WILLAMETTE VALLEY VINEYARDS INC
Form 10-K/A
April 01, 2013

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

FORM 10-K /A
Amendment No. 1

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012 or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _________________ to ________________________

Commission file number: 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in its charter)

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

8800 Enchanted Way, S.E.
Turner, OR 97392

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act: Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 o No x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: Yes o No x

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes o No x

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2012 was approximately $15,084,080.

The number of outstanding shares of the registrant's Common Stock as of March 29, 2013 was 4,800,008.

DOCUMENTS INCORPORATED BY REFERENCE
None

EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 to the Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2012, is to include the conformed signature that was inadvertently omitted for Moss Adams LLP on the Consent of Independent Registered Public Accounting Firm, filed as Exhibit 23.1. No other changes have been made to the Form 10-K. This Amendment No. 1 to the Form 10-K speaks as of the original filing date of the Form 10-K, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the original Form 10-K.

WILLAMETTE VALLEY VINEYARDS, INC.
FORM 10-K

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WILLAMETTE VALLEY VINEYARDS, INC.
FORM 10-K

As used in this Annual Report on Form 10-K, “we,” “us,” “our” and “the Company” refer to Willamette Valley Vineyards, Inc.

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report on Form 10-K, including any information incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, referred to as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “for “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or the negative of these terms or other compar terminology, which when used are meant to signify the statement as forward-looking. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements that are not historical facts. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and situations that are difficult to predict and that may cause our own, or our industry’s actual results, to be materially different from the future results that are expressed or implied by these statements. Accordingly, actual results may differ materially from those anticipated or expressed in such statements as a result of a variety of factors, including those set forth under Item 1A “Risk Factors.”

Business

Introduction – Willamette Valley Vineyards, Inc. (“the Company” or “WVV”) was formed in May 1988 to produce and sell premium, super premium and ultra-premium varietal wines (i.e., wine which sells at retail prices of $7 to $14, $14 to $20 and over $20 per 750 ml bottle, respectively). Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983. The Company is headquartered South of Salem, near Turner, Oregon. The Company’s wines are made from grapes grown in vineyards owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are harvested, fermented and made into wine at the Company’s Turner winery (the “Winery”) and the wines are sold principally under the Company’s Willamette Valley Vineyards label. Willamette Valley Vineyards is the owner of Tualatin Estate Vineyards and Winery, located near Forest Grove, Oregon.

Products – Under its Willamette Valley Vineyards label, the Company produces and sells the following types of wine in 750 ml bottles: Pinot Noir, the brand’s flagship and its largest selling varietal in 2012, $22 to $100 per bottle; Chardonnay, $25 to $35 per bottle; Pinot Gris, $15 to $18 per bottle; Riesling and Oregon Blossom (blush blend), $10 to $12 per bottle (all bottle prices included herein are the suggested retail prices). The Company’s mission for this brand is to become the premier producer of Pinot Noir from the Pacific Northwest.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following type of wine in 750 ml bottles: Semi-Sparkling Muscat, $19 per bottle.

Under its Griffin Creek label, the Company produces and sells the following types of wine in 750 ml bottles: Syrah, the brand’s flagship, $38 per bottle; Merlot, $38 per bottle; Cabernet Sauvignon, $38 per bottle; Cabernet Franc, $38 per bottle; The Griffin (a Bordeaux style), $60 per bottle; and Viognier, $25 per bottle. This brand's mission is to be the highest quality producer of Bordeaux and Rhone varietals in Oregon.

ITEM 1. BUSINESS - continued

The Company holds U.S. federal and/or Oregon state trademark registrations for the trademarks material to the business, including but not limited to, the WILLAMETTE VALLEY VINEYARDS, GRIFFIN CREEK, WILLAMETTE, SIP.SAVE and IT'S WILLAMETTE, DAMMIT marks.

