WILLAMETTE VALLEY VINEYARDS INC
Form 10-Q
August 16, 2010

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, 2010

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

Commission File Number 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in charter)

Oregon	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 ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ YES ¨ NO

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

¨ Large accelerated filer ¨ Accelerated filer

¨ Non-accelerated filer x Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ YES x NO

Number of shares of common stock outstanding as of June 30, 2010:
4,888,977 shares, no par value

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WILLAMETTE VALLEY VINEYARDS, INC.

Balance Sheet

		June 30, 2010 (unaudited)		December 31 2009
ASSETS				
Current Assets:				
Accounts receivable trade,net	$	931,707	$	1,458,497
Inventories		11,607,273		12,169,407
Prepaid expenses and other current assets		136,183		58,746
Current portion of notes receivable		62,415		62,415
Income tax receivable		304,996		464,958
Total current assets		13,042,574		14,214,023
Vineyard development cost, net		1,699,188		1,732,979
Property and equipment, net		6,032,100		6,192,229
Debt issuance costs, net		36,721		41,353
Note receivable, net of current portion		95,981		120,248
Other assets		4,456		4,456
Total assets	$	20,911,020	$	22,305,288
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank overdraft	$	14,209	$	271,911
Line of credit		134,474		140,964
Current portion of long term debt		432,863		432,863
Accounts payable		699,434		823,517
Accrued expenses		405,823		467,588
Deferred income taxes		62,000		62,000
Grapes payable		-		657,371
Total current liabilities		1,748,803		2,856,214
Long-term debt, net of current portion		3,074,643		3,286,005
Deferred rent liability		216,604		218,205
Deferred gain		297,788		313,835
Deferred income taxes		491,000		491,000
Total liabilities		5,828,838		7,165,259
Shareholders' equity				

Common stock, no par value - 10,000,000 shares authorized, 4,888,977 and 4,888,977 shares issued and outstanding at June 30, 2010 and December 31, 2009		8,610,868		8,608,658
Retained Earnings		6,471,314		6,531,371
Total shareholders' equity		15,082,182		15,140,029
Total liabilities and shareholders' equity	$	20,911,020	$	22,305,288

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

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net revenues				
Case revenue	$ 4,095,430	$ 4,052,383	$ 7,649,005	$ 7,692,621
Total net revenues	4,095,430	4,052,383	7,649,005	7,692,621
Cost of sales				
Case	2,237,543	2,056,684	4,322,392	3,819,828
Total cost of sales	2,237,543	2,056,684	4,322,392	3,819,828
Gross profit	1,857,887	1,995,699	3,326,613	3,872,793
Selling, general and administrative expenses	1,594,620	1,537,775	3,336,103	3,099,509
Net operating income (loss)	263,267	457,924	(9,490)	773,284
Other income (expense)				
Interest income	3,310	-	6,129	-
Interest expense	(56,393)	(36,216)	(109,697)	(68,878)
Other income (expense)	1,884	1,922	12,963	1,922
Net income (loss) before income taxes	212,068	423,630	(100,095)	706,328
Income tax expense/ (benefit)	83,781	169,846	(40,038)	287,388
Net income (loss)	128,287	253,784	(60,057)	418,940
Retained earnings beginning of period	6,343,027	5,965,057	6,531,371	5,799,901
Retained earnings end of period	$ 6,471,314	$ 6,218,841	$ 6,471,314	$ 6,218,841
Basic earnings (loss) per common share	$ 0.03	$ 0.05	$ (0.01)	$ 0.09
Diluted earnings (loss) per common share	$ 0.03	$ 0.05	$ (0.01)	$ 0.09

Weighted average number of basic common shares outstanding	4,888,977	4,858,480	4,888,977	4,855,379
Weighted average number of diluted common shares outstanding	4,902,345	4,877,738	4,903,394	4,858,146

