

WILLAMETTE VALLEY VINEYARDS INC
Form 10-Q
November 13, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 | (I.R.S. Employer Identification No.) |
| of incorporation or organization) | |

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

| | |
|--|----------|
| Registrant's telephone number, including | (503) |
| area code: | 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: YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): YES NO

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

- | | |
|---|--|
| <input type="radio"/> Large accelerated filer | <input type="radio"/> Accelerated filer |
| <input type="radio"/> Non-accelerated filer | <input checked="" type="radio"/> Smaller reporting company |

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

Number of shares of common stock outstanding as of October 31, 2012: 4,815,193 shares

WILLAMETTE VALLEY VINEYARDS, INC.
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PART I: FINANCIAL INFORMATION

Item 1 – Financial Statements

WILLAMETTE VALLEY
VINEYARDS, INC.
BALANCE SHEETS

ASSETS

| | September 30, 2012 (unaudited) | December 31, 2011 (audited) |
|---|--------------------------------------|-----------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,477,848 | \$ 3,411,292 |
| Accounts receivable, net | 1,096,695 | 986,591 |
| Inventories (Note 3) | 8,565,028 | 8,843,813 |
| Prepaid expenses and other current assets | 57,998 | 138,382 |
| Current portion of note receivable | 53,509 | 61,492 |
| Current portion of distribution agreement receivable | 500,000 | 250,000 |
| Current portion of assets from discontinued operations, net | 23,944 | 847,053 |
| Income tax receivable | - | 229,337 |
| Total current assets | 14,775,022 | 14,767,960 |
| Vineyard development costs, net | 1,586,793 | 1,643,546 |
| Property and equipment, net (Note 4) | 7,765,078 | 7,238,437 |
| Assets from discontinued operations, net | 25,601 | 62,300 |
| Debt issuance costs | 48,215 | 50,752 |
| Distribution agreement receivable, net of current portion | 250,000 | 500,000 |
| Note receivable | - | 19,276 |
| Other assets | - | 4,456 |
| TOTAL ASSETS | \$ 24,450,709 | \$ 24,286,727 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | 207,207 | 197,936 |
| Accounts payable | 738,404 | 301,168 |
| Accrued expenses | 368,617 | 438,983 |
| Income taxes payable | 31,508 | - |
| Deferred income taxes | 351,000 | 351,000 |
| Current portion of deferred revenue-distribution agreement | 142,857 | 142,857 |
| Grapes payable | - | 389,233 |
| Total current liabilities | 1,839,593 | 1,821,177 |

| | | |
|---|-----------|-----------|
| Long-term debt, net of current portion | 3,869,635 | 4,010,654 |
| Deferred rent liability | 199,943 | 208,047 |
| Deferred revenue-distribution agreement, net of current portion | 702,378 | 809,523 |
| Deferred gain | 225,575 | 249,646 |
| Deferred income taxes | 754,000 | 754,000 |
| Total liabilities | 7,591,124 | 7,853,047 |

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Common stock, no par value, 10,000,000 shares authorized,
4,818,450 and 4,892,977 issued and outstanding
at

| | | |
|--|------------|------------|
| September 30, 2012 and December 31, 2011, respectively | 8,646,648 | 8,632,746 |
| Retained earnings | 8,472,692 | 7,800,934 |
| Less: Common stock held in treasury, at cost, 74,527 and 0, respectively September 30, 2012 and December 31, 2011 | (259,755) | - |
| Total shareholders' equity | 16,859,585 | 16,433,680 |

| | | |
|--|---------------|---------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 24,450,709 | \$ 24,286,727 |
|--|---------------|---------------|

