WILLAMETTE VALLEY VINEYARDS INC
Form 10KSB
May 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2007

OR

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

Commission File number 0-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Name of Small Business Issuer in Its Charter)

OREGON (State or other jurisdiction of incorporation or organization)	**93-0981021** (I.R.S. employer identification number)
8800 Enchanted Way, S.E. **Turner, OR** (Address of principal executive offices)	**97392** (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act: **Common Stock**
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES x NO o

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x NO o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

Issuer s revenues for its most recent fiscal year: $16,710,927

Aggregate market value of the voting stock held by non-affiliates of the Issuer based upon the closing price of such stock as of March 31, 2008: $32,953,643

Number of shares of Common Stock outstanding as of March 31, 2008: 4,837,828

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format: YES o No x

ITEM 1. DESCRIPTION OF BUSINESS.

Introduction

Willamette Valley Vineyards, Inc. (the Company) was formed in May 1988 to produce and sell premium, super premium and ultra premium varietal wines (i.e., wine which sells at retail prices of $7 to $14, $14 to $20 and over $20 per 750 ml bottle, respectively). Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company is headquartered in Turner, Oregon, where the Company s Turner Vineyard and Winery are located on 75 acres of Company-owned land adjacent to Interstate 5, approximately two miles south of Salem, Oregon. The Company s wines are made from grapes grown on the 587 acres of vineyard owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are crushed, 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 120 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 2007, $19 to $50 per bottle; Chardonnay, $16 to $20 per bottle; Pinot Gris, $15 to $18 per bottle; Riesling and Oregon Blossom (blush blend), $12 to $10 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.

The Company currently produces and sells small quantities of Oregon s Nog (a seasonal holiday product), $10 per bottle, and Edelweiss, $10 per bottle, under a Made in Oregon Cellars label.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following types of wine in 750 ml bottles: Pinot Noir, the brand s flagship, $35 per bottle; Chardonnay, $16 per bottle; Semi-Sparkling Muscat, $15 per bottle. The Company s mission for this brand is to be among the highest quality estate producers of Burgundy and Alsatian varietals in Oregon.

Under its Griffin Creek label, the Company produces and sells the following types of wine in 750 ml bottles: Syrah, the brand s flagship, $35 per bottle; Merlot, $30 per bottle; Cabernet Sauvignon, $35 per bottle; Cabernet Franc, $38 per bottle; The Griffin (a Bordeaux blend), $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.

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 and GRIFFIN CREEK marks.

Market Overview

Wine Consumption Trends: Beginning in 1994, per capita wine consumption began to rise. U.S. wine consumption rose 2.1 percent in 2005 and 3.4 percent in 2006 continuing a 13 year trend of steady growth. Overall wine consumption has risen to 283.1 million cases in 2006. Domestic wine sales rose 2.6 percent in 2006 while imported wine sales rose 5.7%. Research has shown that much of this sales growth is coming from baby boomers and younger consumers. Data released by The Adams Beverage Group in 2007, for example, showed that wine now appeals to a broad spectrum of the population, including Millenials (consumers 21-30). In a recent Gallup Poll, for the first time, a majority of respondents claimed wine as their alcohol beverage of choice. Together, Millenials and Baby Boomers account for more than half of today s wine consumers. According to the Nielsen Company s Beverage Alcohol Annual Snapshot, in the 52 weeks ended January 13, 2007, Pinot Noir sales in particular grew 20.3 percent in dollars, while Pinot Gris and Riesling grew 17.9 and 25.2 percent, respectively. Data for the year-ended 2007 is pending.

The Oregon Wine Industry.

Oregon is a relatively new wine-producing region in comparison to California and France. In 1966, there were only two commercial wineries licensed in Oregon. By 2007 there were 370 commercial wineries licensed in Oregon and 17,400 acres of wine grape vineyards, 13,800 acres of which are currently producing. Total production of Oregon wines in 2007 is estimated to be approximately 2.3 million cases versus 2.1 million cases in 2006. Oregon s entire 2007 production has an estimated retail value of approximately $466.4 million, assuming a retail price of $200 per case, and a FOB value of approximately one-half of the retail value, or $233.2 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, 2007, 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 on and all future planting will be on phylloxera resistant rootstock. The Company takes all necessary precautions to prevent the spread of phylloxera to its Turner site.

