WILLAMETTE VALLEY VINEYARDS INC
Form 10-Q
August 12, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

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

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

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

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: x YES o 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): o YES o NO

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

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

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

Number of shares of common stock outstanding as of June 30, 2011: 4,892,977 shares

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WILLAMETTE VALLEY VINEYARDS, INC.

BALANCE SHEETS

		June 30, 2011 (unaudited)		December 31, 2010 (audited)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	1,798,767	$	1,518,864
Accounts receivable, net		1,089,833		1,264,966
Inventories (Note 4)		10,248,913		10,712,018
Prepaid expenses and other current assets		186,439		82,241
Current portion of note receivable		107,512		62,415
Income tax receivable		-		115,063
Total current assets		13,431,464		13,755,567
Vineyard development costs, net		1,681,380		1,662,292
Property and equipment, net (Note 5)		6,477,172		6,243,990
Debt issuance costs		50,962		32,438
Note receivable, net		-		71,457
Other assets		4,456		4,456
TOTAL ASSETS	$	21,645,434	$	21,770,200
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Current portion of long-term debt		167,543		452,226
Accounts payable		873,322		748,813
Accrued expenses		445,061		595,197
Deferred income taxes		232,000		232,000
Grapes payable		-		273,211
Total current liabilities		1,717,926		2,301,447
Long-term debt, net of current portion		3,104,636		2,827,086
Deferred rent liability		211,525		215,003
Deferred gain		265,693		281,741
Deferred income taxes		578,000		578,000
Total liabilities		5,877,780		6,203,277
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY				
Common stock, no par value, 10,000,000 shares authorized,				
shares authorized, 4,892,977 and 4,888,977 issued and outstanding at				

June 30, 2011 and December 31, 2010		8,623,744		8,623,744
Retained earnings		7,143,910		6,943,179
Total shareholders' equity		15,767,654		15,566,923
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	21,645,434	$	21,770,200

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF OPERATIONS

	Three months ended June 30, 2011 (unaudited)	Three months ended June 30, 2010 (unaudited)	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
SALES	$3,789,645	$4,095,430	$7,415,338	$7,649,005
COST OF SALES	1,879,470	2,237,543	3,765,878	4,322,392
GROSS PROFIT	1,910,175	1,857,887	3,649,460	3,326,613
SELLING GENERAL & ADMINISTRATIVE EXPENSES	1,557,125	1,594,620	3,203,676	3,336,103
INCOME (LOSS) FROM OPERATIONS	353,050	263,267	445,784	(9,490)
OTHER INCOME (EXPENSE)				
Interest income	2,247	3,310	4,847	6,129
Interest expense	(49,369)	(56,393)	(98,546)	(109,697)
Other income, net	2,778	1,884	3,891	12,963
INCOME (LOSS) BEFORE INCOME TAXES	308,706	212,068	355,976	(100,095)
INCOME TAX PROVISION (BENEFIT)	136,337	83,781	155,245	(40,038)
NET INCOME (LOSS)	$172,369	$128,287	$200,731	$(60,057)
Retained earnings beginning of period	6,971,541	6,343,027	6,943,179	6,531,371
Retained earnings end of period	7,143,910	6,471,314	7,143,910	6,471,314
BASIC NET INCOME (LOSS) PER COMMON SHARE	$0.04	$0.03	$0.04	$(0.01)
DILUTED NET INCOME (LOSS) PER COMMON SHARE	$0.04	$0.03	$0.04	$(0.01)
Weighted average number of basic common shares outstanding	4,892,977	4,888,977	4,892,977	4,888,977
Weighted average number of diluted common shares outstanding	4,897,150	4,902,345	4,897,700	4,903,394