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF OPERATIONS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2012 (unaudited) | 2011 (unaudited) | 2012 (unaudited) | 2011 (unaudited) |
| SALES | \$ 3,155,762 | \$ 3,423,496 | \$ 8,729,512 | \$ 9,021,117 |
| COST OF SALES | 1,363,569 | 1,538,051 | 3,624,643 | 3,987,119 |
| GROSS PROFIT | 1,792,193 | 1,885,445 | 5,104,869 | 5,033,998 |
| SELLING, GENERAL & ADMIN EXPENSES | 1,211,136 | 1,064,428 | 3,585,648 | 3,367,716 |
| INCOME FROM OPERATIONS | 581,057 | 821,017 | 1,519,221 | 1,666,282 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 3,382 | 4,502 | 7,618 | 9,348 |
| Interest expense | (86,180) | (51,480) | (167,969) | (150,026) |
| Other income, net | 12,749 | 42,510 | 85,803 | 46,400 |
| INCOME BEFORE INCOME TAXES | 511,008 | 816,549 | 1,444,673 | 1,572,004 |
| INCOME TAX PROVISION | (238,105) | (318,078) | (621,309) | (641,104) |
| INCOME FROM CONTINUING OPERATIONS | 272,903 | 498,471 | 823,364 | 930,900 |
| DISCONTINUED OPERATIONS | | | | |
| Loss from operations | (8,060) | (215,627) | (261,390) | (615,107) |
| Income tax benefit | 3,385 | 90,563 | 109,784 | 258,345 |
| LOSS FROM DISCONTINUED OPERATIONS | (4,675) | (125,064) | (151,606) | (356,762) |
| NET INCOME | \$ 268,228 | \$ 373,407 | \$ 671,758 | \$ 574,138 |
| BASIC NET INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE | \$ 0.06 | \$ 0.10 | \$ 0.17 | \$ 0.19 |
| BASIC NET LOSS FROM DISCONTINUED OPERATIONS PER COMMON SHARE | \$ (0.00) | \$ (0.03) | \$ (0.03) | \$ (0.07) |

| | | | | |
|--|------------|------------|------------|------------|
| BASIC NET INCOME PER COMMON SHARE | \$ 0.06 | \$ 0.08 | \$ 0.14 | \$ 0.12 |
| DILUTED NET INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE | \$ 0.06 | \$ 0.10 | \$ 0.17 | \$ 0.19 |
| DILUTED NET LOSS FROM DISCONTINUED OPERATIONS PER COMMON SHARE | \$ (0.00) | \$ (0.03) | \$ (0.03) | \$ (0.07) |
| DILUTED NET INCOME PER COMMON SHARE | \$ 0.06 | \$ 0.08 | \$ 0.14 | \$ 0.12 |
| Weighted average number of basic common shares outstanding | 4,821,084 | 4,892,977 | 4,860,692 | 4,892,977 |
| Weighted average number of diluted common shares outstanding | 4,828,038 | 4,896,865 | 4,866,466 | 4,897,423 |

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF CASH FLOWS

| | Nine months ended September 30, | |
|---|---------------------------------|--------------|
| | 2012 | 2011 |
| | (unaudited) | (unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS | | |
| Net income from continuing operations | \$ 823,364 | \$ 930,900 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation and amortization | 581,739 | 552,860 |
| Loss on disposition of property & equipment | 22,247 | - |
| Stock based compensation expense | 13,902 | 3,703 |
| Deferred rent liability | (8,104) | (5,217) |
| Deferred revenue-distribution agreement | (107,145) | (11,905) |
| Deferred gain | (24,071) | (24,071) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (110,104) | (315,082) |
| Inventories | 278,785 | 879,942 |
| Prepaid expenses and other current assets | 80,384 | (62,172) |
| Income taxes receivable | 229,337 | 115,063 |
| Income taxes payable | 31,508 | 39,270 |
| Other assets | 4,456 | - |
| Grapes payable | (389,233) | (273,211) |
| Accounts payable | 437,236 | 241,224 |
| Accrued expenses | (70,366) | (194,955) |
| Net cash from operating activities | 1,793,935 | 1,876,349 |
| CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS | | |
| Additions to property and equipment | (1,087,723) | (1,400,508) |
| Additions to vineyard development | - | (56,297) |
| Proceeds from sale of property and equipment | 16,386 | - |
| Payments received on note receivable | 27,259 | 24,041 |
| Net cash from investing activities | (1,044,078) | (1,432,764) |
| CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS | | |
| Payments on long-term debt | (131,748) | (423,806) |
| Borrowings on long-term debt | - | 1,400,000 |
| Payment of debt issuance costs | - | (18,524) |
| Repurchase of common stock | (259,755) | - |
| Net cash from financing activities | (391,503) | 957,670 |
| CASH FLOWS FROM DISCONTINUED OPERATIONS | | |
| Nets cash from operating activities of discontinued operations | 671,503 | (4,452) |
| Net cash from investing activities of discontinued operations | 36,699 | (11,339) |

