crop produced within the strict quality standards and crop loads, equating to maximum payments of approximately $1,500,000 per year. We cannot calculate the minimum payment as such a calculation is dependent in large part on an unknown – the amount of grapes produced in any given year. If there are no grapes produced in any given year, or if the grapes are rejected for failure to meet contractual quality standards, the Company has no payment obligation for that year. Failure of the grower to comply with the provisions of the contracts would constitute a default, allowing the Company to recover damages, including expected lost profits. The Company has no right to use of the underlying properties. These new long-term grape purchase agreements will increase the Company's supply of high quality wine grapes and provide a long-term grape supply, at fixed prices.

ITEM 1. BUSINESS - continued

In 2007 the Company entered into a lease agreement for approximately 60 acres of vineyard land at Elton Vineyards. The acreage is mostly planted in Pinot Noir. This lease is for a 10-year term with four five-year renewals at the Company's option and a first right of refusal in the event of the vineyard's sale. For 2011, the annual costs of this lease were $113,468. For subsequent years there is an escalation provision tied to the CPI not to exceed 2% per annum.

In 2008 the Company purchased 80 acres, of which 71 acres is plantable, and also entered into a 34-year lease agreement with a property owner in the Eola Hills for an additional 109 acres. Both the purchased and leased properties are adjacent to the existing Elton Vineyards site. The 71 and 109 acres which are available for planting in 2011 will be developed into vineyards over time. Terms of the lease agreement contain rent escalation that rises as the vineyard is developed.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices or from bulk wine purchases from neighboring wineries. The Company believes high quality grapes and bulk wine will be available for purchase in sufficient quantity to meet the Company's requirements. The grapes grown on the Company's vineyards establish a foundation of quality, through the Company's farming practices, upon which the quality of the Company's wines is built. In addition, wine produced from grapes grown in the Company's own vineyards may be labeled as "Estate Bottled" wines. These wines traditionally sell at a premium over non-estate bottled wines.

Viticultural conditions – Oregon's Willamette Valley is recognized as a premier location for growing certain varieties of high quality wine grapes, particularly Pinot Noir, 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 in 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 generally 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 Estate property contains one water well which can sustain sufficient volume to meet the needs of the Winery and to provide auxiliary water to the Vineyard for new plantings and unusual drought conditions.

ITEM 1. BUSINESS - continued

At Tualatin Estate vineyard the Company has water rights to a year round spring that feeds an irrigation pond.

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

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

Winery

Wine production facility – The Company's Winery and production facilities are capable of efficiently producing up to 125,000 cases (297,000 gallons) of wine per year, depending on the type of wine produced. In 2011, the Winery produced approximately 190,000 gallons (80,200 cases) from its 2009 and 2010 harvest. The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, a tasting room, a retail sales room and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,000 square foot insulated storage facility with a capacity of 30,000 cases of wine. The Company also has a 20,000 square foot storage building to store its inventory of bottled product. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations.

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 25,000 cases (59,000 gallons) of wine production capacity to the Company, which the Company felt at the time of purchase was needed. 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. In 2008, the Company replaced the roof and production floor, insulation and walls, in anticipation of using it for wine storage and future production.

Hospitality facility – The Company has a 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 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 can cover the quadrangle, making it an all-weather outdoor facility to promote sale of the Company's wines through outdoor festivals and social events.

The Company believes the Hospitality Center and the park and quadrangle make 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 in Turner are subject to three mortgages with an aggregate principal balance of $4,193,917 at December 31, 2011. The mortgage is payable in monthly aggregate installments, including principal and interest, of approximately $450,000 annually through 2012, $436,826 annually from 2013 through 2025 and $195,300 annually through 2026.

ITEM 1. BUSINESS - continued

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

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

Harvest Year	Tons of Grapes Harvested	Gallons of Bulk Purchases	Production Year	Cases Produced
2005	1,132	-	2005	72,297
2006	1.488	-	2006	81,081
2007	1,746	-	2007	115,466
2008	1,425	57,736	2008	121,027
2009	2,133	74,954	2009	132,072
2010	1,045	4,276	2010	110,224
2011	1,327	9,620	2011	81,357

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

Sales and Distribution

Marketing strategy – The Company markets and sells its wines through a combination of direct sales at the Winery, sales directly and indirectly through its shareholders, self-distribution to local restaurants and retail outlets in Oregon (ending August 31, 2011), directly through mailing lists, and through distributors and wine brokers selling 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.