Market overview – The United States wine industry has seen a rapid increase in the number of wineries that are being established throughout the country. From 1995 to 2011, U.S wineries grew in number from 1,817 to 7,116. In addition, wineries are classified as one of the fastest growing segments in agriculture with an average annual growth of 10–15 percent.

In spite of the sluggish economy, the United States is also experiencing growth in the revenue generated from the sale of wine. United States wine consumption registered its 17th consecutive annual gain in 2010 with a 2 percent increase (30 percent increase in the past decade). According to the Gomberg-Fredrikson 2010 Annual Wine Industry Review, America is the No. 1 wine consuming country in the world, surpassing France.

More than ever, Americans are seeking value. With a few minor exceptions, the biggest increases in volume among each of the fastest-growing varietals are coming from wines priced between $3 and $7 per bottle. Pinot Noir is one of the highest-priced varietals on the market, yet its sales have nearly tripled in the U.S. since the movie Sideways was released in 2004. Yet inexpensive Pinot Noir brands, which are those brands priced below the industry average, are now outpacing the higher-end of the spectrum, by roughly twice the rate for both domestic and imported wines, according to Impact Databank, a provider of data on the wine industry owned by M. Shanken Communications, the parent company of Wine Spectator.

A larger portion of the U.S. population is drinking wine too – 57 percent in 2007, compared to 43 percent in 2000. Unlike previous generations, which typically did not drink wine regularly until they reached their 40s, younger consumers are discovering wine in their 20s and 30s. The proportion of consumers who drink wine at least once a week has also risen, reaching 55 percent. Much of the increase can be attributed to the Millennial generation, those people between ages 23 and 30, who make up 26 percent of the population and account for about 70 million people, second only to the baby boomer generation with 77 million people.

The Oregon wine industry – Oregon is a relatively new wine-producing region in comparison to California and France. In 1966, there were only two commercial wineries licensed in Oregon. In 2010 there were 419 commercial wineries licensed in Oregon and 20,500 acres of wine grape vineyards, 16,900 acres of which are currently producing. Total production of Oregon wines in 2010 is estimated to be approximately 1.9 million cases, down from 2.3 million cases in 2009. The reduction in cases produced is mainly due to the lower harvest yields in 2010 versus 2009. Oregon's entire 2010 production has an estimated retail value of approximately $380 million, assuming a retail price of $200 per case, and a FOB value of approximately one-half of the retail value, or $190 million.

Because of climate, soil and other growing conditions, the Willamette Valley in western Oregon is ideally suited to growing superior quality Pinot Noir, Chardonnay, Pinot Gris and Riesling wine grapes. Some of Oregon's Pinot Noir, Pinot Gris and Chardonnay wines have developed outstanding reputations, winning numerous national and international awards.

Oregon does have certain disadvantages as a new wine-producing region. Oregon's wines are relatively little known to consumers worldwide and the total wine production of Oregon wineries is small relative to California and French competitors. Greater worldwide label recognition and larger production levels give Oregon's competitors certain financial, marketing, distribution and unit cost advantages.

Furthermore, Oregon's Willamette Valley has an unpredictable rainfall pattern in early autumn. If significantly above-average rains occur just prior to the autumn grape harvest, the quality of harvested grapes is often materially diminished, thereby affecting that year's wine quality.

Finally, phylloxera, an aphid-like insect that feeds on the roots of grapevines, has been found in several commercial vineyards in Oregon. Contrary to the California experience, most Oregon phylloxera infestations have expanded very slowly and done only minimal damage. Nevertheless, phylloxera does constitute a significant risk to Oregon vineyards. Prior to the discovery of phylloxera in Oregon, all vine plantings in the Company's Estate Vineyard were with non-resistant rootstock. As of December 31, 2012, the Company has not detected any phylloxera at its Turner site. Beginning with the Company's plantings in May 1992, only phylloxera-resistant rootstock is used. In 1997, the Company purchased Tualatin Vineyards, which has phylloxera at its site. All plantings are with, and all future planting will be with phylloxera-resistant rootstock. The Company takes commercially reasonable precautions in an effort to prevent the spread of phylloxera to its Turner site.