The accompanying notes are an integral part of this financial statement

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WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 200,731	$ (60,057)
Adjustments to reconcile net income to net cash: from operating activities		
Depreciation and amortization	368,037	353,867
Stock based compensation expense	-	2,210
Deferred rent liability	(3,478)	(1,601)
Deferred gain	(16,048)	(16,047)
Change in operating assets and liabilities:		
Accounts receivable	175,133	526,790
Inventories	463,105	562,134
Prepaid expenses and other current assets	(104,198)	(77,437)
Income taxes receivable	115,063	-
Grapes payable	(273,211)	(657,371)
Accounts payable	124,509	(124,083)
Accrued expenses	(150,137)	98,197
Net cash from operating activities	899,506	606,602
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(564,010)	(152,251)
Additions to vineyard development	(56,298)	(3,064)
Payments received on note receivable	26,362	24,267
Net cash from investing activities	(593,946)	(131,048)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank overdraft	-	(257,702)
Net borrowings (repayments) on line of credit	-	(6,490)
Payments on long-term debt	(169,254)	(211,362)
Borrowings on long-term debt	162,121	-
Payment of debt issuance costs	(18,524)	-
Net cash from financing activities	(25,657)	(475,554)
NET CHANGE IN CASH AND CASH EQUIVALENTS	279,903	-
CASH AND CASH EQUIVALENTS, beginning of period	1,518,864	-
CASH AND CASH EQUIVALENTS, end of quarter	$ 1,798,767	$ -

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

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

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

Basic earnings per share are computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive common shares outstanding during the year. Potentially dilutive shares from stock options and other potentially dilutive shares are excluded from the computation when their effect is anti-dilutive. 4,173 and 4,723 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and six month periods ended June 30, 2011, respectively. 13,368 and 14,417 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and six month periods ended June 30, 2010, 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.

3) STOCK BASED COMPENSATION - continued

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

	Three months ended June 30, 2011		Six months ended June 30, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	208,700	$ 4.12	208,700	$ 4.12
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	208,700	$ 4.12	208,700	$ 4.12

The Company expenses stock options on a straight-line basis over the options' related vesting term. For the three months ended June 30, 2011 and 2010, the Company recognized pretax compensation expense related to stock options of $0 and $0, respectively and for the six months ended June 30, 2011 and 2010, the Company recognized pretax compensation expense related to stock options of $0 and $2,210, respectively.

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

4) INVENTORIES

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

	June 30, 2011 (unaudited)	December 31, 2010
Winemaking and packaging materials	$ 190,334	$ 296,013
Work-in-progress (costs relating to unprocessed and/or unbottled wine products)	2,088,621	3,209,693
Finished goods (bottled wine and related products)	7,991,259	7,226,730
Obsolescence reserve	(21,301)	(20,418)
Current inventories	$ 10,248,913	$ 10,712,018

5) PROPERTY AND EQUIPMENT

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

		June 30, 2011 (unaudited)		December 31, 2010
Construction in progress	$	592,679	$	152,039
Land and improvements		2,610,374		2,608,962
Winery building and hospitality center		5,596,676		5,516,342
Equipment		6,072,329		6,030,705
	$	14,872,058	$	14,308,048
Less accumulated depreciation		(8,394,886)		(8,064,058)
	$	6,477,172	$	6,243,990

6) INTEREST AND TAXES PAID

During the three months ended June 30, 2011, the Company paid $103,501 in payroll tax. Additionally, $49,369 was paid in interest on the long-term debt and revolving credit line for the same period. For the six months ended June 30, 2011, the Company paid $213,343 in payroll tax. Additionally, $98,546 was paid in interest on the long-term debt and revolving credit line for the same period. During the second quarter ended June 30, 2010, the Company paid $100,315 in payroll tax. Additionally, $ 56,393 was paid in interest on the long-term debt and revolving credit line for the same period. For the six month period ended June 30, 2010, the Company paid $212,452 in payroll tax. Additionally, $ 109,698 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.