On August 1, 2011, the Company and 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 (collectively referred to hereafter as "Young's") entered into an Exclusive Distribution Agreement 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 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. The Company will discontinue its previous practice of distributing wines produced by the Company through Bacchus Fine Wines, the Company's distribution business. Bacchus Fine Wines will continue to promote the Company's wine as well as distribute other brands in its portfolio. No additional wine is being purchased for distribution by Bacchus as it winds down it's activity as a distribution arm of the Company. The purchased wine on hand at year end will be sold until the inventory is depleted.

We believe that online, consumer wine reviews are and will continue to play a significant role in "word of mouth" recommendations and consumer choices, and thus have been focusing our efforts in recent years on generating online interest in Willamette Valley Vineyards and its wines.

Our online efforts include the world of social marketing, and Willamette Valley Vineyards is now active on Facebook and Twitter. We also upload videos to YouTube and have a company blog. The number of people who follow us on each of these applications has grown consistently since these programs have been active.

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).

ITEM 1. BUSINESS - continued

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 and political and other events are also held at the Winery.

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 2011, direct sales contributed approximately 19.3% of the Company's revenue.

In September 2009, Willamette Valley Vineyards launched our partnership with Travel Salem at their new downtown Travel Café facility. This partnership now offers visitors and local consumers the opportunity to taste the "Fruit of the Vine" at a newly created tasting room and retail outlet. The goal of this partnership is to raise awareness and interest in the region's rich wine country, and ultimately lead to an increased regional economic impact from tourism.

Self-distribution – In 1990, the Company established a self-distribution wholesale system, which the Company refers to as Bacchus Fine Wines, to sell its wines to restaurant and retail accounts located in Oregon. In 2011 the Company discontinued this self-distribution operation of produced wine and began to utilize Young's as the Company's distribution arm for Oregon. The relationship with Young's commenced September 1, 2011. Management feels that the new process of distribution in Oregon will allow the Company to redirect its focus to the vineyards and wine making process as well as continuing the development of a distribution network nationwide.

Distributors and wine brokers – The Company uses both independent distributors and wine brokers primarily to market the Company's wines in specific targeted areas. Only those distributors and wine brokers who have demonstrated knowledge of and a proven ability to market premium, super premium, and ultra premium wines are utilized. The Company's products are distributed in 50 states and the District of Columbia and 8 non-domestic (export) customers. In 2011 and 2010, approximately 43.0% and 40.0%, respectively, of the Company's net revenues were attributable to out of state distribution.

Tourists – Oregon wineries are a popular tourist destination with many bed & breakfasts, motels and fine restaurants available. The Willamette Valley, Oregon's leading wine region has two-thirds of the state's wineries and vineyards and is home to approximately 400 wineries. An additional advantage for the Willamette Valley wine tourist is the proximity of the wineries to Portland (Oregon's largest city and most popular destination). From Portland, tourists can visit the Willamette Valley winery of their choice in anywhere from 45 minutes to two hours.

The Company believes its convenient location, adjacent to Interstate 5, enables the Winery to attract a significant number of visitors. The Winery is located 45 minutes from Portland and less than one mile from The Enchanted Forest, which operates from March 15 to September 30 each year and attracts approximately 130,000 paying visitors per year. Adjacent to the Enchanted Forest is the Hope Valley 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.

Dependence on Major Customers

Historically, the Company’s revenue has been derived from thousands of customers annually. In 2011 no one customer represented more than 10% of total revenues. In 2010 no one customer represented more than 10% of total revenues.

