

WILLAMETTE VALLEY VINEYARDS INC  
Form 10-Q  
November 15, 2010

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, 2010

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

Commission File Number 000-21522

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

Oregon (State or other jurisdiction of incorporation or organization)	93-0981021 (I.R.S. Employer Identification No.)
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8800 Enchanted Way, S.E., Turner, Oregon (Address of principal executive offices)	97392 (Zip Code)
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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 (§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

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

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

Indicate by 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 September 30, 2010: 4,892,977 shares, no par value

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## WILLAMETTE VALLEY VINEYARDS, INC.

## Balance Sheet

	September 30 2010 (unaudited)	December 31 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 336,463	\$ -
Accounts receivable trade, net	1,497,094	1,458,497
Inventories	11,033,187	12,169,407
Prepaid expenses and other current assets	138,476	58,746
Current portion of notes receivable	62,415	62,415
Income tax receivable	192,460	464,958
<b>Total current assets</b>	<b>13,260,095</b>	<b>14,214,023</b>
Vineyard development cost, net	1,680,740	1,732,979
Property and equipment, net	6,071,280	6,192,229
Debt issuance costs, net	34,405	41,353
Note receivable, net of current portion	99,398	120,248
Other assets	4,456	4,456
<b>Total assets</b>	<b>\$ 21,150,374</b>	<b>\$ 22,305,288</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Bank overdraft	\$ -	\$ 271,911
Line of credit	-	140,964
Current portion of long term debt	450,268	432,863
Accounts payable	940,814	823,517
Accrued expenses	485,148	467,588
Deferred income taxes	62,000	62,000
Grapes payable	-	657,371
<b>Total current liabilities</b>	<b>1,938,230</b>	<b>2,856,214</b>
Long-term debt, net of current portion	2,949,174	3,286,005
Deferred rent liability	215,803	218,205
Deferred gain	289,764	313,835
Deferred income taxes	491,000	491,000
<b>Total liabilities</b>	<b>5,883,971</b>	<b>7,165,259</b>
Shareholders' equity	8,623,744	8,608,658

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Common stock, no par value - 10,000,000 shares authorized,  
4,892,977 and 4,888,977 shares issued and outstanding at September  
30, 2010 and December 31, 2009

Retained Earnings		6,642,659		6,531,371
Total shareholders' equity		15,266,403		15,140,029
Total liabilities and shareholders' equity	\$	21,150,374	\$	22,305,288

The accompanying notes are an integral part of this financial statement.

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WILLAMETTE VALLEY VINEYARDS, INC.  
Statement of Operations  
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net revenues				
Case revenue	\$ 4,600,344	\$ 4,360,206	\$ 12,249,349	\$ 12,052,828
<b>Total net revenues</b>	<b>4,600,344</b>	<b>4,360,206</b>	<b>12,249,349</b>	<b>12,052,828</b>
Cost of sales				
Case	2,629,786	2,231,411	6,952,178	6,051,242
<b>Total cost of sales</b>	<b>2,629,786</b>	<b>2,231,411</b>	<b>6,952,178</b>	<b>6,051,242</b>
<b>Gross profit</b>	<b>1,970,558</b>	<b>2,128,795</b>	<b>5,297,171</b>	<b>6,001,586</b>
Selling, general and administrative expenses	1,638,320	1,668,935	4,974,422	4,768,443
<b>Net operating income</b>	<b>332,238</b>	<b>459,860</b>	<b>322,749</b>	<b>1,233,143</b>
Other income (expense)				
Interest income	3,419	-	9,546	-
Interest expense	(53,265)	(42,135)	(162,962)	(111,013)
Other income	3,182	895	16,146	2,818
<b>Net income before income taxes</b>	<b>285,574</b>	<b>418,620</b>	<b>185,479</b>	<b>1,124,948</b>
Income tax expense	114,229	170,599	74,191	457,987
<b>Net income</b>	<b>171,345</b>	<b>248,021</b>	<b>111,288</b>	<b>666,961</b>
Retained earnings beginning of period	6,471,314	6,218,841	6,531,371	5,799,901
<b>Retained earnings end of period</b>	<b>\$ 6,642,659</b>	<b>\$ 6,466,862</b>	<b>\$ 6,642,659</b>	<b>\$ 6,466,862</b>
Basic earnings per common share	\$ 0.04	\$ 0.05	\$ 0.02	\$ 0.14
Diluted earnings per common share	\$ 0.03	\$ 0.05	\$ 0.02	\$ 0.14
Weighted average number of basic common shares outstanding	4,891,760	4,877,020	4,889,915	4,862,667
Weighted average number of diluted common shares outstanding	4,898,203	4,888,667	4,896,530	4,845,304

The accompanying notes are an integral part of this financial statement.