As a result of these factors, subject to the risks and uncertainties identified above, the Company believes that long-term prospects for growth in the Oregon wine industry are excellent. The Company believes that over the next 20 years the Oregon wine industry will grow at a faster rate than the overall domestic wine industry, and that much of this growth will favor producers of premium, super premium and ultra premium wines such as the Company s.

2007 Oregon Harvest

The National Agricultural Statistics Service reports for the third year in a row Oregon produced and crushed a record amount of grapes. For the second year in a row Oregon grape growers planted a record number of new acres. Oregon s 370 wineries reported producing wine under 442 labels. Increased production in 2006 gave wineries the ability to sell 1.7 million cases of wine for $207.8 million in 2007. Unfilled wine grape needs were higher in 2007 and many wineries noted the need for mature grapes, most frequently Pinot Noir.

Oregon s 2007 growing season started off strong, with a slightly warmer spring than normal that provided ideal conditions for fruit throughout the state. Moderate temperatures persisted during the summer, with no major heat spikes, leading to nearly ideal fruit maturation going into late September, until significant rain events began and didn t let up until late October. The cool down and rain caused many wineries to make choices of either harvesting quickly or waiting it out.

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 US wine industry, the Company believes that successful wineries exhibit the following four key attributes: (i) focus on production of high-quality premium, super premium and ultra premium varietal wines; (ii) achieve brand positioning that supports high bottle prices for its high quality wines; (iii) build brand recognition by emphasizing restaurant sales; and (iv) develop strong marketing advantages (such as a highly visible winery location, successful self-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 22,934 square foot state-of-the-art Winery and a 12,500 square foot outdoor production area for the crushing, pressing and fermentation of wine grapes.

The Company s marketing and selling strategy is to sell its premium, super premium and ultra premium cork-finished-wine through a combination of (i) direct sales at the Winery, (ii) self-distribution to local and regional restaurants and retail outlets, and (iii) sales through independent distributors and wine brokers who market the Company s wine in specific targeted areas where self-distribution is not economically feasible.

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

Vineyard

The Company now owns, leases, or contracts for 587 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 will enable the Company to grow approximately 85% of the grapes needed to meet the Winery s ultimate production capacity of 298,000 gallons (129,000 cases).

The Property. The Company s estate vineyard at the Turner site currently has 48 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.

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 US 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 on disease resistant rootstock and the 667 and 777 clones have been grafted onto 7 acres of self rooted, non-disease resistant vines at the Company s Estate Vineyard near Turner.

New clones of Chardonnay preceded Pinot Noir into Oregon and were planted at the Company s Estate Vineyard on disease resistant rootstock.

The purchase of Tualatin Vineyards, Inc. in April 1997 (including the subsequent sale-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 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.

Grape Supply. In 2007, the Company s 48 acres of producing estate vineyard yielded approximately 145 tons of grapes for the Winery s nineteenth crush. Tualatin Vineyards produced 603 tons of grapes in 2007. Elton Vineyards produced 95 tons of grapes in 2007. In 2007, the Company purchased an additional 901 tons of grapes from other growers. The Winery s 2007 total wine production was 274,245 gallons (115,466 cases) from its 2006 and 2007 crushes. The Company expects to produce 320,000 gallons in 2008 (134,700 cases). 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 growers 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, with the first crop expected in 2008. 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.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices. The Company believes high quality grapes will be available for purchase in sufficient quantity to meet the 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 (42°-46° 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. At Tualatin Estate vineyard the Company has water rights to a year round spring that feeds an irrigation pond.

Winery

Wine Production Facility. The Company s Winery and production facilities are capable of efficiently producing up to 104,000 cases (247,000 gallons) of wine per year, depending on the type of wine produced. In 2007, the Winery produced 274,245 gallons (115,466 cases) from its 2006 and 2007 crushes. 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 crushing, 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. Until 2007, 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. With the anticipated volume of wine production in 2008 it is likely that the Tualatin production facility will be utilized.

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 one mortgage with a principal balance of $1,231,158 at December 31, 2007. The mortgage is payable in monthly aggregate installments, including principal and interest, of approximately $362,000 annually through 2011.

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.

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

Crush Year	Tons of Grapes Crushed	Production Year	Cases Produced
2003	917	2003	92,208
2004	994	2004	73,212
2005	1132	2005	72,297
2006	1488	2006	81,081
2007	1746	2007	115,466

Sales and Distribution

Marketing Strategy. The Company markets and sells its wines through a combination of direct sales at the Winery, sales directly and indirectly through its shareholders, self-distribution to local restaurants and retail outlets in Oregon, directly through mailing lists, and through distributors and wine brokers 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.