ITEM 1. BUSINESS - continued

Research and Development

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

Competition

The wine industry is highly competitive. In a broad sense, wines may be considered to compete with all alcoholic and nonalcoholic beverages. Within the wine industry, the Company believes that its principal competitors include wineries in Oregon, California and Washington, which, like the Company, produce premium, super premium, and ultra premium wines. Wine production in the United States is dominated by large California wineries that have significantly greater financial, production, distribution and marketing resources than the Company. Currently, no Oregon winery dominates the Oregon wine market. Several Oregon wineries, however, are older and better established and have greater label recognition than 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 additional production capacity will be needed to meet estimated future demand. Furthermore, the Company believes that its ultimate forecasted production level of 297,000 gallons (125,000 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 U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau and the Oregon Liquor Control Commission. The Company is licensed by and meets the bonding requirements of each of these governmental agencies. Sale of the Company's wine is subject to federal alcohol tax, payable at the time wine is removed from the bonded area of the Winery for shipment to customers or for sale in its tasting room. The current federal alcohol tax rate is $1.07 per gallon for wines with alcohol content at or below 14.0% and $1.57 per gallon for wines with alcohol content above 14.0%; however, wineries that produce not more than 250,000 gallons during the calendar year are allowed a graduated tax credit of up to $0.90 per gallon on the first 100,000 gallons of wine (other than sparkling wines) removed from the bonded area during that year. The Company also pays the state of Oregon an excise tax of $0.67 per gallon for wines with alcohol content at or below 14.0% and $0.77 per gallon for wines with alcohol content above 14.0% on all wine sold in Oregon. In addition, 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.

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

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

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

ITEM 1. BUSINESS - continued

Employees

As of December 31, 2011 the Company had 62 full-time employees and 30 part-time employees. In addition, the Company hires additional employees for seasonal work as required. The Company's employees are not represented by any collective bargaining unit. The Company believes it maintains positive relations with its employees.

Additional Information

The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and proxy statements with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issues, including the Company, that file electronically with the SECwww.sec.gov.. You may learn more about the Company by visiting the Company's website at www.wvv.com.

ITEM 1A. RISK FACTORS

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

Agricultural risks could adversely affect our business

Winemaking and grape growing are subject to a variety of agricultural risks. Various diseases, pests, fungi, viruses, drought, frost and certain other weather conditions can affect the quantity of grapes available to the Company, decreasing the supply of the Company's products and negatively impacting profitability. In particular, certain of the Company's vines are not resistant to phylloxera; accordingly, those vines are particularly at risk to the effects from an infestation of phylloxera. Phylloxera is a pest that attacks the rootstocks of wine grape plants. Vineyards in the United States, including some in Oregon and some owned by us, have been infested in recent years with Phylloxera. Since May of 1992, our vineyard properties have been planted with rootstocks believed to be resistant to Phylloxera. However, rootstocks planted by us prior to 1992 are not resistant. There can be no assurance that our existing vineyards, or the rootstocks we are now using in our planting programs, will not become susceptible to current or new strains of Phylloxera. Pierce's Disease is a vine bacterial disease. It kills grapevines and there is no known cure. Small insects called Sharpshooters spread this disease. A new strain of the Sharpshooter was discovered in Southern California and is believed to be migrating north. We are actively supporting the efforts of the agricultural industry to control this pest and are making every reasonable effort to prevent an infestation in our own vineyards. We cannot, however, guarantee that we will succeed in preventing contamination in our vineyards. Future government restrictions regarding the use of certain materials used in grape growing may increase vineyard costs and/or reduce production. Additionally, long-term changes in weather patterns could adversely affect our business.

We may not be able to grow or acquire enough quality fruit for our wines

The adequacy of our grape supply is influenced by consumer demand for wine in relation to industry-wide production levels. While we believe that we can secure sufficient supplies of grapes from a combination of our own production and from grape supply contracts with independent growers, we cannot be certain that grape supply shortages will not occur. A shortage in the supply of wine grapes could result in an increase in the price of some or all grape varieties and a corresponding increase in our wine production costs.

ITEM 1A. RISK FACTORS - continued

Loss of key employees could harm our reputation and business

Our success depends to some degree upon the continued service of a number of key employees. The loss of the services of one or more of our key employees, including the President, Winemaker, and CFO, could harm our business and our reputation and negatively impact our profitability, particularly if one or more of our key employees resigns to join a competitor or to form a competing company.

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

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

Costs of being a publicly-held company may put us at a competitive disadvantage

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

We face significant competition which could adversely affect our profitability

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

We compete for shelf space in retail stores and for marketing focus by our independent distributors, most of whom carry extensive product portfolios

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

ITEM 1A. RISK FACTORS - continued

Fluctuations in quantity and quality of grape supply could adversely affect us

A shortage in our supply of quality grapes may result from a variety of factors that determine the quality and quantity of our grape supply, including weather conditions, pruning methods, diseases and pests and the number of vines producing grapes. Any shortage in our grape production could cause a reduction in the amount of wine we are able to produce, which could reduce our sales and adversely impact our results from operations. Factors that reduce the quantity of our grapes may also reduce their quality, which in turn could reduce the quality or amount of wine we produce. Deterioration in the quality of our wines could harm our brand name and could reduce our sales and adversely impact our results of operations.