The accompanying notes are an integral part of this financial statement

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

	Six Months ended June 30, 2010	Six Months ended June 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ (60,057)	$ 418,940
Reconciliation of net income (loss) to net cash from operating activities:		
Depreciation and amortization	353,867	326,866
Deferred gain	(16,047)	(16,047)
Deferred rent	(1,601)	-
Stock based compensation expense	2,210	8,988
Changes in operating assets and liabilities:		
Accounts receivable trade	526,790	63,156
Inventories	562,134	(1,015,457)
Prepaid expenses and other current assets	(77,437)	(58,845)
Income taxes receivable	-	(122,961)
Accounts payable	(124,083)	(205,583)
Accrued expenses	(61,765)	23,532
Income taxes payable	159,962	-
Grape payables	(657,371)	(569,897)
Net cash from operating activities	606,602	(1,147,308)
Cash flows from investing activities;		
Additions to property and equipment	(152,251)	(206,797)
Additions to vineyard development	(3,064)	(23,340)
Payments received on grape supplier loan	24,267	31,207
Net cash from investing activities	(131,048)	(198,930)
Cash flow from financing activities:		
Proceeds from stock options exercised	-	28,015
Bank overdraft	(257,702)	76,920
Net borrowings (payments) on revolving line of credit	(6,490)	1,042,440
Payments on long-term debt	(211,362)	(156,008)
Excess tax benefit on stock option exercises		4,510
Net cash provided from financing activities	(475,554)	995,877

Net change in cash and cash equivalents		-		(350,361)
Cash and cash equivalents:				
Beginning of period		-		350,361
End of period	$	-	$	-

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

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NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements for the three months and six months ended June 30, 2010 and 2009, have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The financial information as of December 31, 2009 is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2009. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2009, as presented in the Company’s Annual Report on Form 10-K.

Operating results for the three months and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2010, or any portion thereof.

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

Basic earnings per share are computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive common shares outstanding during the year. Potentially dilutive shares from stock options and other potentially dilutive shares are excluded from the computation when their effect is anti-dilutive. There were no potentially dilutive shares excluded from the computation for the three and six month periods ended June 30, 2010. 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. 19,258 and 2,767 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and six month periods ended June 30, 2009, respectively.

2) Effects of Recently Issued Accounting Standards

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

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3) STOCK BASED COMPENSATION

The Company has two stock option plans, the 1992 Stock Incentive Plan ("1992 Plan") and 2001 Stock Option Plan ("2001 Plan"). No additional grants may be made under the 1992 Plan. The 2001 Plan, which was approved by the shareholders, permits the grant of stock options and restricted stock awards for up to 900,000 shares. All stock options have an exercise price that is equal to the fair market value of the Company's stock on the date the options were granted. Administration of the plan, including determination of the number, term, and type of options to be granted, lies with the Board of Directors or a duly authorized committee of the Board of Directors. Options are generally granted based on employee performance with vesting periods ranging from date of grant to seven years. The maximum term before expiration for all grants is ten years.

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

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Shares		Weighted average exercise price	Shares		Weighted average exercise price
Outstanding at beginning of period	355,700	$	4.16	355,700	$	4.16
Granted	-		-	-		-
Exercised	-		-	-		-
Forfeited	-		-	-		-
Outstanding at end of Period	355,700	$	4.16	355,700	$	4.16

In accordance with the current accounting guidance for share-based payments, the Company recognizes compensation expense for options awarded under its stock incentive plans. Current accounting guidance requires the grant-date fair value of all share-based payment awards, including employee stock options, to be recognized as employee compensation expense over the requisite service period. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes stock option valuation model. This model uses the assumptions listed in the table below. Expected volatilities are based on implied volatilities from the Company's stock, historical volatility of the Company's stock, and other factors. Expected dividends are based on the Company's plan not to pay dividends for the foreseeable future. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Black-Scholes assumptions

	June 30, 2010
Risk Free interest rates	2.97%
Expected dividend	0%
Expected lives, in years	5-10
Expected volatility	25.5%

The Company expenses stock options on a straight-line basis over the options' related vesting term. For the three months ended June 30, 2010 and 2009, the Company recognized pretax compensation expense related to stock options of $ 0 and $ 4,494, respectively; and for the six months ended June 30, 2010 and 2009, the Company recognized pretax compensation expense related to stock options of $2,210 and $8,988, respectively.