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

The Company holds four major festivals and events at the Winery each year. In addition, open houses are held at the Winery during major holiday weekends such as Memorial Day, Independence Day, Labor Day and Thanksgiving, where barrel tastings and cellar tours are given. Numerous private parties, wedding receptions 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 2007, direct sales contributed approximately 14% of the Company s revenue.

Self-Distribution. In 1990, the Company established a self-distribution wholesale system, now called Bacchus Fine Wines, to sell its wines to restaurant and retail accounts located in Oregon. Eighteen sales representatives, who take wine orders and make some deliveries primarily on a commission-only basis, currently carry out the self-distribution program. Company-provided trucks and delivery drivers support most of these sales representatives. The Company believes this program of self-representation and delivery has allowed its wines to gain a strong presence in the Oregon market with over 1,397 restaurant and retail accounts established as of December 31, 2007.

The Company has expended significant resources to establish its self-distribution system. The system initially focused on distribution in the Willamette Valley, but has expanded to the Oregon coast, southern Oregon and central Oregon. For 2007, approximately 48% of the Company s net revenues were attributable to self-distribution.

Distributors and Wine Brokers. The Company uses both independent distributors and wine brokers primarily to market the Company s wines in specific targeted areas where self-distribution is not feasible. Only those distributors and wine brokers who have demonstrated knowledge of and a proven ability to market premium, super premium, and ultra premium wines are utilized. Outside of Oregon, the Company s products are distributed in 44 states and the District of Columbia and 3 non-domestic (export) customers. For 2007, approximately 38% 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 more than 200 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 Thrillville Amusement Park and the Forest Glen Recreational Vehicle Park, which contains approximately 110 overnight recreational vehicle sites. Many of the visitors to the Enchanted Forest and RV Park visit the Winery.

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 is needed to meet estimated future demand. Furthermore, the Company believes that its ultimate forecasted production level of 306,000 gallons (129,000 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

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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% and $1.57 per gallon for wines with alcohol content above 14%; 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% and $0.77 per gallon for wines with alcohol content above 14% 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.

Employees

As of December 31, 2007 the Company had 106 full-time employees and 12 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 quarterly and annual reports with the Securities and Exchange Commission. The public may read and copy any material that the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As the Company is an electronic filer, filings may be obtained via the SEC website at (www.sec.gov.). Also visit the Company s website (www.wvv.com) for links to stock position and pricing.

ITEM 2. DESCRIPTION OF PROPERTY.

See DESCRIPTION OF BUSINESS Winery and Vineyard .

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the Company s Fourth Quarter ended December 31, 2007.

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

The Company s Common Stock is traded on the Capital Market (formerly known as the NASDAQ Small Cap Market) under the symbol WVVI. As of December 31, 2007, there were 2,812 stockholders of record of the Common Stock.

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

Quarter Ended

	3/31/07	**6/30/07**	**9/30/07**	**12/31/07**
High	$ 7.40	$ 7.08	$ 6.98	$ 6.80
Low	$ 6.22	$ 6.75	$ 5.87	$ 5.08

Quarter Ended

	3/31/06	**6/30/06**	**9/30/06**	**12/31/06**
High	$ 7.56	$ 9.17	$ 8.83	$ 7.45
Low	$ 4.97	$ 5.90	$ 5.71	$ 5.71

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 quality and reduce debt.

Equity Compensation Plan Information

	Number of Securities to be issued upon exercise of	**Weighted-average exercise price of**	**Number of securities remaining available for future issuance under equity compensation**

Plan Category	outstanding options, warrants and rights (a)		outstanding options, warrants and rights (b)	plans (excluding securities reflected in common (a)) (c)
Equity compensation plans approved by security holders	434,200	$	3.90	124,476
Equity compensation plans not approved by security holders		$		
Total	434,200	$	3.90	124,476

The Company does not have compensations plans under which equity securities of the Company are authorized for issuance which were adopted without the approval of security holders.

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

Forward Looking Statement

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Company s principal sources of revenue are derived from sales and distribution of wine. 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 our 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 its highest annual earnings to date despite significant constraints on inventory. Revenues increased by 12% to $16,710,927, net earnings by 31% to $1,686,661, and diluted earnings per share to 34 cents from 26 cents, compared to the prior year.