Contamination of our wines would harm our business

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

A reduction in consumer demand for premium wines could harm our business

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

Changes in consumer spending could have a negative impact on our financial condition and business results

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

Increased regulation could adversely affect us

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

ITEM 1A. RISK FACTORS - continued

Our common stock is thinly traded, and therefore not as liquid as other investments.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vineyards – The Company owns, leases, or contracts for 794 acres of vineyard land of which 317 acres is owned and 477 acres leased or under contract for grape purchases.

Wine production facility – The Company's Winery and production facilities are capable of efficiently producing up to 125,000 cases (297,000 gallons) of wine per year, depending on the type of wine produced. In 2011, the Winery produced approximately 190,000 gallons (80,200 cases) from its 2009 and 2010 harvest. The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, a tasting room, a retail sales room and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,000 square foot insulated storage facility with a capacity of 30,000 cases of wine. The Company also has a 20,000 square foot storage building to store its inventory of bottled product. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations. The Company has a large tasting and hospitality facility of 19,470 square feet (the "Hospitality Center"). 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. See additional discussion of vineyard & wine production facility under Item 1. Business.

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

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. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

Market Information

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

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

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

Quarters ended 2011	12/31/2011	9/30/2011	6/30/2011	3/31/2011
High	$ 3.24	$ 3.70	$ 3.40	$ 3.55
Low	$ 2.85	$ 2.65	$ 3.00	$ 3.02

Quarters ended 2010	12/31/2010	9/30/2010	6/30/2010	3/31/2010
High	$ 3.92	$ 3.69	$ 3.71	$ 3.95
Low	$ 3.25	$ 3.30	$ 3.17	$ 3.26

Holders

As of May 11, 2011, we had approximately 4,521 stockholders of record.

Dividends

The Company has not paid any dividends on the Common Stock, and the Company does not anticipate paying any dividends in the foreseeable future. The Company intends to use its earnings to grow the distribution of its brands, improve the quality of its products and reduce debt.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and related notes. Some statements and information contained in this

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

Critical Accounting Policies and Estimates

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

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

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, 45-day, 60-day or longer terms for some international customers.

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

The Company pays depletion allowances to the Company's distributors based on their sales to their customers. The Company sets these allowances on a monthly basis and the Company's distributors bill them back on a monthly basis. All depletion expenses associated with a given month are expensed in that month as a reduction of revenues. The Company also pays a sample allowance to some of 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 outbound shipping and handling charges are included in selling, general and administrative expense. Inbound freight costs for Bacchus purchased wines are capitalized into inventory at the time of purchase. The Company's gross margins may not be comparable to other companies in the same industry as other companies may include shipping and handling expenses as a cost of goods sold.

Overview

Results of Operations

The Company produced revenues of $15,661,905 in 2011 versus $17,370,803 in the prior year, a decrease of 9.8%. Income from operations increased by 77.2% to $1,500,437 in 2011, in comparison to $846,604 in 2010. Net earnings increased by 108.3% to $857,755 versus $411,808 in the prior year, and diluted earnings per share were 18 cents per share, which compares to 8 cents per share in the prior year.

These results are a combination of several key factors, including an increase in gross profit, decreased expenses and increase in income tax expense.

The increase in gross profit accounted for approximately 4.0% of the favorable change in income from operations versus the prior year and decreases in expenses account for about 96.0% of the favorable change.

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

Gross profit increase was generally affected by one key factor: decreased production costs of produced brands which resulted in a lower cost of goods sold.

The decrease in sales, general and administrative expense versus the prior year resulted from decreased commissions, wages and salary expense in selling, general & administrative expense coupled with the related expenses for payroll taxes and benefits. Audit fees again decreased in 2011 versus the prior year. The G&A expenses show an overall decrease of 16% from the prior year as G&A costs were better controlled. This was partially offset by the increase in facility repairs during the year versus the prior year.

The gross margin percent received from sales of all the winery's products were 49.3% in 2011 compared to 44.3% for 2010. The increased margin is due to decreases in the cost of produced wine. The gross margin received from the sale of produced wine in 2011 was 57.3% compared to 49.7% in 2010.