WILLAMETTE VALLEY VINEYARDS, INC.  
Statement of Cash Flows  
(unaudited)

	Nine Months ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 111,288	\$ 666,961
Reconciliation of net income to net cash from operating activities:		
Depreciation and amortization	531,864	485,011
Inventory obsolescence reserve	20,418	-
Deferred gain	(24,071)	(24,071)
Deferred rent	(2,402)	426
Bad Debt Expense	5,390	-
Stock based compensation expense	8,836	13,482
Changes in operating assets and liabilities:		
Accounts receivable trade	(43,987)	(215,719)
Inventories	1,115,802	(1,036,530)
Prepaid expenses and other current assets	(79,730)	(73,873)
Income taxes receivable	272,498	-
Accounts payable	117,297	(510,352)
Accrued expenses	17,560	(2,446)
Income taxes payable	-	(270,736)
Grape payables	(657,371)	(509,488)
Net cash from operating activities	1,393,392	(1,477,335)
Cash flows from investing activities:		
Additions to property and equipment	(348,665)	(495,018)
Additions to vineyard development	(3,063)	(35,183)
Payments received on grape supplier loan	20,850	31,207
Net cash from investing activities	(330,878)	(498,994)
Cash flow from financing activities:		
Proceeds from stock options exercised	6,250	75,015
Bank overdraft	(271,911)	1,753,251
Net borrowings (payments) on revolving line of credit	(140,964)	28,380
Payments on long-term debt	(319,426)	(243,549)
Excess tax benefit on stock option exercises	-	20,386
Net cash from financing activities	(726,051)	1,633,483
Net change in cash and cash equivalents	336,463	(342,846)
Cash and cash equivalents:		
Beginning of period	-	350,361



End of period	\$	336,463	\$	7,515
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The accompanying notes are an integral part of this financial statement.

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## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1) BASIS OF PRESENTATION

The accompanying unaudited financial statements for the three months and nine months ended September 30, 2010 and 2009, have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The financial information as of December 31, 2009 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, 2009. 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, 2009, as presented in the Company’s Annual Report on Form 10-K.

Operating results for the three months and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2010, 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. There were no potentially dilutive shares excluded from the computation for the three and nine month periods ended September 30, 2010. 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. 11,647 and 17,363 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and nine month periods ended September 30, 2009, respectively.

### 2) Effects of Recently Issued Accounting Standards

In May 2009, the Financial Accounting Standards Board (“FASB”) issued a new statement that establishes general standards of accounting for, and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The new statement, located under the FASB Accounting Standards Codification™ (“ASC”) Topic 855 “Subsequent Events” (formerly SFAS 165, Subsequent Events) requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected, that is, whether that date represents the date the financial statements were issued or were available to be issued. The new statement is effective for interim or annual periods ending after June 15, 2009, which was the quarter ended June 30, 2009 for the Company. In February 2010, the FASB amended its guidance removing the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. The adoption of this new statement did not have a material impact on our financial statements.

## 3) 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.

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

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	355,700	\$ 4.16	355,700	\$ 4.16
Exercised	(4,000)	1.56	(4,000)	1.56
Expired	(79,000)	3.33	(79,000)	3.33
Outstanding at end of Period	272,700	\$ 4.44	272,700	\$ 4.44

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 grant.

## Black-Scholes assumptions

	September 30, 2010
Risk free interest rates	2.53%
Expected dividend	0%
Expected lives, in years	5-10
Expected volatility	24.4%

The Company expenses stock options on a straight-line basis over the options' related vesting term. For the three months ended September 30, 2010 and 2009, the Company recognized pretax compensation expense related to stock options of \$ 6,626 and \$ 4,494, respectively; and for the nine months ended September 30, 2010 and 2009, the Company recognized pretax compensation expense related to stock options of \$8,836 and \$13,482, respectively.

During the nine months ended September 30, 2010, the following transactions related to stock option exercise occurred:

	Shares	Exercise Price
Stock Options Exercised	4,000	\$ 1.56

The exercise of the aforementioned options resulted in a reduction of \$3,036 in the Company's tax liability. This tax savings is reflected in the financials presented at September 30, 2010.