During the Six months ended June 30, 2010, there were no transactions related to stock option exercise activity.

4) INVENTORIES

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

	June 30, 2010 (unaudited)	December 31, 2009
Winemaking and packaging materials	$ 430,932	$ 336,813
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	2,885,932	3,068,934
Finished goods (bottled wines and related products)	8,290,409	8,763,660
Current inventories	$ 11,607,273	$ 12,169,407

5) PROPERTY AND EQUIPMENT

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

	June 30, 2010 (unaudited)	December 31, 2009
Construction in progress	$ 260,088	$ 142,971
Land and improvements	2,603,763	2,594,155
Winery building and hospitality center	5,326,859	5,315,163
Equipment	5,580,587	5,566,757
	13,771,297	13,619,046
Less accumulated depreciation	(7,739,197)	(7,426,817)

	$	6,032,100	$	6,192,229

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6) INTEREST AND TAXES PAID

During the second quarter ended June 30, 2010, the Company paid $0 in federal, state and local income taxes and $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 $0 in Federal, State and Local income taxes and $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.

The following tables outline the sales, cost of sales and gross profit, for the three month and six month periods ended June 30, 2010 and 2009 by operating segment:

	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
% of sales	29.9%	51.3%	45.4%

	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

% of sales	24.9%	50.5%	43.5%

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Total inventory for Bacchus Distribution was $1,461,997 of purchased wines and $342,522 of non-wine merchandise at June 30, 2010. At June 30, 2009 total inventory for Bacchus Distribution was $2,546,373 of purchased wines and $413,279 of non-wine merchandise, a reduction of $ 1,084,376 of purchased wines and $ 70,757 of non-wine merchandise from 2009 to 2010. Total inventory for produced wine inventory was $6,429,662 and $3,373,092 of non-wine merchandise and work-in-process at June 30, 2010. At June 30, 2009 total produced wine inventory of $4,942,035 and $3,717,976 of non-wine merchandise and work-in-process for the same period, an increase of $ 1,487,627 for produced wine inventory and a reduction of $ 344,884 in work-in-process from 2009 to 2010.

Item 2

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

Forward Looking Statements

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

Critical Accounting Policies

The foregoing discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted the United States of America. The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2009. Such policies were unchanged during the three and six months ended June 30, 2010.

Overview

The Company's principal sources of revenue are derived from sales and distribution of wine. Net income for the second quarter ended June 30, 2010 was $ 128,287 compared to net earnings of $ 253,784 for the second quarter ended June 30, 2009, a 49.5% decrease over the comparable prior year period.

As a result, the Company generated $0.03 basic earnings per share during the three months ended June 30, 2010, a decrease of $0.02 basic earnings per share versus the comparable prior year period.

Sales revenue for the three months ended June 30, 2010 increased $43,047 or 1.06%, from the comparable prior year period. Sales revenue for the six months ended June 30, 2010 decreased $ 43,616 or .57% from the comparable prior year period.

Sales revenue for the three months ended June 30, 2010 compared to 2009 is up slightly. The mix of produced brand versus purchased brands sales in-state in our Bacchus Fine Wines distribution unit is consistent between 2009 and 2010.

Retail sales in the quarter increased versus the prior year due to the additional sales provided by the off-site tasting room known as the Wine Center located in McMinnville, OR as well as a substantial increase in direct sales generated through our Wine Club and Wine Ambassador program.

Net operating income for the quarter ended June 30, 2010 was $263,267 which is $194,657 lower than that of the prior year. This is mainly due to a reduction in our gross profit margin as a result of the higher cost of produced wines sold during the period compared to last year and an increase in our general and administrative expenses. Cost of sales has increased mainly due to the increase in the cost of produced wines sold in the prior vintages across product lines. The increase in Sales, General and Administrative expense is primarily due to incremental labor costs for shared service departments including related payroll taxes and fringe benefits. These increased expenses are somewhat offset by savings in professional service fees for accounting and legal services versus the prior year.