Out-of-state distributor sales revenue decreased 4.2% for the year ended December 31, 2011 as compared to the prior year. Retail sales increased 8.2%. Bacchus Fine Wines decreased 12.6% in the sales of Winery produced products and a decrease of 21.3% in sales of purchased wine and merchandise from other suppliers. The decrease in sales of Winery produced products for Bacchus was mostly the result of converting our in-state sales from utilizing our own distributor to selling the product through an Oregon distributor with the corresponding reduction in sales price beginning in September. This reduction in sales prices is a reflection of selling produced wine at an FOB prices as opposed to direct sales to restaurants and stores.

The Company had a line of credit balance of $0 at December 31, 2011 and 2010, respectively.

Sales

In the year ended December 31, 2011, the Company sold approximately 16,000 cases of Willamette Valley Pinot Noir (vintage level), 6,500 cases of Barrel Select Pinot Noir, 2,000 cases of Founders Reserve Pinot Noir, 2,400 cases of Single Vineyard Designates Pinot Noir, 19,000 cases of Whole Cluster Pinot Noir, 18,000 cases of Pinot Gris and 22,000 cases of Riesling.

At December 31, 2011 the Company had inventory on-hand of 28,272 cases of Willamette Valley Pinot Noir (vintage level), 4,220 cases of Barrel Select Pinot Noir, 2,427 cases of Founders Reserve Pinot Noir, 6,817 cases of Single Vineyard Designates Pinot Noir, 1,676 cases of Whole Cluster Pinot Noir, 13,785 cases of Pinot Gris and 8,412 cases of Riesling.

The Company has or plans to bottle 12,000 cases of 2011 Willamette Valley Pinot Noir (vintage level), 3,500 cases of Single Vineyard Designate Pinot Noir, 21,000 cases of 2011 Whole Cluster Pinot Noir, 17,000 cases of 2011 Pinot Gris and 23,000 cases of 2011 Riesling by December 2012.

The Company sold approximately 135,000 cases of wine in 2011, of which 104,000 cases were Winery-produced wines. Of the Winery-produced case sales in 2011, approximately 83,800 were the above listed varieties. Total purchased wine case sales in 2011 were approximately 30,800 cases. The 2011 harvest produced 1,327 tons of wine grapes. The 2011 harvest yielded higher volumes, approximately 27.0% higher than prior year. The expected 2011 vintage yield is expected to produce approximately 87,500 cases, which includes a few selected bulk wine sales.

Wine Inventory

The Company had approximately 85,000 cases of bottled wine on-hand at the end of 2011. In 2008, the Company addressed long-term grape shortages by acquiring an additional 80 acres of undeveloped vineyard land in the Eola Hills adjacent to the existing Elton Vineyards property currently under lease. The Company also executed a long-term lease for an additional 108.8 acres at the same Eola Hills site. These sites remain undeveloped. The Company also acquired 15 acres of property in 2008 adjacent to the existing Estate site at the Winery in Turner, OR. Of these 15 acres at the Estate Winery, 8.8 acres were developed and have been planted in grapes in 2009. The Company also acquired 5 acres of additional vineyard land at its Tualatin Estate Vineyard in 2008 and these acres were also developed and planted in 2009. In 2011 the Company purchased an additional 17 acres of land adjacent to the Estate Winery of which 15 acres will be planted in the future.

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

These actions bring to a total of 811 acres of vineyard owned, leased or contracted by the Company, with 23 of those acres recently planted and not productive. The 244 acres recently purchased and leased are undeveloped and therefore not planted. The total acres of Pinot Noir are 300, of which nine are young, non-productive vines; the total acres of Pinot Gris are 122 of which 14 are young, non-productive vines; the total acres of Riesling are 95, all of which are producing vines.

Production Capacity

Management purchased capital assets in 2011 at a much higher level than 2010. Purchases made in 2011 were annual replacement barrels for production and some major machinery and equipment purchases also for production. Capital purchases in 2012 will be reviewed closely to address future production requirements based on the expected increases in wine grape quantities. Management decided not to use the Tualatin production facility in 2011 due to the need to utilize the facility for storage of inventory. In 2008, the Company replaced the roof and production floor, insulation and walls in anticipation of using it for wine storage and future production.

Head Winemaker

During 2011 the Company lost its head winemaker, Forrest Klaffke, who passed away in December after a 3 year battle with cancer. As a result of Forrest's initial absence, our then assistant winemaker, Don Crank, who has been with the Company for 8 years, was promoted to winemaker. When Forrest returned to his duties, they both worked side by side until a reoccurrence of the cancer prevented Forrest from continuing his duties. In late December, Don assumed the duties of head winemaker. The Company's management is confident that he will continue the production of excellent wine in the future.