7) SEGMENT REPORTING - continued

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

	Three Months Ended June 30, 2011		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 900,730	$ 2,888,915	$ 3,789,645
Cost of sales	695,664	1,183,806	1,879,470
Gross profit	205,066	1,705,109	1,910,175
Percentage of sales	22.8 %	59.0 %	50.4 %

	Three Months Ended June 30, 2010		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 1,131,368	$ 2,964,062	$ 4,095,430
Cost of sales	792,949	1,444,594	2,237,543
Gross profit	338,419	1,519,468	1,857,887
Percentage of sales	29.9 %	51.3 %	45.4 %

	Six Months Ended June 30, 2011		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 1,758,780	$ 5,656,558	$ 7,415,338
Cost of sales	1,316,809	2,449,069	3,765,878
Gross profit	441,971	3,207,489	3,649,460
Percentage of sales	25.1 %	56.7 %	49.2 %

	Six Months Ended June 30, 2010		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 2,096,449	$ 5,552,556	$ 7,649,005
Cost of sales	1,573,187	2,749,205	4,322,392
Gross profit	523,262	2,803,351	3,326,613
Percentage of sales	25.0 %	50.5 %	43.5 %

Total inventory for Bacchus Distribution was $1,327,244 of purchased wines and $321,615 of non-wine merchandise at June 30, 2011. At June 30, 2010 total inventory for Bacchus Distribution was $1,461,997 of purchased wines and $342,522 of non-wine merchandise, a reduction of $134,753 of purchased wines and a decrease of $20,907 of non-wine merchandise from 2010 to 2011. Total inventory for produced wine inventory was $6,294,207 and $2,305,847 of non-wine merchandise and work-in-process at June 30, 2011. At June 30, 2010 total produced wine inventory of $6,429,662 and $3,373,092 of non-wine merchandise and work-in-process for the same period, a reduction of $135,455 for produced wine inventory and a reduction of $1,067,245 in work-in-process from 2010 to 2011.

8) SUBSEQUENT EVENT: ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

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

Item 2

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

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that are based on current expectations, estimates and projections about the Company's business, and beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to: availability of financing for growth, availability of adequate supply of high quality grapes, successful performance of internal operations, impact of competition, changes in wine broker or distributor relations or performance, impact of possible adverse weather conditions, impact of reduction in grape quality or supply due to disease, impact of governmental regulatory decisions, and other risks disclosed from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions. The forward-looking statements are made as of the date hereof, and, except as otherwise required by law, the Company disclaim any intention or obligation to update or revise any forward-looking statements or to update the reasons why the actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

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

Overview

Net income for the three months ended June 30, 2011 increased $44,082 or 34.4%, from the comparable prior year period. Sales to out-of-state distributors in the second quarter of 2011 through the Company's national sales department decreased $30,301 or 2.0%, the Company's direct sales department decreased by $37,245 or 5.0% and the Company's in-state wholesale department, Bacchus Fine Wines, decreased by $271,299 or 13.7%. The increase in net income was attributed to a combination of better overall gross margins and the reduction of sales, general and administrative expenses for the company. Overall gross margins increased $52,288 or 2.8% and sales, general and administrative expenses decreased $37,495 or 2.4% for the quarter.

The Company sold approximately 33,150 cases during the three months ended June 30, 2011. Of these cases sold, approximately 24,425 cases were produced brands and another 8,725 cases were purchased brands.

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

Gross margins on the Company's produced wine have moved towards returning to historical levels resulting in an increase in overall Gross Profit of $52,288 over the prior period.

The increase in gross margin in addition to a decrease in administrative costs produced a net income for the second quarter ended June 30, 2011 of $172,369 compared to a net income of $128,287, a 34.4% increase over the comparable prior year period. As a result, the Company generated $0.04 basic earnings per share during the three months ended June 30, 2011, an increase of $0.01 basic earnings per share versus the comparable prior year period.

The winery bottled approximately 34,634 cases in the second quarter of 2011, a third of which was 2010 vintage Riesling with the balance being several varietals including Chardonnay, Barrel Select Pinot Noir and Pinot Gris.

The Company has an asset-based loan agreement (the "line of credit") with Umpqua Bank that allows it to borrow up to $2,000,000. The maturity date on this loan agreement is June 2012. The index rate at June 30, 2011 is 3.25%. The loan agreement contains certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of June 30, 2011, the Company was in compliance with all of the financial covenants.