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| | | |
|--|--------------|--------------|
| Net cash from discontinued operations | 708,202 | (15,791) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,066,556 | 1,385,464 |
| CASH AND CASH EQUIVALENTS, beginning of period | 3,411,292 | 1,518,864 |
| CASH AND CASH EQUIVALENTS, end of quarter | \$ 4,477,848 | \$ 2,904,328 |

The accompanying notes are an integral part of this financial statement

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements for the three months ended September 30, 2012 and 2011 have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The financial information as of December 31, 2011 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, 2011. 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, 2011, as presented in the Company’s Annual Report on Form 10-K.

Operating results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2012, or any portion thereof.

The Company includes direct-to-consumer sales and national sales to distributors. These sales channels have mostly similar economic characteristics, offer comparable products to customers and utilize similar processes and shared resources for production, selling and distribution.

On June 30, 2012, the Company discontinued their in-state distribution division, Bacchus Fine Wines. The Company had been in the process of winding down Bacchus operations since September 2011, when they entered into an agreement with Young’s Market of Oregon, LLC to distribute produced wines in-state. Since then, purchased wine inventories have been nearly completely liquidated, and substantially all Company in-state distribution activity has ceased. In-state distribution activities are now reported as discontinued operations.

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, 6,954 and 3,888 potentially dilutive shares are included in the computation of dilutive earnings per share for the three month periods ended September 30, 2012 and 2011, respectively. 5,774 and 4,446 potentially dilutive shares are included in the computation of dilutive earnings per share for the nine month periods ended September 30, 2012 and 2011, respectively.

2) STOCK BASED COMPENSATION

The Company has a stock incentive plan, originally created in 1992, most recently amended in 2001. No additional grants may be made under the plan. 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.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

2) STOCK BASED COMPENSATION - continued

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

| | Three months ended September 30, 2012 | | Nine months ended September 30, 2012 | |
|---------------------------------------|--|-------------------|---|-------------------|
| | Weighted Average Shares | Exercise Price | Weighted Average Shares | Exercise Price |
| Outstanding at beginning of period | 356,200 | \$ 3.71 | 356,200 | \$ 3.71 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited | (30,000) | 3.09 | (30,000) | 3.09 |
| Outstanding at end of period | 326,200 | \$ 3.76 | 326,200 | \$ 3.76 |

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.

The Company expenses stock options on a straight-line basis over the options' related vesting term. Pretax compensation expense related to stock options for the three months ended September 30, 2012 and 2011 were \$4,100 and \$5,708, respectively. Pretax compensation expense related to stock options for the nine months ended September 30, 2012 and 2011 were \$13,902 and \$5,708, respectively.

During the nine months ended September 30, 2012 and 2011, there were no transactions related to stock options exercise activity.

3) INVENTORIES

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

| | September 30, 2012 (unaudited) | December 31, 2011 (audited) |
|---|--------------------------------------|-----------------------------------|
| Winemaking and packaging materials | \$ 283,649 | \$ 248,350 |
| Work-in-progress (costs relating to unbottled wine products) | 2,138,070 | 3,535,027 |
| Finished goods - bottled wine | 5,883,828 | 4,854,170 |
| Finished goods - merchandise | 259,481 | 206,266 |

| | | | | |
|---------------------|----|-----------|----|-----------|
| Current inventories | \$ | 8,565,028 | \$ | 8,843,813 |
|---------------------|----|-----------|----|-----------|