Wine Quality

Continued awareness of the Willamette Valley Vineyards brand, the Company and the quality of its wines, was enhanced by national and regional media coverage throughout 2011 and into 2012.

Three '08 Pinot Noirs were reviewed in the January issue of Wine & Spirits: Estate Pinot Noir, 92pts; Vintage Pinot Noir, 90pts; Signature Cuvée Pinot Noir, 92pts.

Also in January, Harvey Steiman of Wine Spectator rated the '08 Estate Pinot Noir 90pts.

In Gregory S. Walter's "Pinot Report", the following '08 Pinot Noirs were reviewed: Vintage Pinot Noir, 91pts.; South Block Pinot Noir, 91pts.; Hannah Pinot Noir, 93pts.; Fuller Pinot Noir, 93pts.; O'Brien Pinot Noir, 90pts.

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..

In the March Wine Enthusiast magazine issue, the '08 South Block earned 92pts. and Editor's Choice.

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

Willamette Valley Vineyards was one of four wineries to pour at the James Beard dinner held in Portland, OR in the month of March. The dinner was a kick-off event for the annual James Beard Foundation Awards, the nation's most prestigious recognition program honoring professionals in the food and beverage industry.

Wine Press Northwest magazine named the winery "Oregon Winery of the Year" in its Spring '11 edition.

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

At the LIVE annual meeting in April, Jim Bernau, Founder of Willamette Valley Vineyards was awarded Salmon-Safe's very first "Hero of Salmon" award for his implementation of the high impact Salmon-Safe SIP•SAVE campaign in print, retail, web and even vehicle graphics.

The June issue of Oregon Business magazine named Willamette Valley Vineyards one of "The 100 Best Green Companies to Work for in Oregon." The winners are from every sector in the state: landscapers, hotels, builders, software makers and of course, wineries.

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, 93pts.; 2008 Signature Cuvée Pinot Noir, 92pts.; 2008 Estate Pinot Noir, 92pts.; 2008 Pinot Noir, 90pts. and Best Buy; 2009 Pinot Gris - One of the Top 5 (number 4) "Most Popular" Pinot Gris & Grigio in their annual Restaurant Poll.

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.

October 2011 continued a long-held tradition as the Willamette Valley Vineyards Estate hosted its 13th annual Chefs' Nite Out, this year raising $50,000 for the Marion-Polk Food Share.

Dr. Jay Miller of Robert Parker's Wine Advocate stated in their October issue, "Willamette Valley Vineyards is a reliable producer of quality Pinot Noir…their Whole Cluster Pinot Noir is a perennial Best Buy." Dr. Miller also reviewed these wines; 2009 Elton Pinot Noir, 90pts; 2009 Hannah Pinot Noir, 90pts; 2009 Tualatin Estate Pinot Noir, 89pts.

Wine & Spirits featured our 2009 Estate Chardonnay giving it 90pts in their October issue.

Editor in chief of Snooth.com, Gregory DI Piaz, recongnized our 2009 Estate Pinot Noir as one of his top 6 Oregon Pinot Noirs and awarded it with a 92 pt score in a November article.

In December, the Seattle Times Wine Advisor, Paul Gregutt, named the 2008 South Block Pinot Noir as one of the "Top 100 Wines in the Oregon and Washington area."

NBC's new hit show "Grimm" chose to feature our 2009 Pinot Noir in select scenes on a recent episode, further strengthening brand awareness.

Up against over 350 outstanding Pinots, our 2008 O'Brien Pinot Noir was awarded a gold medal in February 2012 at the 10th annual Pinot Noir Shootout in California.

The OSU Austin Entrepreneurship Program held their 2012 Weatherford Awards in February, recognizing Jim Bernau and three other individuals who have 'furthered Oregon's pioneering and innovative spirit."

The March 2012 issue of Wine Enthusiast magazine recognized several of our wines with 90+ point scores; 2010 Riesling, 90pts/Best Buy;2009 Elton Pinot Noir, 91pts/Cellar Selection; 2009 Tualatin Estate Pinot Noir, 90pts.