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

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

Willamette Valley Vineyards continues to receive positive recognition through regional wine competitions and national publications. In April, Wine & Spirits magazine recognized our Pinot Gris as one of the "Top 50 Wines in America's Restaurants" as part of their 22nd annual restaurant poll. The Pinot Gris ranked fourth in the "Most Popular Pinot Gris & Grigio" category. The April issue of Wine & Spirits magazine also reviewed our 2008 South Block Pinot Noir giving it a score of 93 points, stating, "…the brilliant freshness of its red cherry fruit almost takes you by surprise, juicing up the middle palate and creating fine tension."

This year, Willamette Valley Vineyards was recognized with over 10 awards for our outstanding craftsmanship at the Oregon Wine Awards, the largest and most comprehensive independent Oregon wine judging competition: 2008 Pinot Noir, Double Gold; 2008 Tualatin Estate Pinot Noir, Double Gold; 2008 Signature Cuvée Pinot Noir, Double Gold; 2008 Fuller Pinot Noir, Double Gold; 2008 Elton Pinot Noir, Gold; 2008 Founders' Reserve Pinot Noir, Gold; 2008 Hannah Pinot Noir, Gold; 2008 Estate Pinot Noir, Gold; 2008 Griffin Creek "Griffin", Double Gold; 2008 Griffin Creek Cabernet Franc, Gold.

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

The end of June concluded our annual "Why I Love Oregon Pinot Noir" contest in which wine enthusiasts from around the country were asked to tell us "Why I Love Oregon Pinot Noir" through a poem, story, or photo(s). The most compelling entry was selected to win an all-expense-paid trip to Oregon Wine Country and Willamette Valley Vineyards.

RESULTS OF OPERATIONS

Revenue

Net sales to out-of-state distributors in the second quarter of 2011 through the Company’s national sales department decreased $30,301 or 2.0%, the Company’s direct sales department decreased by $37,245 or 5.0% and the Company’s in-state wholesale department, Bacchus Fine Wines, decreased by $271,299 or 13.7%.

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

The Company sold approximately 33,150 cases during the three months ended June 30, 2011. Of these cases sold, approximately 24,425 cases were produced brands and another 8,725 cases were purchased brands.

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

	Three months ended June 30, 2011		Six months ended June 30, 2011	
	2011	2010	2011	2010
Retail sales, rental income and events	$ 680,685	$ 717,931	$ 1,328,615	$ 1,306,900
In-state sales	1,705,711	1,977,010	3,169,830	3,486,340
Out-of-state sales	1,506,166	1,536,467	3,114,036	3,067,332
Bulk wine/miscellaneous sales	530	-	530	10,650
Total revenue	3,893,092	4,231,408	7,613,011	7,871,222
Less excise taxes	(103,447)	(135,978)	(197,673)	(222,217)
Net revenue	$ 3,789,645	$ 4,095,430	$ 7,415,338	$ 7,649,005

Cost of Goods Sold

The Company’s cost of goods on produced wines is moving back to historical levels resulting in an increase in Gross Profit of $52,288.

Gross Profit

Gross profit for the three months ended June 30, 2011 increased $52,288 or 2.8%, versus the second quarter of 2010.

As a percentage of net revenue, gross profit from winery operations was 50.4% in the three months ended June 30, 2011, compared to 45.4% in the comparable prior year period. The increase in gross profit as a percentage of net revenue for the three months ended June 30, 2011 is mainly due to the decrease in the cost of the Company’s produced brands across the Company’s product lines as well as a decrease in the cost of the Company’s purchased wines.

Selling, General and Administrative Expense

Selling, general and administrative expense for the three months ended June 30, 2011 decreased $37,495 or 2.4% compared to the corresponding prior year period. This decrease is due primarily to a reduction in salaries expense as a result of streamlining the Company’s overhead operations as well as a decrease in professional service fees for accounting and legal services. In total, as a percentage of net revenues from winery operations, selling, general and administrative expenses were 41.1% for the three months ended June 30, 2011, as compared to 38.9% for the comparable prior year period.