The winery bottled approximately 56,400 cases in the second quarter of 2010, mainly 2009 vintage Pinot Gris, 2009 vintage Pinot Noir-Wholecluster and 2009 vintage Riesling.

The Company has an asset-based loan agreement with Umpqua Bank that allows it to borrow up to $2,000,000. The maturity date on this loan agreement is June 2011. At June 30, 2010, the Company had a credit line balance of $134,474 and $1,865,526 of available credit. The interest rate charged in the quarter was 3.25%. The interest rate on this note is a variable interest rate and is subject to change from time to time based on changes in an independent index which is the Prime Rate as published in the Wall Street Journal (the "Index"). The index rate at June 30, 2010 is 3.25%. The loan agreement 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 June 30, 2010, the Company was in compliance with all of the financial covenants.

Willamette Valley Vineyards wines continue to receive media recognition for quality.

The June 2010 Wine Enthusiast in its June issue gave the ‘07 Hannah Pinot Noir 90 points along with calling it “The return of elegance.” The Wine Spectator selected the ’08 Riesling Wine of the Week an 89 point score. The ’07 Elton Pinot Noir and ’08 Riesling took Gold at Tasters Guild Wine Competition.

Patterson’s Tasting Panel, in their July issue rated the ’08 Dijon Clone Chardonnay with 91 points. It was the first of our wines to carry the Oregon Certified Sustainable Wine seal.

Wine Enthusiast also gave our 2007 Griffin Creek Merlot 90 points and 2007 Griffin Creek Cabernet Franc 89 points.

Eight of our wines took a Gold Medal at the Oregon Wine Awards: 2007 Elton Pinot Noir, 2007 Tualatin Estate Vineyard Pinot Noir, 2007 Hannah Pinot Noir, 2007 Signature Cuvée Pinot Noir, 2008 Riesling, 2009 Tualatin Estate Muscat, 2007 Griffin Creek Syrah, and 2007 Griffin Creek Merlot.

Wine & Spirits Magazine, in the August issue, named our ‘08 Dry Riesling Best Buy and a Year’s Best Riesling.

Our 2008 Riesling was selected by the Oregon Wine Press as a Value Pick in their July edition

The Summer 2010 edition of Wine Press Northwest, our 2007 Hannah Pinot Noir was given an “Outstanding,” 2007 Tualatin Pinot Noir an “Excellent,” 2007 Quinta Reserva Port an “Excellent,” 2008 Gewurztraminer an “Outstanding,” 2009 Semi-Sparkling Muscat Frizzante an “Outstanding,” 2007 Griffin Creek Syrah an “Outstanding,” and 2007 Griffin Creek Cabernet Franc an “Excellent.”

Additionally, in the Summer 2010 issue of Wine Press Northwest they did a feature on ice wines with our 2007 Sweet Muller-Thurgau and 2008 Sweet Hannah taking home “Excellent” ratings.

The May/June issue of Northwest Palate labeled our 2008 Whole Cluster Pinot Noir as a Vintage Value.

Our winery was one of fourteen wineries to participate in the Carbon Neutral Challenge. Portland Monthly Magazine ran a profile highlighting our participation.

Our Tasting Room was featured in Summer 2010 issue of Wine Press Northwest as one of the “10 Great NW Tasting Rooms.”

RESULTS OF OPERATIONS

Revenue

Net revenue for the three months ended June 30, 2010 increased $43,047 or 1.06%, from the comparable prior year period. Sales to out-of-state distributors in the second quarter of 2010 through our National Sales Department decreased $190,338 or -10.4% but were offset by gains through our other sales departments. Last year, significant sales through a large national chain were not duplicated this year due to retailer product rotation.