Seasonal and Quarterly Results

The Company has historically experienced and expects to continue experiencing seasonal fluctuations in its revenues and net income. The Company reported a profit during its first quarter of 2011 and expects the first quarter of 2012 to report a profit as well although it historically is the weakest of the year. Sales volumes increase progressively beginning in the second quarter through the fourth quarter because of consumer buying habits.

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

The following table sets forth certain information regarding the Company's revenues, excluding excise taxes, from Winery operations for the three and twelve months ended December 31, 2011 and December 31, 2010:

	Three months ended December 31, 2011		Twelve months ended December 31, 2011	
	2011	2010	2011	2010
Retail sales	$ 882,213	$ 718,367	$ 3,014,980	$ 2,785,786
In-state sales	1,243,402	2,254,818	6,296,319	7,640,237
Out-of-state sales	1,862,608	2,069,013	6,740,106	7,038,322
Bulk wine/miscellaneous sales	1,400	222,918	2,010	371,908
Total revenue	3,989,623	5,265,116	16,053,415	17,836,253
Less excise taxes	(87,975)	(143,662)	(391,510)	(465,450)
Net revenue	$ 3,901,648	$ 5,121,454	$ 15,661,905	$ 17,370,803

2011 Compared to 2010

Retail sales for the year ended December 31, 2011 increased $229,194, or 8.2%, as compared to the corresponding prior year period. Retail sales increased significantly during the year ended December 31, 2011, due to a combination of increases throughout the department. There was an increase of On Site and Off Site Events of $42,994, or 14.3% as well as an increase of $144,396, or 24.2%, in Wine Club sales and an increase of $75,088, or 149.6% in Internet sales. The focus on customers for life through telephone, internet order and retail sales will continue with the goal of expanding the customer base and continuing the trend of increasing revenue generation by the Retail department.

Total wholesale sales in the state of Oregon, through the combination of the Company's in-state sales force and the Company's new distributor relationship with Young's decreased $1,343,918, or 17.6%, in the year ended December 31, 2011, as compared to the prior year. The decrease was mainly the result of the newly created relationship with Young's as the distributor of WVV label products starting September 1, 2011 as well as reduced sales of purchased wine as Bacchus winds down its operation as a distribution arm of the Company. This new relationship resulted in a lower sales price of wine during the last four months of 2011. The Willamette Valley Vineyards branded wine sales were lower than 2010 by 12.6% and as already noted were the primary factor in the 17.6% decrease in overall in-state sales.

Out-of-state sales in the year ended December 31, 2011 decreased $298,216, or 4.2%, as compared to the prior year. The national sales team is actively pursuing increasing our points of distribution and has opened markets through new distribution channels. The Company now sells wine in all 50 states and exports wine to eight countries. The Pinot Noir variety led sales in 2011.

The Company pays alcohol excise taxes to both the Oregon Liquor Control Commission and to the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau. These taxes are based on product sales volumes. The Company is liable for the taxes upon the removal of product from the Company's warehouse on a per gallon basis. The Company also pays taxes on the grape harvest on a per ton basis to the Oregon Liquor Control Commission for the Oregon Wine Board. The Company's excise taxes for the year ended December 31, 2011 decreased 15.8% as compared to the prior year period. This was due primarily to a decrease in overall volume of sales out of state in 2011 which are taxed by the TTB and the decline of obtaining purchased wine from other wineries which are taxed by OLCC. Sales data in the discussion above is quoted before the exclusion of excise taxes.

As a percentage of net revenue, gross profit was 49. 3% in the year ended December 31, 2011, an increase of 11.3% compared to the 44.3% gross profit percentage from the prior year. This increase in the gross profit percent is mainly due to the decrease in production costs on produced wine.

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

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

Amortization of vineyard development costs of productive acres is included in capitalized crop costs that, in turn, are included in inventory costs and ultimately become a component of cost of goods sold. For the years ending December 31, 2011 and 2010, approximately $75,044 and $73,751, respectively, were amortized into inventory costs.

Selling, general and administrative expenses for the year ended December 31, 2011 decreased $627,952, or 9.2%, compared to the prior year. The decrease in sales, general and administrative expense versus the prior year resulted from decreased commissions, wages and salary expense in Selling, general & administrative expense coupled with the related expenses for payroll taxes and benefits. Audit fees again decreased in 2011 versus the prior year. The G&A expenses show an overall decrease of 16% from the prior year as G&A costs were better controlled through management oversight of daily expenditures as well as reduction in staffing levels due to the wind down of Bacchus Distribution for the distribution of wine in Oregon. This was partially offset by the increase in facility repairs during the year versus the prior year.