## 4) INVENTORIES

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

	September 30, 2010 (unaudited)	December 31, 2009
Winemaking and packaging materials	\$ 330,093	\$ 336,813
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	2,492,650	3,068,934
Finished goods (bottled wines and related products)	8,210,443	8,763,660
Current inventories	\$ 11,033,187	\$ 12,169,407

## 5) PROPERTY AND EQUIPMENT

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

	September 30, 2010 (unaudited)	December 31, 2009
Construction in progress	\$ 253,750	\$ 142,971
Land and improvements	2,603,763	2,594,155
Winery building and hospitality center	5,328,579	5,315,163
Equipment	5,781,619	5,566,757
	13,967,711	13,619,046
Less accumulated depreciation	(7,896,431)	(7,426,817)

	\$	6,071,280	\$	6,192,229
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## 6) INTEREST AND TAXES PAID

During the third quarter ended September 30, 2010, the Company paid \$0 in federal, state and local income taxes and \$107,401 in payroll tax. Additionally, \$ 53,265 was paid in interest on the long-term debt and revolving credit line for the same period. For the nine month period ended September 30, 2010, the Company received a Federal tax refund in the amount of \$200,000, paid \$0 in Federal, State and Local income taxes and \$319,852 in payroll tax. Additionally, \$ 162,962 was paid in interest on the long-term debt and revolving credit line for the same period.

## 7) 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, 2010 by operating segment:

	Three months ended September 30, 2010		
	Bacchus Distribution	Produced 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
% of sales	18.0%	50.4%	42.8%

	Nine months ended September 30, 2010		
	Bacchus Distribution	Produced 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
% of sales	20.3%	51.0%	43.2%

Total inventory for Bacchus Distribution was \$1,371,656 of purchased wines and \$367,348 of non-wine merchandise at September 30, 2010. At September 30, 2009 total inventory for Bacchus Distribution was \$2,118,897 of purchased wines and \$347,621 of non-wine merchandise, a reduction of \$ 747,241 of purchased wines and an increase of \$ 19,727 of non-wine merchandise from 2009 to 2010. Total inventory for produced wine inventory was \$6,471,438 and \$2,822,743 of non-wine merchandise and work-in-process at September 30, 2010. At September 30, 2009 total produced wine inventory of \$6,337,133 and \$2,837,086 of non-wine merchandise and work-in-process for the same period, an increase of \$ 134,305 for produced wine inventory and a reduction of \$ 14,343 in work-in-process from 2009 to 2010.

## 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, we 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 our 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, we evaluate our estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development

costs. We base our 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 our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2009. Such policies were unchanged during the three and nine months ended September 30, 2010.



## Overview

Net revenue for the three months ended September 30, 2010 increased \$240,138 or 5.5%, from the comparable prior year period. Sales to out-of-state distributors in the third quarter of 2010 through our National Sales Department increased \$213,355 or 12.6% and our Direct Sales Department increased by \$96,396 or 14.5% but these gains were partially offset by a reduction of \$190,533 in revenues from our in-state wholesale department, Bacchus Fine Wines. Last year, significant Oregon sales through a large national chain were not duplicated this year due to retailer product rotation.

Despite Oregon's poor economy, these direct retail gains are due to increased winery visitations and related sales activity at on-site and off-site events as well as a substantial increase in Wine Club sales during the quarter. The addition of a new tasting room in McMinnville, OR known as the Wine Center also helped sustain retail tasting room sales in the third quarter 2010 versus 2009.

The Company sold approximately 38,868 cases during the three months ended September 30, 2010. Of these cases sold, approximately 28,951 cases were produced brands and another 9,917 cases were purchased brands.

Our cost of goods on produced wines have increased sharply for those vintages sold resulting in a decrease in Gross Profit of \$68,699 over the prior period. Management expects margins to return to historical levels when the '09 vintage wines are sold and the portion of purchased wine which is aged and discounted is sold.

The reduction in gross margin, partially offset by a decrease in administrative costs produced a net income for the third quarter ended September 30, 2010 of \$171,345 compared to net earnings of \$248,021, a 30.9% decrease over the comparable prior year period. As a result, the Company generated \$0.04 basic earnings per share during the three months ended September 30, 2010, a decrease of \$0.01 basic earnings per share versus the comparable prior year period.

The winery bottled approximately 33,950 cases in the third quarter of 2010, mainly 2009 vintage and Estate Pinot Noir as well as Riesling.