Oregon wholesale sales through the department, Bacchus Fine Wines, increased $85,248 and our Direct Sales Department (direct-to-consumer) sales increased by $122,676 or 20.61% versus prior year. These retail gains are due to increased attendance and related sales activity at the on-site and off-site events as well as a substantial increase in Wine Club sales during the quarter. The addition of a new tasting room in McMinnville, OR known as the Wine Center also helped sustain retail tasting room sales in the second quarter 2010 versus 2009.

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The Company sold approximately 37,274 cases during the three months ended June 30, 2010. Of these cases sold, approximately 27,456 cases were produced brands and another 9,818 cases were purchased brands.

Our revenues from winery operations are summarized as follows:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Retail Sales, Rental Income and Events	$ 717,932	$ 595,255	$ 1,306,900	$ 1,128,530
In-state sales	1,977,010	1,825,696	3,393,242	3,398,539
Out-of-state sales	1,536,465	1,774,850	3,160,391	3,387,765
Total Revenue	4,231,407	4,195,801	7,860,533	7,914,834
Less excise taxes	(135,977)	(143,418)	(211,528)	(222,213)
Net Revenue	$ 4,095,430	$ 4,052,383	$ 7,649,005	$ 7,692,621

Sales in the state of Oregon, through our wholesale department, Bacchus Fine Wines, increased $151,314 or 8.29%, for the three months ended June 30, 2010, compared to the corresponding prior year period.

Out-of-state sales in the three months ended June 30, 2010 decreased $238,382 or -13.43% versus the comparable prior year period.

Cost of Goods Sold

Our Cost of Goods on produced wines have increased sharply from prior vintages sold resulting in a decrease in Gross Profit of $137,936 over the prior period. Management expects margins to return to historical levels when the ’09 vintage wines are sold.

Gross Profit

Gross profit for the three months ended June 30, 2010 decreased $137,812 or -6.91%, versus the second quarter of 2009.

As a percentage of net revenue, gross profit from winery operations was 45.36% in the three months ended June 30, 2010, compared to 49.25% in the comparable prior year period. The decrease in gross profit as a percentage of net revenue for the three months ended June 31, 2010 is mainly due to the increase in the cost of our produced brands across our product lines.

Selling, General and Administrative Expense

Selling, general and administrative expense for the three months ended June 30, 2010 increased $56,845 or 3.7% compared to the corresponding prior year period. This increase is due primarily to incremental labor and related taxes and benefits for shared service administrative staff. The Company has experienced significant savings in professional service fees for accounting and legal services and freight costs for outbound shipments. In total, as a percentage of net revenues from winery operations, selling, general and administrative expenses were 38.6% for the three months ended

June 30, 2010, as compared to 37.9% for the comparable prior year period.

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Interest Income, Interest Expense

Interest income for the second quarter 2010 was $3,310 and for the six months ended June 30, 2010 was $ 6,129. Interest expense for the three months ended June 30, 2010 was $ 56,393 an increase of 20,177 or 55.7% compared to the corresponding prior year period. Interest expense for the six months ended June 30, 2010 was $ 109,697 an increase of $40,819 or 59.3% compared to the corresponding prior year period. The average interest rate paid for the three months ended June 30, 2010 was 4.9%.

Income Taxes

The income tax expense in the second quarter 2010 was $83,781 for the three months ended June 30, 2010, compared to income tax expense of $169,846 for the comparable prior year period. Our estimated tax rate for the three months ended June 30, 2010 and 2009 was 40.0% and 40.0%, respectively.

Net Income and Earnings per Share

The reduction in gross margin combined with higher selling and administrative costs produced a Net Income for the second quarter ended June 30, 2010 of $128,287 compared to net income of $253,784, a 49.5% decrease over the comparable prior year period. As a result, the Company generated a $0.03 basic earnings per share during the three months ended June 30, 2010, a decrease of $0.02 basic earnings per share versus the comparable prior year period.

The winery bottled approximately 56,400 cased in the Second Quarter of 2010, mainly 2009 vintage Pinot Gris, 2009 vintage Pinot Noir-Whole Cluster and 2009 vintage Riesling.