Interest Income, Interest Expense

Interest income for the second quarter 2011 was $2,247. During the corresponding period in 2010 the Company earned $3,310 interest income. Interest expense for the three months ended June 30, 2011 was $49,369 a decrease of $7,024 or 12.5% compared to the corresponding prior year period. The average interest rate paid for the three months ended June 30, 2011 was 6.0%.

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

Income Taxes

The income tax expense in the second quarter 2011 was $136,337 for the three months ended June 30, 2011, compared to income tax expense of $83,781 for the comparable prior year period. The Company’s estimated tax rate for the three months ended June 30, 2011 and 2010 was 44.0% and 40.0%, respectively.

Net Income and Earnings per Share

The increase in gross margin in addition to a reduction in selling and administrative costs produced a net income for the second quarter ended June 30, 2011 of $172,369 compared to net income of $128,287, a 34.4% increase over the comparable prior year period. As a result, the Company generated $0.04 basic earnings per share during the three months ended June 30, 2011, an increase of $0.01 basic earnings per share versus the comparable prior year period.

The winery bottled approximately 34,634 cases in the second quarter of 2011, a third of which was 2010 vintage Riesling with the balance being several varietals including Chardonnay, Barrel Select Pinot Noir and Pinot Gris.

Liquidity and Capital Resources

At June 30, 2011, the Company had a working capital balance of $11.7 million and a current working capital ratio of 7.82:1. At December 31, 2010, the Company had a working capital balance of $11.5 million and a current working capital ratio of 5.98:1. The Company had a cash balance of $1,798,767 at June 30, 2011, compared to a cash balance of $1,518,864 at December 31, 2010.

Total cash provided by operating activities in the six months ended June 30, 2011 was $899,506 compared to cash provided by operating activities of $606,602 for the same period in the prior year.

Total cash used in investing activities in the six months ended June 30, 2011 was $593,946, compared to $131,048 used in the comparable prior year period. The increase was due to an increase in the current period of capital expenditures for property and equipment costs versus the prior year.

Total cash used in financing activities in the six months ended June 30, 2011 was $25,657 compared to $475,554 used in financing activities in the comparable prior year period. Cash used by financing activities in the current year primarily consists of the payments on the long-term debt.

The Company has an asset-based loan agreement (the “line of credit”) with Umpqua Bank that allows it to borrow up to $2,000,000. The maturity date on this loan agreement is June 2012. The index rate at June 30, 2011 is 3.25%. The loan agreement contains certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of June 30, 2011, the Company was in compliance with all of the financial covenants.

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

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

As of June 30, 2011, the Company had a total long-term debt balance of $3,272,179, including the portion due in the next year, owed to Farm Credit Services and Kubota. As of December 31, 2010, the Company had a total long-term debt balance of $3,279,312. New long-term debt was secured during the second quarter. The total loan amount is $1.4 million, the proceeds to be used for the purchase of land, equipment and capital improvements to the winery facility. As of June 30, 2011 the loan is still in a construction loan phase, scheduled to convert to a permanent long term loan in October 2011. The remaining debt balance mainly represents the debt service with Farm Credit Services which was used to acquire vineyard land, finance the Company's Hospitality Center, invest in new winery equipment to increase the Company's winemaking capacity, and complete a larger warehouse storage facility.

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

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

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

Segment Reporting

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

The two segments reflect how the Company's operations are evaluated by senior management and the structure of its internal financial reporting. The Company evaluates performance based on the gross profit of the respective business segment. Sales, general and administrative expenses are not allocated between operating segments, therefore net income information for the respective segments is not available. Discrete financial information related to segment assets, other than inventory, is not available and that information continues to be aggregated.