The record '09 harvest has significantly added to produced wine inventory and work-in-progress. However, purchased wine and merchandise inventories are being brought into balance through tighter sales and purchasing management - a reduction of \$1,136,220 in this carried inventory value since December 31, 2009.

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 2011. The index rate at September 30, 2010 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, 2010, the Company was in compliance with all of the financial covenants.

At September 30, 2010, we had no amount outstanding on the line of credit. At September 30, 2010, the availability on the line of credit was \$2,000,000.

At December 31, 2009, we had \$140,964 outstanding on the line of credit. At December 31, 2009, the availability on the line of credit was \$1,859,036.

Willamette Valley Vineyards continues to garner high praise from consumer media and wine reviewers for high quality wines and high-profile marketing efforts.

Our 2008 Willamette Valley Vineyards Pinot Noir was “Recommended” in the summer edition of Wine Press Northwest. It was also featured in the October issue of Sunset Magazine as one of Top Seven Pinot Noirs. The summer edition of Wine Press Northwest also reviewed the 2008 Estate Pinot Noir, 2008 Signature Cuvee Pinot Noir, and 2008 Elton Pinot Noir as “Excellent” and the 2009 Whole Cluster Pinot Noir as “Outstanding!”.

Our 2008 Dijon Clone Chardonnay was rated 91 points by editor Meredith May in the July issue of Patterson’s Tasting Panel. This was our first wine to carry the Oregon Certified Sustainable Wine seal on its label.

In the August issue of Wine & Spirits Magazine, our 2008 Dry Riesling was awarded 88 points, as well as named a “Best Buy” and a “Year’s Best Riesling”. Of 183 Rieslings tasted over a 12 month period, only 14 qualified as Best Buys and 30 made the rank of Year’s Best. Additionally, wine writer Gregory Dal Piaz, Editor in Chief of Snooth – a web-based wine review and shopping site – scored the 2008 Dry Riesling at 90 points and our 2008 semi-sweet Riesling at 92 points.

Continuing efforts to expand distribution in Hong Kong garnered media attention during the third quarter, with the Oregon Business Magazine and The Oregonian both running stories that featured WVV’s involvement in international trade efforts. As one of 14 Oregon wineries to announce our carbon neutrality in April, coverage of the story continues in regional publications. Portland Monthly Magazine, the Oregon Wine Press and the Portland Business Journal all ran stories highlighting WVV’s involvement in this first-of-its-kind program.

In October, Willamette Valley Vineyards hosted its 12th annual Chefs’ Nite Out, this year raising \$52,000 for the Marion-Polk Foodshare. Additionally, the winery and Founder Jim Bernau were honored with the prestigious Oregon Governor’s Gold Award for having “achieved the status of one of the region’s leading wineries; recognized for its environmental concerns and sustainable winegrowing practices; and has earned the title of one of America’s great Pinot Noir producers.”

## RESULTS OF OPERATIONS

## Revenue

Net revenue for the three months ended September 30, 2010 increased \$240,138 or 5.5%, from the comparable prior year period. Sales through our in-state distribution arm, Bacchus Fine Wines, decreased \$ 190,533 or 9.1% but were offset by gains through our other sales departments.

Sales to out-of-state distributors in the third quarter increased \$213,355, or 12.63% and our Direct Sales Department (direct-to-consumer) sales increased by \$96,396 or 14.5% versus prior year. These retail gains are due to increased attendance and related sales activity at the on-site and off-site events as well as a substantial increase in Wine Club sales during the quarter. The increase in revenue in the third quarter of 2010 is also reflective of \$137,777 in bulk wine sales during the period. There were no bulk wine sales in the prior year period.

The Company sold approximately 38,868 cases during the three months ended September 30, 2010. Of these cases sold, approximately 28,951 cases were produced brands and another 9,917 cases were purchased brands.

Our revenues from winery operations are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Retail Sales, Rental Income and Events	\$ 760,520	\$ 664,124	\$ 2,067,420	\$ 1,792,655
In-state sales	1,899,078	2,089,611	5,385,419	5,572,194
Out-of-state sales	1,901,976	1,688,622	4,969,309	4,992,344
Bulk/misc sales	138,340	-	148,989	10,991
Total Revenue	4,699,914	4,442,357	12,571,137	12,368,184
Less excise taxes	( 99,570)	( 82,151)	(321,788)	(315,356)
Net Revenue	\$ 4,600,344	\$ 4,360,206	\$ 12,249,349	\$ 12,052,828

Sales in the state of Oregon, through our wholesale department, Bacchus Fine Wines, decreased \$190,533 or 9.1%, for the three months ended September 30, 2010, compared to the corresponding prior year period.