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

4) PROPERTY AND EQUIPMENT

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

| | September 30, 2012 (unaudited) | December 31, 2011 (audited) |
|---|--------------------------------------|-----------------------------------|
| Construction in progress | \$ 1,062,693 | \$ 333,162 |
| Land and improvements | 2,676,821 | 2,610,374 |
| Winery building and hospitality center | 6,761,286 | 6,727,419 |
| Equipment | 5,988,929 | 6,114,076 |
| | \$ 16,489,729 | \$ 15,785,031 |
| Accumulated depreciation | (8,724,651) | (8,546,594) |
| | \$ 7,765,078 | \$ 7,238,437 |

5) LONG TERM DEBT

The Company has three long term debt agreements with Farm Credit Services with an aggregate outstanding balance of \$4,065,955 and \$4,193,917 as of September 30, 2012 and December 31, 2011, respectively. These loans require monthly payments of \$37,502 principal and interest for the life of the loans, at an annual fixed interest rate ranging from 5.9% to 6.7%. The general purposes of these loans are to make capital improvements to the winery and vineyard facilities. The Company has a long term debt agreement with Kubota with a balance of \$10,887 and \$14,673 as of September 30, 2012 and December 31, 2011, respectively. This loan requires a monthly payment of \$473 principal only for the life of the loan, at an annual interest rate of 0.0%.

6) INTEREST AND TAXES PAID

Income taxes – The Company paid \$158,000 and \$0 in income taxes for the three months ended September 30, 2012 and 2011, respectively. The company paid \$238,000 and \$0 in income taxes for the nine months ended September 30, 2012 and 2011, respectively.

Interest - The Company paid \$86,180 and \$51,480 for the three months ended September 30, 2012 and 2011, respectively, in interest on the long-term debt and revolving credit line. The Company paid \$167,969 and \$150,026 for the nine months ended September 30, 2012 and 2011, respectively, in interest on the long-term debt and revolving credit line.

7) MANAGEMENT PLAN TO REPURCHASE STOCK

The Company's Board of Directors has authorized a stock repurchase plan. Common stock will be purchased from time to time, in the open market or through private transactions, subject to market conditions. A cumulative total of \$500,000 has been authorized by the Board for repurchase as of September 30, 2012. During the three months ended

September 30, 2012, the Company purchased 2,762 shares for a total cost of \$10,790. During the nine months ended September 30, 2012, the Company has purchased 74,527 shares for a total cost of \$259,755. No purchases were made prior to 2012.

8) SEGMENT REPORTING

With the conclusion of the Bacchus Distribution wind-down, the Company now consists of a single operating segment relating to the production and sale of Company wines.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

9) DISCONTINUED OPERATIONS

On June 30, 2012, the Company completed the wind-down of Bacchus Distribution. Bacchus Distribution was the Company's Oregon distribution division, selling both Company produced wines and wines and merchandise purchased from other sources. The decision to wind-down these distribution activities was made due to the increasingly higher regulatory and overhead costs of maintaining Bacchus as an operating unit. Distribution of Company produced wines in Oregon are now performed by an independent distribution company. All sales of purchased wines, and sale of merchandise to retailers, are considered discontinued operations.

Net sales from discontinued operation by Bacchus for the three months ended September 30, 2012 and 2011 were \$33,645 and \$921,424, respectively. Net sales from discontinued operation by Bacchus for the nine months ended September 30, 2012 and 2011 were \$608,887 and \$2,739,140, respectively.

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 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, 2011. Such policies were unchanged during the nine months ended September 30, 2012.

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

Overview

Net income for the three months ended September 30, 2012 and 2011 was \$268,228 and \$373,407, respectively, a decrease of \$105,179 or 28.2%. This was largely due to the one-time reduction in in-state wine sales from the prior year. Prior year third quarter sales were bolstered by an approximately \$250,000 sale of wine to the new Oregon distributor to establish their beginning stock levels, during the final month of self-distribution of produced wines. Overall gross profit for the three months ended September 30, 2012 and 2011 was \$1,792,193 and \$1,885,445, respectively, a decrease of \$93,252 or 4.9%. Gross margin percent for the three months ended September 30, 2012 and 2011 was 56.8% and 55.1%, an increase of 1.7 percentage points. Pre-tax losses on discontinued operations for the three months ended September 30, 2012 and 2011 was \$8,060 and \$215,627, respectively, a decrease of \$207,567 or 96.3%.