These historical results were due principally to production, out-of-state sales and marketing staffs working closely together to organize pre-orders and ship when the wine was ready to release. The winery continued to receive distributor orders in excess of its supply of Pinot Noir and Pinot Gris. In addition, the gross margins received from the sales of the winery s produced wines were 59% in 2007 compared to 58% for 2006.

Out-of-state distributor sales revenue increased 12% for the year ended December 31, 2007 as compared to the prior year and generated the largest share of the increase in net profit. Retail sales increased 16% and generated positive contribution to net income growth. The Oregon Wholesale Department called Bacchus Fine Wines produced an increase of 20% in the sales of purchased wine from other wineries but a slight reduction (approximately 1.0%) in sales in winery produced products. The Board of Directors and Management took steps to improve Oregon wholesale operations by purchasing a state-of-the-art order fulfillment system in Q2 2007 and strengthening Oregon marketing support. There were significant issues with the implementation of this system mostly related to the accounts receivable and purchase order functionality of the system. This was mainly due to the personnel changes that occurred in the Accounting department in the midst of the implementation. These issues caused delays in financial reporting and made it increasingly difficult to reconcile cash in the general ledger versus the bank balance.

The winery had a zero credit line balance at December 31, 2007.

During the fourth quarter of 2007 the Company experienced some material weaknesses with respect to internal controls related to Accounts Receivable, Cash and Inventory. This was mainly due to significant changes in key accounting personnel and the simultaneous implementation of a new order fulfillment and accounting system for the in-state distribution business, Bacchus Fine Wines. The Company has taken steps to mitigate these weaknesses through the addition of key and compensating controls.

Sales

In the year ended December 31, 2007, the Company sold approximately 2,000 cases of Estate Pinot Noir, 23,000 cases of Willamette Valley Pinot Noir (vintage level), 5,000 cases of Barrel Select Pinot Noir, 14,000 cases of Whole Cluster Pinot Noir, 18,000 cases of Pinot Gris and 16,000 cases of Riesling.

The Company has or plans to bottle 2,500 cases of 07 Estate Pinot Noir, 33,000 cases of 07 Willamette Valley Pinot Noir (vintage level), 5,000 cases of 07 Barrel Select Pinot Noir, 23,000 07 cases of Whole Cluster Pinot Noir, 24,000 cases of 07 Pinot Gris and 23,000 cases of 07 Riesling in December of 2007 and in 2008. In December 2007, 400 cases of the 07 Whole Cluster Pinot Noir were sold.

The Company sold approximately 153,000 cases of wine in 2007 of which 115,000 cases were winery produced wines. Of the winery produced case sales in 2007, approximately 76,000 were the above listed varieties. Total purchased wine case sales in 2007 were approximately 38,000 cases. The 2007 harvest produced 1,746 tons of wine grapes. Fortunately, the 2007 harvest yielded higher volumes, approximately 10% more than expected. The expected 07 vintage yield is expected to produce approximately 134,000 cases, including a few selected bulk wine purchases.

Wine Inventory

Management has taken steps to address inventory shortages relative to orders by increasing production through additional plantings in 2006 of 5 acres, contracting for an additional 170 new acres of wine grapes on a long-term basis, and in 2007, providing a loan to a key grower for vineyard establishment costs and leasing the 60 acre Elton Vineyard in the Eola Hills. Elton Vineyard is regarded as one of Oregon s best sources of Pinot Noir wine grapes. This lease is for a 10 year term with four 5 year renewals at the Company s option and a first right of refusal in the event of the vineyard s sale. Betty M. O Brien, a Director of the Company, is a principal owner of Elton Vineyards.

These actions bring to a total of 587 acres of vineyard owned, leased or contracted by the Company, with 23 of those acres recently planted and not productive. The total acres of Pinot Noir are 300, of which 9 are young, non-productive vines; Pinot Gris 122 and 14; Riesling 95 and 0 respectively.

The Company continues to allocate its Pinot Noir and Pinot Gris to distributors to fairly apportion available supplies. Management expects the shortage of these products to limit the potential for growth until such time as current plantings mature.

Production Capacity

In addition to securing additional wine grape supplies, Management purchased capital assets at a significantly higher level in 2007 than in past years. 2008 purchases will be made to address future production requirements based on the expected increases in wine grape quantities. Management is planning for increasing production capacity with the expectation additional construction and equipment expenses will be made through 2009. The Company is required to install additional water storage capacity on the Turner property and fire sprinklers in its 20,000 square foot wine warehouse, which also required significant capital investment in 2007 and additional capital investment anticipated for 2008.