Out-of-state sales in the three months ended September 30, 2010 increased \$213,354 or 12.6% versus the comparable prior year period.

## Cost of Goods Sold

Our cost of goods on produced wines have increased sharply from prior vintages sold and an aggressive push to reduce our aged purchase wine inventory has resulted in a decrease in Gross Profit of \$158,237 over the prior period. Management expects margins to return to historical levels when the '09 vintage wines are sold and we have worked through our aged inventory to an acceptable level.

## Gross Profit

Gross profit for the three months ended September 30, 2010 decreased \$158,237 or -7.43%, versus the third quarter of 2009.



As a percentage of net revenue, gross profit from winery operations was 42.84% in the three months ended September 30, 2010, compared to 48.82% in the comparable prior year period. The decrease in gross profit as a percentage of net revenue for the three months ended September 30, 2010 is mainly due to the increase in the cost of our produced brands across our product lines as well as the aggressive push to reduce our aged purchase wine inventory.

#### Selling, General and Administrative Expense

Selling, general and administrative expense for the three months ended September 30, 2010 decreased \$30,615 or 1.8% compared to the corresponding prior year period. This decrease is due primarily to a reduction 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 35.6% for the three months ended September 30, 2010, as compared to 38.3% for the comparable prior year period.

#### Interest Income, Interest Expense

Interest income for the third quarter 2010 was \$3,419 and for the nine months ended September 30, 2010 was \$ 9,546. During the corresponding periods in 2009 the Company earned no interest income. Interest expense for the three months ended September 30, 2010 was \$ 53,265 an increase of \$11,130 or 26.4% compared to the corresponding prior year period. Interest expense for the nine months ended September 30, 2010 was \$ 162,962 an increase of \$52,079 or 47.0% compared to the corresponding prior year period. The average interest rate paid for the three months ended September 30, 2010 was 6.2%.

#### Income Taxes

The income tax expense in the third quarter 2010 was \$114,229 for the three months ended September 30, 2010, compared to income tax expense of \$170,599 for the comparable prior year period. Our estimated tax rate for the three months ended September 30, 2010 and 2009 was 40.0% and 40.0%, respectively.

#### Net Income and Earnings per Share

The reduction in gross margin although offset somewhat by a decrease in selling and administrative costs produced a net income for the third quarter ended September 30, 2010 of \$171,345 compared to net income of \$248,021, a 30.9% decrease over the comparable prior year period. As a result, the Company generated a \$0.04 basic earnings per share during the three months ended September 30, 2010, a decrease of \$0.01 basic earnings per share versus the comparable prior year period.

The winery bottled approximately 33,950 cases in the third quarter of 2010, mainly 2009 vintage Pinot Noir-OCS, 2009 vintage Pinot Noir-Estate and 2009 vintage Riesling.

The record '09 harvest has significantly added to produced wine inventory and work-in-progress. It is offset, however, by a reduction in purchased wine and merchandise inventories through tighter sales and purchasing management – a reduction of \$ 1,136,220 in this carried inventory value since December 31, 2009.

#### Liquidity and Capital Resources

At September 30, 2010, we had a working capital balance of \$11.3 million and a current working capital ratio of 6.84:1. At December 31, 2009, we had a working capital balance of \$11.4 million and a current working capital ratio of 4.98:1. We had a cash balance of \$336,463 at September 30, 2010, compared to a cash balance of \$0 at December 31, 2009.



Total cash provided by operating activities in the nine months ended September 30, 2010 was \$1,393,392 compared to cash used in operating activities of \$1,477,335 for the same period in the prior year. The decrease in cash used in operating activities versus prior year was primarily due to the reduction in on-hand inventory.

Total cash used in investing activities in the nine months ended September 30, 2010 was \$330,878, compared to \$498,994 used in the comparable prior year period. The decrease was due to a reduction in the current period of capital expenditures for property and equipment and vineyard development costs versus the prior year.

Total cash used in financing activities in the nine months ended September 30, 2010 was \$726,051 compared to \$1,633,483 provided by financing activities in the comparable prior year period. Cash used by financing activities in the current year primarily consists of the reduction of the bank overdraft as well as payments on the revolving credit line and 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 2011. The index rate at September 30, 2010 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, 2010, the Company was in compliance with all of the financial covenants.