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

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

	Three Months Ended June 30, 2011		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 900,730	$ 2,888,915	$ 3,789,645
Cost of sales	695,664	1,183,806	1,879,470
Gross profit	205,066	1,705,109	1,910,175
Percentage of sales	22.8 %	59.0 %	50.4 %

	Three Months Ended June 30, 2010		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 1,131,368	$ 2,964,062	$ 4,095,430
Cost of sales	792,949	1,444,594	2,237,543
Gross profit	338,419	1,519,468	1,857,887
Percentage of sales	29.9 %	51.3 %	45.4 %

	Six Months Ended June 30, 2011		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 1,758,780	$ 5,656,558	$ 7,415,338
Cost of sales	1,316,809	2,449,069	3,765,878
Gross profit	441,971	3,207,489	3,649,460
Percentage of sales	25.1 %	56.7 %	49.2 %

	Six Months Ended June 30, 2010		
	Bacchus Distribution	Produced Wine	Total
Net sales	$ 2,096,449	$ 5,552,556	$ 7,649,005
Cost of sales	1,573,187	2,749,205	4,322,392
Gross profit	523,262	2,803,351	3,326,613
Percentage of sales	25.0 %	50.5 %	43.5 %

Total inventory for Bacchus Distribution was $1,327,244 of purchased wines and $321,615 of non-wine merchandise at June 30, 2011. At June 30, 2010 total inventory for Bacchus Distribution was $1,461,997 of purchased wines and $342,522 of non-wine merchandise, a reduction of $134,753 of purchased wines and a decrease of $20,907 of non-wine merchandise from 2010 to 2011. Total inventory for produced wine inventory was $6,294,207 and $2,305,847 of non-wine merchandise and work-in-process at June 30, 2011. At June 30, 2010 total produced wine inventory of $6,429,662 and $3,373,092 of non-wine merchandise and work-in-process for the same period, a reduction of $135,455 for produced wine inventory and a reduction of $1,067,245 in work-in-process from 2010 to

2011.

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

Item 4

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – The Company carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to paragraph (b) of Rule 13a-15 and 15d-5 under the Exchange Act. Based on that review, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports the Company files or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to the Company's management, including the Company's principal executive officer and principle financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

Management's report on internal control over financial reporting – The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act and includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment, management has concluded that, as of June 30, 2011, the Company's internal control over financial reporting was effective.

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

- Management implemented the use of an Excel spreadsheet for accurately tracking of produced wine inventory costs. This tracking mechanism accumulates the costs associated with the finished product from initial vineyard costs through the full production cycle to the finished case goods.

- Key managers and accounting personnel worked closely with the Company's independent audit firm in evaluating the Company's progress in remediating the previously identified material weakness, all with oversight by the Audit Committee.

CONTROLS AND PROCEDURES - continued

- Management developed key control and compensating control procedures have been developed to ensure that material weaknesses are properly addressed and related financial reporting risks are mitigated. Periodic control validation and testing will also be implemented to ensure that controls continue to operate consistently and as designed.

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

Changes in Internal Control over Financial Reporting –

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Other Information

On July 20, 2011, the Board of Directors granted James Bernau, the Company's Chief Executive Officer, an option to purchase 80,000 shares of the Company's Common Stock pursuant to the Company's 2001 Stock Option Plan. The exercise price for this stock option is 5% above $3.09, which was the closing price for a share of stock of the Company's Common Stock on the date of grant. This option vests 25% per year beginning 7/20/11 and has a 5 year term.

On July 20, 2011, the Board of Directors granted R. Steven Caldwell, the Company's Chief Financial Officer, an option to purchase 30,000 shares of the Company's Common Stock pursuant to the Company's 2001 Stock Option Plan. The exercise price for this stock option is $3.09, which was the closing price for a share of the Company's Common Stock on the date of the grant. This option vests 20% per year beginning 7/20/11 and has a 10 year term.

Item 5. 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: August 12, 2011	By:	/s/ James W. Bernau
		James W. Bernau President
Date: August 12, 2011	By:	/s/ R. Steven Caldwell
		R. Steven Caldwell Chief Financial Officer