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 2007.

As the company celebrates its 25th anniversary it continues to receive high accolades from wine reviewers and press. As if to mark the occasion, Willamette Valley Vineyards earned the coveted title #1 Hottest Small Brand of 2007 by Wine Business Monthly, the industry s leading trade publication for wineries and growers, in their February, 2008 issue. Editor Cyril Penn wrote: Willamette Valley Vineyards is one of those wineries demonstrating that you can increase quality while increasing production; the two aren t mutually exclusive.

The winery s premium Pinot Noir continues to score well with reviewers. The 2005 Tualatin Estate Pinot Noir earned 90 points from Wine Spectator in their February 12, 2008 Insider edition. The Estate Pinot Noir was rated 89 points by the Wine Enthusiast in the April, 2007 edition and 90 points in the August 2007 edition of Wine & Spirits. It also received a gold medal from the Critics Challenge.

The WVV 2005 Willamette Valley Pinot Noir received 86 points from Wine Spectator on the web. Wine Spectator rates wines that score between 85-89 points as very good: a wine with special qualities. This same wine received 88 points from Wine Enthusiast in their April, 2007 issue and was listed as one of San Francisco Chronicles top rated wines of 2007, earning three stars in a category dominated by $45-$65 wines. It also earned a gold medal from the Taster s Guild International Wine Competition and the Pacific Rim International Wine Competition. The 2006 Pinot Noir, which was just released, earned gold medals at Dallas Morning News Wine Competition and the San Francisco Chronicle International Wine competition. This is the first wine in the world to be bottled with an FSC (Forest Stewardship Council) certified sustainably produced cork.

The 2006 Whole Cluster Pinot Noir was rated 89 points by Wine Advocate in the Nov/December issue saying Nicely balanced, this is truly a wine of pleasure at a great price. It was reviewed by the Wall Street Journal as a favorite American Pinot Noir under $20 in the September 7th article Charting the Sideway s Effect, by Dorothy Gaiter and John Brecher. The wine reviewers note, Our other favorite was an utter delight from Willamette Valley Vineyards. In our notes, we described it as Beaujolais-like because of its jazzy color and vibrant, just-picked tastes. It also received 87 points from Wine Spectator, July 15, 2007 edition, and an outstanding from Wine Press Northwest.

The 2006 Pinot Gris continues a legacy of success earning 93 points from Wine & Spirits, where it was chosen as one of the top Pinot Gris in the world. The review appeared in the August, 2007 issue. Wine Enthusiast rated it 90 points in their April issue and Wine Spectator and Wine Advocate both rated it 86 points on their websites. Most recently this wine was reviewed by the New York Times and picked as one of the top Oregon Pinot Gris. The review appeared in the December 26, 2007 article A Low Profile, and a Price to Match. In addition, it received 6 gold medals from major competitions, a 99 points rating from Just Wine Points, was written up in Ray Isle s blog for Food & Wine as one of the best Pinot Gris in the world, and received 94 points from Epicurean Traveler.

The 2003 Estate Chardonnay received 90 points in the April, 2007 Wine Enthusiast magazine with Paul Gregutt writing, The Dijon Clones and extra bottle time have produced a Chardonnay that is at the top of its form, and outshines most of the California competition in this price range. The 2004 Dijon Clone Chardonnay received 89 points in the same issue. Additionally, the February issue of Wines & Vines magazine highlighted the company for being one of the first to plant the Dijon chardonnay clones in Oregon.

Wine Enthusiast magazine rated the 2007 Riesling as a Best Buy in the November, 2007 edition, giving it 87 points. This Riesling also earned a double gold in the Wine Press Northwest Platinum wine competition, where wines that have already earned gold medals in top competitions are judged.

Media continue to take notice of the wineries stewardship pledge. In July, 2007 Willamette Valley Vineyards became the first winery in the world use FSC (Forest Stewardship Council) certified cork in wine bottles, starting with the 2006 Pinot Noir. The winery was certified by the Rainforest Alliance to FSC standards. The initiative was marked by an international news story written by the Oregon Associated Press and released August 25, 2007. The story garnered national and international press attention and appeared in many publications including Chicago Sun-Times, Seattle Times, USA Today, Wine Spectator online, Time.com, Wines & Vines, Wine Business Monthly and Food & Beverage magazine to name just a few. National Geographic s Fresh Finds blog on May 29, 2007 highlighted the company s landmark achievement in the article Put a Cork In It as did Martha Stewart Living Body & Soul magazine in the article A Guide to Eco-Wine. The same article highlighted the company s biodiesel use. Wine Spectator highlighted WVV as an eco-pioneer for biodiesel use in the June 7, 2007 issue, in an article titled Earth Friendly Winemaking.