At September 30, 2010, we had no amount outstanding on the line of credit. At September 30, 2010, the availability on the line of credit was \$2,000,000.

At December 31, 2009, we had \$140,964 outstanding on the line of credit. At December 31, 2009, the availability on the line of credit was \$1,859,036.

As of September 30, 2010, we had a total long-term debt balance of \$3,399,442, including the portion due in the next year, owed to Farm Credit Services, GMAC and Kubota. As of December 31, 2009, we had a total long-term debt balance of \$3,718,868. There was no new long-term debt incurred in the quarter ended September 30, 2010. The remaining debt balance mainly represents the debt service with Farm Credit Services which was used to acquire vineyard land, finance our Hospitality Center, invest in new winery equipment to increase our winemaking capacity, and complete a larger warehouse storage facility.

At September 30, 2010, we owed \$0 on grape contracts. For the 2010 harvest, there are grape purchase contracts in place with local growers that will be accrued when the grapes are received, typically in October.

We believe that cash flow from operations and funds available under our existing credit facilities will be sufficient to meet our 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 and nine month period ended September 30, 2010 by operating segment:

	Three months ended September 30, 2010		
	Bacchus Distribution	Produced 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
% of sales	18.0%	50.4%	42.8%

	Nine months ended September 30, 2010		
	Bacchus Distribution	Produced 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
% of sales	20.3%	51.0%	43.2%

Total inventory for Bacchus Distribution was \$1,371,656 of purchased wines and \$367,348 of non-wine merchandise at September 30, 2010. At September 30, 2009 total inventory for Bacchus Distribution was \$2,118,897 of purchased wines and \$347,621 of non-wine merchandise, a reduction of \$ 747,241 of purchased wines and an increase of \$ 19,727 of non-wine merchandise from 2009 to 2010. Total inventory for produced wine inventory was \$6,471,438 and \$2,822,743 of non-wine merchandise and work-in-process at September 30, 2010. At September 30, 2009 total produced wine inventory of \$6,337,133 and \$2,837,086 of non-wine merchandise and work-in-process for the same period, an increase of \$ 134,305 for produced wine inventory and a reduction of \$ 14,343 in work-in-process from 2009 to 2010.

Item 3

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

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Item 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. For the period ended September 30, 2010, management performed an evaluation, under the supervision and with the participation of the Chief Executive Officer, and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of September 30, 2010 were not effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management's conclusions are based upon the continued existence of the material weakness identified in our annual report on Form 10-K for period ended December 31, 2010, the nature of which is summarized below.

As of December 31, 2009, the Company had identified the following material weakness. Management has determined this material weakness continued to exist as of September 30, 2010.

- Lack of sufficient procedures and controls related to the allocation of costs to our produced wine. This weakness was identified during the 2008 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss Adams LLP. During the 2009 year-end audit significant analysis and review were completed and ultimately resulted in an adjustment to inventory and cost of goods sold of \$373,691.

The Company does not expect that its disclosure controls and procedures will prevent all errors and instances of 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 the 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 its disclosure controls and procedures, and will continually reevaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Changes in Internal Control over Financial Reporting

In our Management's Report on Internal Control Over Financial Reporting included in the Company's Form 10-K for the year ended December 31, 2009, management concluded that our internal control over financial reporting was not effective due to the existence of the material weakness identified above.

In an attempt to remediate this material weakness, the Company implemented the following remedial actions during the first nine months of 2010:

- The Company has added additional accounting resources to develop, implement and maintain procedures and controls related to the costing of our produced wines. As of September 30, 2010, these controls and procedures are in the process but had not been fully developed or implemented and the material weakness identified above had not been fully remediated

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we are a party to various judicial and administrative proceedings arising in the ordinary course of business. Our 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 our insurance coverage, and our established liabilities. While the outcome of legal proceedings cannot be predicted with certainty, based on our review, we believe that any unrecorded liability that may result as a result of any legal proceedings is not likely to have a material effect on our liquidity, financial condition or results from operations.

### Item 1A. Risk Factors

As a smaller reporting company, we are 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. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit

No.	Description
3.1	Articles of Incorporation of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A, File No. 24S-2996)
3.2	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)
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)

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 15, 2010

By /s/ James W. Bernau  
James W. Bernau  
President

Date: November 15, 2010

By /s/ R. Steven Caldwell  
R. Steven Caldwell  
Chief Financial Officer