Sales for the three months ended September 30, 2012 and 2011 were \$3,155,762 and \$3,423,496, respectively, a decrease of \$267,734 or 7.8%. This is caused by a decrease in national sales of \$436,318 or 15.8%, partially offset by an increase in retail sales of \$112,350 or 14.0%. A large portion of the decrease in national sales is related to the change in sales channel, switching from in-state self-distribution to retailers to selling to an independent distributor for in-state sales. The average sale price per case to a retailer is higher than the average sale price per case to a wholesaler. Prior year third quarter national sales were also supported by the large initial sale of wine to the new Oregon distributor.

The Company sold approximately 24,751 and 26,835 cases of produced wine during the three months ended September 30, 2012 and 2011, respectively, a decrease of 2,084 cases or 7.8%. The Company sold approximately 69,375 and 81,658 cases of produced wine during the nine months ended September 30, 2012 and 2011, respectively, a decrease of 12,283 cases or 15.0%. The decrease in produced wine sales was primarily the result of reduced in-state case sales, largely caused by Management's decision to discontinue the sale of Company-produced, non-branded wines. Management believes their decision to discontinue these lower-margin products has resulted in a significant strengthening of the Company's brand position, and has strengthened overall margins.

Management determined as of June 30, 2012, the wind-down of the Bacchus Distribution activity was substantially complete. Bacchus distribution activity has been reclassified as discontinued operations. In-state sales of produced wines, formerly sold through the Bacchus Distribution, are now sold through the distributor as part of National Sales activities. Therefore, the prior year comparative information presented in the financials includes in-state produced wine sales activities with National Sales activities.

The Company generated \$0.06 and \$0.08 in basic earnings per share during the three months ended September 30, 2012 and 2011, respectively, a decrease of \$0.02 or 25.0%.

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. There was no balance outstanding on the line of credit as of September 30, 2012.

The winery bottled approximately 21,857 cases during the three months ended September 30, 2012.

Willamette Valley Vineyards continues to receive positive recognition through national competitions, magazines and local news.

Willamette Valley Vineyards was featured on the front page of the June 23rd Statesman Journal newspaper. The article, entitled “Forming a Partnership,” highlighted our raptor project and the recent placement of several baby barn owls in our 3 vineyards.

In July, Snooth.com began their “People’s Voice Wine Awards” where readers are asked to vote for their favorite wine. Our 2008 Estate Pinot Noir and 2009 Pinot Gris were nominated and have made it to the final round of voting.

America’s premier direct marketer of fruit and food, Harry & David, held their 10th annual “Taste of Harry & David Wine Competition” in July where our 2009 Bernau Block received a gold medal.

NBC’s hit TV show “Grimm” again chose to feature our 2009 Pinot Noir in select scenes on a recent episode, further strengthening national brand awareness.

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

KPTV 12's "Good Day Oregon" TV personality, Andy Carson visited the winery in September to film a segment about our 22nd annual Grape Stomp Competition, reaching thousands of Oregon viewers.

Beverage Dynamics and Cheers Magazine both recognized our 2011 Whole Cluster Pinot Noir with 94 points in their September 2012 issues.

Portland Monthly magazine's September 2012 issue featured their list of "Oregon's 50 Best Wines." Our 2009 Estate Pinot Noir received 95 points and was awarded the number 5 position.

In their September 2012 issue, Wine & Spirits magazine recognized our 2011 Whole Cluster Pinot Noir with 90 points and a best buy rating.

In October 2012, the editor of Snooth.com, Gregory Dal Piaz, released his top 15 Pinot noirs, listing our 2009 Estate as #2 with 92 points.