In July 2007, Willamette Valley Vineyards pledged to become carbon neutral by 2010 in step with the Oregon Governor s and Oregon Environmental Council s Carbon Neutral Challenge. The initiative was covered in several newspapers including the Seattle Times and a Wine Spectator.com article on September 7, 2007.

The companies resveratrol labeling initiative was featured in a July 24, 2007 article in the Oregonian, the March, 2007 issue of Shape Magazine, the February, 2007 issue of Grocery Headquarters magazine, the April 30, 2007 issue of Wine Spectator, and most recently in the Winter 2007 edition of Better Homes and Gardens Heart Healthy Magazine . The 2007 Whole Cluster Pinot Noir is just released and touts 25 micromolars of resveratrol. Cornell University researcher Leroy Creasy found that wines containing above ten micromolars of resveratrol extraordinary.

The winery continued a great partnership with McCormick & Schmick s Seafood Restaurants in 2007, working together on a wild salmon campaign. WVV Pinot Noir and Pinot Gris can be found on their wine lists nationwide. Additionally, the company received a national placement with the Pinot Noir at Safeway stores. And in a strategic move, the company s sales offices moved into the Oregon Restaurant Association Plaza in January, 2007 where the Oregon Restaurant Association and National Grocers Association are headquartered.

Company Founder, Jim Bernau, garnered much community recognition in 2007 for the winery s achievements in the areas of growth, community involvement and sustainability. Bernau earned the coveted Ernst & Young Pacific Northwest Entrepreneur of the Year Award in July, 2007, the Oregon Restaurant Association 2007 Purveyor of the Year award, and the Oregon Agri-Business Councils 2007 Agriculturalist of the Year award. Additionally the company was honored with the SOLV Citizenship of the Year Award for commitment to sustainability and the Oregon community.

The winery continues to develop new marketing techniques, including re-development of the website. A new site officially launched in January 2008 complete with a new sustainability commitment section, up-to-date news section, new shopping cart, and stunning visuals.

Seasonal and Quarterly Results

The Company has historically experienced and expects to continue experiencing seasonal fluctuations in its revenues and net income. In the past, the Company has reported a net loss during its first quarter and expects the first quarter to be the weakest of the year, including the first quarter of 2008. Sales volumes increase progressively beginning in the second quarter through the fourth quarter because of consumer buying habits.

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The following table sets forth certain information regarding the Company s revenues, excluding excise taxes, from Winery operations for each of the last eight fiscal quarters:

	Fiscal 2007 Quarter Ended (in thousands)				Fiscal 2006 Quarter Ended (in thousands)			
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31
Tasting room and retail sales	$ 445	$ 517	$ 518	$ 735	$ 379	$ 429	$ 560	$ 607
On-site and off-site festivals	50	15	57	59	36	14	38	17
In-state sales	1,767	1,878	1,886	2,668	1,548	1,719	1,835	2,367
Bulk/Grape sales	9	9	3	134	9	9	15	8
Out-of-state sales	1,409	1,420	1,870	1,652	1,824	1,352	942	1,569
Total winery revenues	$ 3,680	$ 3,839	$ 4,334	$ 5,248	$ 3,796	$ 3,523	$ 3,390	$ 4,568

Period-to-Period Comparisons

Revenue. The following table sets forth, for the periods indicated, select revenue data from Company operations:

Year Ended December 31 (in thousands)	2007	2006
Tasting room and retail sales	$ 2,215	$ 1,975
On-site and off-site festivals	181	105
In-state sales	8,199	7,469
Bulk /Grape Sales	155	41
Out-of-state sales	6,351	5,687
Revenues from winery operations	$ 17,101	$ 15,277
Less Excise Taxes	390	361
Net Revenue	$ 16,711	$ 14,916

2007 Compared to 2006

Tasting room and retail sales for the year ended December 31, 2007 increased $239,834, or 12%, as compared to the corresponding prior year period. Tasting room sales increased during the year ended December 31, 2007, due primarily to increased customer traffic flows at the Company s winery tasting room, and a 9% increase in purchases in the tasting room. The focus on customers for life through telephone, mail 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. The Company experienced an increase in revenue during 2007 in on-site and off-site festivals revenue of 72%, or $76,893 as compared to the same period in 2006. This increase is due primarily to the improved attendance of on-site and off-site events.