Interest income remained the same for the year ended December 31, 2011 versus the prior year. Interest expense increased 12.9% or $24,831 in the year ended December 31, 2011 as compared to the prior year. The increase in interest expense was due to the increase in long-term debt during the year.

The provision for income taxes and the Company's effective tax rate was $514,926 and 37.5%, respectively of pre-tax income in the year ended December 31, 2011, compared to $273,351 and 39.9% of pre-tax income recorded for the prior year.

As a result of the above factors, net income increased 108.3% to $857,755 in the year ended December 31, 2011 from $411,808 for the prior year. Earnings per share were $0.18 per share in the year ended December 31, 2011 and $0.08 in the prior year.

First Quarter 2012 Outlook

Sales in the first two months of 2012 are lower than the prior year's sales for the same period, showing a 4.0% overall decrease. In-state sales through Bacchus Fine Wines, which includes only purchased wine sales in 2012, are down by 27.2%. This is reflective of the winding down of Bacchus as a distribution arm of WVV, National sales, which now includes the Oregon market are down slightly by 0.4% and Retail/Direct sales are up by 25.1%.

Liquidity and Capital Resources

At December 31, 2011, the Company had a working capital balance of $12.9 million and a current ratio of 8.11:1. At December 31, 2010, the Company had a working capital balance of $11.4 million and a current ratio of 5.98:1. The Company had a cash balance of $3,411,292 at December 31, 2011 compared to a cash balance of $1,518,864 at December 31, 2010. The increase in cash year over year was primarily due to the reduction of inventory levels from the prior year as well as reducing operating expenses.

Total cash provided in operating activities for the year ended December 31, 2011 was $2,719,798, compared to cash provided of $3,008,319 for the prior year, primarily as a result of the cash provided by the reduction of Company's inventory levels in 2011.

Total cash used in investing activities in the year ended December 31, 2010 was $1,737,593, compared to $643,274 in the prior year. Cash used in investing activities consisted mainly of additions to property and equipment and vineyard development expenditures.

Total cash provided by financing activities in the year ended December 31, 2011 was $910,223, compared to cash used of $846,181 in 2010. Cash provided by financing activities in 2011 primarily consisted of the obtaining of a long-term loan during the year.

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

At December 31, 2011, the line of credit balance was $0 on a maximum borrowing amount of $2,000,000. The Company has a loan agreement with Umpqua Bank that contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of December 31, 2011, the Company was in compliance with all of the financial covenants. The current line of credit loan agreement with Umpqua Bank is due to renew in June 2012.

As of December 31, 2011, the Company had a total long-term debt balance of $4,193,917 owed to NW Farm Credit Services. The debt with NW Farm Credit Services was used to finance the Hospitality Center, invest in winery equipment to increase the Company's winemaking capacity, complete the storage facility, acquire new vineyard land for future development and, most recently, to upgrade the Hospitality Center and other property infrastructure.

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

The Company's contractual obligations as of December 31, 2011 including long-term debt, grape payables and commitments for future payments under non-cancelable lease arrangements are summarized below:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-term debt	$ 4,208,590	$ 197,936	$ 663,808	$ 510,360	$ 2,836,486
Grape payables	389,233	389,233	-	-	-
Operating leases	3,322,693	384,259	1,058,011	719,921	1,160,502
Total contractual obligations	$ 7,920,516	$ 971,428	$ 1,721,819	$ 1,230,281	$ 3,996,988

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheets of Willamette Valley Vineyards, Inc. (the "Company") as of December 31, 2011 and 2010, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette Valley Vineyards, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Portland, Oregon
March 27, 2012

WILLAMETTE VALLEY VINEYARDS, INC.
BALANCE SHEETS

ASSETS

	December 31, 2011 (audited)	December 31, 2010 (audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 3,411,292	$ 1,518,864
Accounts receivable, net	1,058,312	1,264,966
Inventories (Note 3)	9,619,145	10,712,018
Prepaid expenses and other current assets	138,382	82,241
Current portion of note receivable	61,492	62,415
Current portion of distribution agreement receivable	250,000	-
Income tax receivable	229,337	115,063
Total current assets	14,767,960	13,755,567
Vineyard development costs, net	1,643,546	1,662,292
Property and equipment, net (Note 4)	7,300,737	6,243,990
Debt issuance costs	50,752	32,438