RESULTS OF OPERATIONS

Revenue

In-state net sales, excluding excise taxes, of Company produced wines during the three months ended September 30, 2012 and 2011 were \$619,555 and \$972,758, respectively, a decrease of \$353,203 or 36.3%. This decrease is largely a result of the prior year results including an initial order from the new distributor relationship of approximately \$250,000. This decrease was also partly caused by the decrease in the average sales price per case resulting from the change in distribution methods, as Bacchus Distribution used to sell to retailers at a higher average case price than currently achieved selling to a distributor.

Net sales, excluding excise taxes, to out-of-state distributors during the three months ended September 30, 2012 and 2011 were \$1,701,442 and \$1,752,367, respectively, a decrease of \$50,925 or 2.9%. This decrease was a result of a \$119,705 decrease in gross sales to distributors, partially offset by decrease in depletion allowance expense paid to distributors. Depletion allowance expense the three months ended September 30, 2012 and 2011 was \$53,960 and \$122,740, respectively, a decrease of \$68,780 or 56.0%. Management's decision to reduce the depletion allowance resulted in a decrease in net sales, but has yielded an increase in gross income.

Net retail sales, excluding excise taxes, for the three months ended September 30, 2012 and 2011 were \$916,503 and \$804,153, respectively, an increase of \$112,350, or 14.0%. This is primarily a reflection of increased tasting room sales and wine club sales. Tasting room sales are believed to have increased as a result of higher guest traffic and a higher ring per guest due to the on-site restaurant and a focus on high margin products.

Cost of Goods Sold

The Company's cost of goods on produced wines is lower compared to the prior year resulting in an increase in gross profit percentage for the three months ended September 30, 2012. The cost of goods of produced wine changes by vintage depending on the vineyard yields as well as actual costs associated with the growing and harvesting of the grapes as well as cellar production costs. Although yields have been lower in the past year, the costs associated with the vintage on a per unit basis have been lower.

Gross Profit

Gross profit for the three months ended September 30, 2012 and 2011 was \$1,792,193 and \$1,885,445, respectively, a decrease of \$93,252 or 4.9%. This decrease is primarily a result of the lower in-state sales for the quarter.

Gross profit margin for the three months ended September 30, 2012 and 2011 was 56.8% and 55.1%, respectively, an increase of 1.7 percentage points. The increase is primarily due to increased retail sales as a percentage of total sales and a reduction in depletion allowances paid to wholesalers, partially offset by the change in sales mix by the elimination of sales to in-state retailers.

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

Selling, General and Administrative Expense

Selling, general and administrative expense for the three months ended September 30, 2012 and 2011 was \$1,211,136 and \$1,064,428, respectively, an increase of \$146,708 or 13.8%. This increase is due primarily to increased spending on sales efforts both in-state and nationally to help the transition away from the Bacchus Distribution model and to promote new placements nationally. In total, selling, general and administrative expense was 38.4% and 31.1%, as a percentage of net revenue from winery operations, for the three months ended September 30, 2012 and 2011, respectively.

Interest Expense

Interest expense was \$86,180 and \$51,480 for the three months ended September 30, 2012 and 2011, respectively, an increase of \$34,700 or 67.4%. Based on current debt balances and interest rates, Management expects quarterly interest expense of approximately \$66,000 for future quarters.

Income Taxes

The income tax expense from continuing operations was \$238,105 and \$318,078 for the three months ended September 30, 2012 and 2011, respectively, a decrease of \$79,973 or 25.1%. The Company's estimated federal and state combined income tax rate was 46.6% and 39.0% for the three months ended September 30, 2012 and 2011, respectively.

Net Income

Net income from continuing operations was \$272,903 and \$498,471 for the three months ended September 30, 2012 and 2011, respectively, a decrease of \$225,568 or 45.3%. This decrease is caused by the increase in selling expenses, coupled with a reduction in gross profits. This is partially offset, however, by a reduction in the losses caused by operations discontinued effective June 30, 2012. Discontinued operations of distributing purchased wine to in-state retailers generated a net loss of \$4,675 and \$125,064 for the three months ended September 30, 2012 and 2011, respectively, a reduction of \$120,389 or 96.3%. The combined net income from all operations for the three months ended September 30, 2012 and 2011 was \$268,228 and \$373,407, respectively, a reduction of \$105,179 or 28.2%.