Total sales in the state of Oregon, through the Company s in-state sales force and through direct sales from the winery increased $730,574, or 10%, in the year ended December 31, 2007, as compared to the corresponding prior year period. 2007 in-state sales of purchased wines were 20% higher than 2006 and contributed mostly to the 10% growth in overall in-state sales. 2007 in-state sales of Willamette Valley Vineyards branded wine were slightly lower (1%) than 2006. The Company s direct in-state sales to its largest customer increased $34,000, or 3%, in the year ended December 31, 2007, as compared to the prior year period. These increases are largely the result of the broader product lines presented and increased product placements through the development of Bacchus Fine Wines.

Out-of-state sales in the year ended December 31, 2007 increased $662,901, or 12%, as compared to the prior year period. The higher sales are primarily a result of strong demand for the Company s varietals and significant sales efforts undertaken by the Company s out-of-state sales force. The Pinot Noir variety led sales in 2007.

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, 2007 increased 8% as compared to the prior year period. This was due primarily to the increased sales, by volume, in the year ended December 31, 2007 as compared to the prior year period, thereby increasing overall sales volumes and taxes calculated based on volume. Sales data in the discussion above is quoted before the exclusion of excise taxes.

As a percentage of net revenue, gross profit was 50% in the year ended December 31, 2007, a 3% point improvement from the prior year period. While the Company is continuing its focus on improved distribution of higher margin products as well as continuing to reduce grape and production costs, we anticipate that our increased representation of brands other than our own through our Oregon sales force will erode the gross margins as a percent of sales due to the lower margins associated with selling those brands. While the gross margin may erode due to such representation, the Company does not anticipate that net income will follow that trend.

Amortization of vineyard development costs 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, 2007 and 2006, approximately $84,000 and $83,000, respectively, were amortized into inventory costs.

Selling, general and administrative expenses for the year ended December 31, 2007 increased 19% compared to the prior year period. This increase is due primarily to increased staffing and related employee benefit expenses, increased Marketing related spending and professional service fees. As a percentage of net revenue from winery operations, selling, general and administrative expenses increased to 33% for the year ended December 31, 2007, as compared to 31% for the prior year period, primarily as a result of increased expenditures as mentioned above in relation to revenues.

Interest expense decreased 36% or $61,875 in the year ended December 31, 2007 as compared to the prior year period. Interest costs were lower primarily due to less debt outstanding during the period.

The provision for income taxes and the Company s effective tax rate were $1,034,170 and 38% of pre-tax income in the year ended December 31, 2007 with $889,621 or 41% of pre-tax income recorded for the prior year period.

As a result of the above factors, net income increased to $1,686,661 in the year ended December 31, 2007 from $1,291,774 for the prior year period. Earnings per share were $0.35 and $0.27, in the years ended December 31, 2007 and 2006, respectively.

First Quarter 2008 Outlook

Sales in the first quarter of 2008 are weaker than the prior year s first quarter sales for the following principle reasons: inventory outages of three Pinot Noir products and distributors ordering in smaller quantities to reduce their inventory levels possibly to improve their cash position anticipating a weak economy and substantially higher fuel costs. Restaurant customers with whom winery management is in contact are reporting less revenue than the prior year. Management believes this weakness could be temporary as additional, new Pinot Noir inventories are aging and sales of the Company s wines from its distributors warehouses to their customers are up nationally for the first quarter by 12%.

Liquidity and Capital Resources

At December 31, 2007, the Company had a working capital balance of $9.1 million and a current ratio of 5.91:1. At December 31, 2006, the Company had a working capital balance of $7.8 million and a current ratio of 4.28:1. The Company had a cash balance of $1,083,405 at December 31, 2007 compared to a cash balance of $1,612,470 at December 31, 2006. The decrease in cash was primarily due to the increased use of cash for inventory building, accounts payable and capital expenditures.

Total cash provided by operating activities in the year ended December 31, 2007 was $470,223, compared to $2,192,986 for the prior year period, primarily as a result of the build-up in inventory and related use of cash. Additionally, trade payables due at the year ended December 31, 2006 and paid in 2007 contributed to the decrease in cash from operating activities compared to the prior year period.