The record ’09 harvest has significantly added to produced wine inventory and work-in-progress. However, purchased wine and merchandise inventories are being brought into balance through tighter sales and purchasing management – a reduction of $ 882,657 in this carried inventory value since June 30, 2009.

Liquidity and Capital Resources

At June 30, 2010, we had a working capital balance of $11.3 million and a current working capital ratio of 7.45:1. At December 31, 2009, we had a working capital balance of $11.4 million and a current working capital ratio of 4.98:1. We had a cash balance of $0 at June 30, 2010, compared to a cash balance of $0 at December 31, 2009.

Total cash provided by operating activities in the six months ended June 30, 2010 was $606,602 compared to cash used in operating activities of $1,147,308 for the same period in the prior year. The decrease in cash used in operating activities versus prior year was primarily due to the reduction in on-hand inventory.

Total cash used in investing activities in the six months ended June 30, 2010 was $131,048, compared to $198,930 used in the comparable prior year period. The decrease was due to a reduction in the current period of capital expenditures for property and equipment and vineyard development costs versus the prior year.

Total cash used in financing activities in the six months ended June 30, 2010 was $475,554 compared to $995,877 provided by financing activities in the comparable prior year period. Cash provided by financing activities in the current year primarily consists of revolving credit line advances needed to support working capital requirements.

The Company has an asset-based loan agreement with Umpqua Bank that allows it to borrow up to $2,000,000. The maturity date on this loan agreement is June 2011. At June 30, 2010, the Company had a credit line balance of $134,474 and $1,865,526 of available credit. The interest rate charged in the quarter was 3.25%. The interest rate on this note is a variable interest rate and is subject ot change from time to time based on changes in an independent index which is the Prime Rate as published in the Wall Street Journal (the "Index"). The index rate at June 30, 2010 is 3.25%. The loan agreement contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity

As of June 30, 2010, we had a total long-term debt balance of $3,507,506, including the portion due in the next year, owed to Farm Credit Services, GMAC and Kubota. There was no new long-term debt incurred in the quarter ended June 30, 2010. The remaining debt balance mainly represents the debt service with Farm Credit Services which was used to acquire vineyard land, finance our Hospitality Center, invest in new winery equipment to increase our winemaking capacity, and complete a larger warehouse storage facility.

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

We believe that cash flow from operations and funds available under our existing credit facilities will be sufficient to meet our foreseeable short and long-term needs.

Segment Reporting

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

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

The following tables outline the sales, cost of sales and gross profit, for the three and six month period ended June 30, 2010 and 2009 by operating segment:

	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
% of sales	29.9%	51.3%	45.4%

	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
% of sales	24.9%	50.5%	43.5%

Total inventory for Bacchus Distribution was $1,461,997 of purchased wines and $342,522 of non-wine merchandise at June 30, 2010. At June 30, 2009 total inventory for Bacchus Distribution was $2,546,373 of purchased wines and $413,279 of non-wine merchandise, a reduction of $ 1,084,376 of purchased wines and $ 70,757 of non-wine merchandise from 2009 to 2010. Total inventory for produced wine inventory was $6,429,662 and $3,373,092 of non-wine merchandise and work-in-process at June 30, 2010. At June 30, 2009 total produced wine inventory of $4,942,035 and $3,717,976 of non-wine merchandise and work-in-process for the same period, an increase of $ 1,487,627 for produced wine inventory and a reduction of $ 344,884 in work-in-process from 2009 to 2010.

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

Item 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

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

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

Changes in Internal Control over Financial Reporting

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No. Description

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

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

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

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

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

32.1 Certification of James W. Bernau pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

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

SIGNATURES

Pursuant to the requirements of the Security Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILLAMETTE VALLEY VINEYARDS, INC.

Date: August 16, 2010	By /s/ James W. Bernau James W. Bernau President
Date: August 16, 2010	By /s/ R. Steven Caldwell R. Steven Caldwell Chief Financial Officer