Liquidity and Capital Resources

At September 30, 2012, the Company had a working capital balance of \$12.9 million and a current working capital ratio of 8.03:1. At December 31, 2011, the Company had a working capital balance of \$12.9 million and a current working capital ratio of 8.11:1.

At September 30, 2012, the Company had a cash balance of \$4,477,848. At December 31, 2011, the Company had a cash balance of \$3,411,292.

Total cash provided by operating activities from continuing operations in the nine months ended September 30, 2012 and 2011 was \$1,793,935 and \$1,876,349, respectively.

Total cash used in investing activities from continuing operations in the nine months ended September 30, 2012 and 2011 was \$1,044,078 and \$1,432,764, respectively.

Total cash provided by/(used in) financing activities from continuing operations in the nine months ended September 30, 2012 and 2011 was \$(391,503) and \$957,670, respectively. Cash used in financing activities for the nine months ended September 30, 2012 primarily consists of payments on long term debt as well as repurchase of common stock.

Total cash provided by/(used in) discontinued operations in the nine months ended September 30, 2012 and 2011 was \$708,202 and (\$15,791), respectively. Cash provided from discontinued operations for the nine months ended September 30, 2012 was largely generated through the liquidation of purchased-wine inventory.

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

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 2013. The index rate at September 30, 2012 is 3.25%. The loan agreement contains certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of September 30, 2012, the Company was in compliance with all of the financial covenants.

At September 30, 2012, the Company had no amount outstanding on the line of credit, and had \$2,000,000 available credit. At December 31, 2011, the Company had no amount outstanding on the line of credit, and had \$2,000,000 available credit.

As of September 30, 2012, the Company had a total long-term debt balance of \$4,076,842, including the portion due in the next year, owed to Farm Credit Services and Kubota. As of December 31, 2011, the Company had a total long-term debt balance of \$4,208,590.

At September 30, 2012, the Company owed \$0 on grape contracts. For the 2012 harvest, there are grape purchase contracts in place with local growers that will be accrued when the grapes are received 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.

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 Controller, 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 Controller 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.

CONTROLS AND PROCEDURES - continued

Changes in Internal Control over Financial Reporting – There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2012 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,

1.

ISSUER PURCHASES OF EQUITY
SECURITIES

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|----------------------------|--|--|---|--|
| Month #1 July 2012 | - | \$ - | - | \$ 1,035 |
| Month #2 August 2012 | - | \$ - | - | \$ 1,035 |
| Month #3 September 2012 | 2,762 | \$ 3.91 | 2,762 | \$ 240,245 |
| Total | 2,762 | \$ 3.91 | 2,762 | \$ 240,245 |

As originally disclosed in the form 10-K for the fiscal year ended December 31, 2011, filed March 27, 2012, the Board of Directors has authorized the expenditure of \$200,000 to be used in the buyback program that will run

through April 1, 2012. During the three months ended June 30, 2012, the Board of Directors expanded the buyback program an additional \$50,000 and extended the program to last until the full amount of authorized funds are expended. During the three months ended September 30, 2012, the Board of Directors authorized additional buybacks of \$250,000, bringing the total amount authorized for buyback to \$500,000, of which \$240,245 remains as of September 30, 2012.

Item 3 - Defaults upon Senior Securities.

None.

Item 4 - Mine Safety Disclosures,

Not applicable.

Item 5 – Other Information,

None.

Item 6 – Exhibits,

ExhibitDescription

No.

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 Controller 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 James Z. Voss pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

101 The following financial information from the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements, tagged as blocks of text. (Filed herewith).

SIGNATURES

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

WILLAMETTE VALLEY VINEYARDS, INC.

Date: November 13, 2012 By: /s/ James W. Bernau

James W. Bernau
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2012 By: /s/ James Z. Voss

James Z. Voss
Controller
(Principal Accounting and Financial Officer)