Total cash used in investing activities in the year ended December 31, 2007 was $1,185,891, compared to $495,145 in the prior year period. Cash used in investing activities consisted of property and equipment additions, vineyard development costs and notes receivable from a grape producer.

Total cash provided by financing activities in the year ended December 31, 2007 was $186,603, compared to $500,962 used in the prior year period. Cash provided by financing activities primarily consisted of proceeds of stock option exercises offset by the payments on the long-term debt.

At December 31, 2007, 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, 2007, the Company was in compliance with all of the financial covenants.

As of December 31, 2007, the Company had a total long-term debt balance of $1,231,158 owed to Farm Credit Services. The debt with Farm Credit Services was used to finance the Hospitality Center, invest in winery equipment to increase the Company s winemaking capacity, and complete the storage facility.

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, 2007 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 and capital lease obligations	$ 1,231,158	$ 284,786	$ 615,927	$ 330,445	
Grape Payables	508,545	508,545			
Operating Leases	3,900,586	310,331	645,161	635,168	2,309,926
Total Contractual Obligations	$ 5,640,289	$1,103,662	$ 1,261,088	$ 965,613	$ 2,309,926

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.

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.

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, CFO/Controller and the Bacchus General Manager, could harm our business and our reputation and negatively impact our profitability.

Adverse Public Opinion Regarding Our Bacchus Portfolio May Harm Our Business

The Company has invested heavily in products for resale through our Bacchus Fine Wines department. The Company believes that having these products for sale will make it easier to sell additional Company product to the same buyers. If this strategy proves to be unsuccessful, the Company will have substantial inventory of non-Company products to sell at prices that may not cover our costs of such inventory and may result in our selling less Company product than anticipated. Either or both effects could adversely affect our profitability and shareholder value.

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 a term loan arrangement, the proceeds of which were used to acquire the Tualatin operations and to construct the Hospitality Center. 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.

ITEM 7. FINANCIAL STATEMENTS.

Willamette Valley Vineyards, Inc.

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Willamette Valley Vineyards, Inc.

We have audited the accompanying balance sheet of Willamette Valley Vineyards, Inc., as of December 31, 2007, and the related statements of operations, shareholders equity, and cash flows for the two 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2007, and the results of its operations and cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, effective January 1, 2006, the Company changed the manner in which it accounts for share-based compensation.

/s/ Moss Adams LLP

Santa Rosa, California
May 16, 2008

Willamette Valley Vineyards, Inc.

Balance Sheet

		December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$	1,083,405
Accounts receivable, net (Note 2)		1,804,168
Inventories (Note 3)		7,976,432
Prepaid expenses and other current assets		91,981
Current portion of notes receivable		62,415
Deferred income taxes		
Total current assets		11,018,401
Vineyard development costs, net		1,690,055
Property and equipment, net (Note 4)		4,200,155
Debt issuance costs		21,106
Notes receivable		187,585
Other assets		65,893
Total Assets	$	17,183,195
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Line of credit (Note 5)	$	
Current portion of long-term debt (Note 6)		284,786
Accounts payable		564,494
Accrued expenses		420,825
Income taxes payable		76,516
Deferred Income Taxes		1,000
Grape payables		508,545
Total current liabilities		1,856,166
Long-term debt (Note 6)		946,372
Deferred rent liability		223,936
Deferred gain (Note 11)		378,025
Deferred income taxes (Note 9)		262,000
Total liabilities		3,666,499
Commitments and contingencies (Note 11)		
Shareholders equity (Notes 7 and 8):		
Common stock, no par value - 10,000,000 shares authorized, 4,835,902 issued and outstanding at December 31, 2007		8,425,389
Retained earnings		5,091,307
Total shareholders equity		13,516,696
	$	17,183,195

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

Willamette Valley Vineyards, Inc.

Statements of Operations

For the Years Ended December 31, 2007 and 2006

	2007	2006
Net revenues	$ 16,710,927	$ 14,916,072
Cost of goods sold	8,430,802	7,963,437
Gross margin	8,280,125	6,952,635
Selling, general and administrative expenses	5,554,062	4,678,228
Income from operations	2,726,063	2,274,407
Other income (expenses):		
Interest income	79,814	59,736
Interest expense	(107,768)	(169,643)
Other income	22,722	16,895
	(5,232)	(93,012)