ITEM 1. BUSINESS - continued

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

2011 Oregon harvest – The National Agricultural Statistics report states that the total grape production in Oregon rose 33 percent to a record high of 41,500 tons. Planted acres dipped 100 acres, but fewer acres were left unharvested in 2011 than in 2010. Yield increased 28 percent to an average 2.37 tons per acre from 17,500 harvested acres.

2012 Oregon harvest – There is no official data available on the 2012 Oregon harvest as of the date of this report.

Company Strategy

The Company, one of the largest wineries in Oregon by volume, believes its success is dependent upon its ability to: (1) grow and purchase high quality vinifera wine grapes; (2) vinify the grapes into premium, super premium and ultra-premium wine; (3) achieve significant brand recognition for its wines, first in Oregon and then nationally and internationally; and (4) effectively distribute and sell its products nationally. The Company's goal is to continue as one of Oregon's largest wineries, and establish a reputation for producing some of Oregon's finest, most sought-after wines.

Based upon several highly regarded surveys of the U.S. wine industry, the Company believes that successful wineries exhibit the following four key attributes: (i) focus on production of high-quality premium, super premium and ultra-premium varietal wines; (ii) achieve brand positioning that supports high bottle prices for its high quality wines; (iii) build brand recognition by emphasizing restaurant sales; and (iv) develop strong marketing advantages (such as a highly visible winery location, successful support of distribution, and life-long customer service programs).

To successfully execute this strategy, the Company has assembled a team of accomplished winemaking professionals and has constructed and equipped a 12,784 square foot state-of-the-art Winery and a 12,500 square foot outdoor production area for the harvesting, pressing and fermentation of wine grapes.

The Company's marketing and selling strategy is to sell its premium, super premium and ultra-premium cork-finished-wine through a combination of direct sales at the Winery and sales through independent distributors and wine brokers who market the Company's wine in specific targeted areas.

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

Vineyards

The Company owns and leases approximately 592 acres of land, of which 471 acres are currently planted to vineyards or is suitable for future vineyard planting. The vineyards the company owns and leases are all certified sustainable by LIVE (Low Input Viticulture and Enology) and Salmon Safe. At full production, the Company anticipates these vineyards would enable the Company to grow approximately 75% of the grapes needed to meet the Winery's ultimate production capacity of 297,000 gallons (125,000 cases).

ITEM 1. BUSINESS - continued

The following table summarizes the Company's acreage:

	ACRES					TONS Harvest 2012
Vineyard Name	Total	Producing	Pre-Production	Plantable	Non-Plantable	
Owned Vineyards						
WVV Estate	107	48	12	6	41	140
Tualatin Estate Vineyards	107	51	9	-	47	129
Ingram Vineyards	86	-	-	68	18	-
Leased Vineyards						
Peter Michael Vineyards	79	69	-	-	10	167
Meadowview Vineyards	45	45	-	-	-	114
Elton Vineyards	59	54	-	-	5	108
Ingram Vineyards	109	-	-	109	-	-
Contracted Vineyards*						
Various	268	268	-	-	-	670
Total	860	535	21	183	121	1,328

* Contracted acreage is estimated

WVV Estate –Established in 1983, the WVV Estate Vineyard is located at the Winery location south of Salem, near Turner, Oregon. The WVV Estate Vineyard uses an elaborate trellis design known as the Geneva Double Curtain. The Company has incurred the additional expense of constructing this trellis because it doubles the number of canes upon which grape clusters grow and spreads these canes for additional solar exposure and air circulation. Research and practical applications of this trellis design indicate that it should improve grape quality through smaller clusters and berries over traditional designs.

Tualatin Estate Vineyards – Established in 1973 near Forest Grove, Oregon, it is one of the oldest vineyards in Oregon. It was purchased by the Company in 1997. A series of sale-leaseback transactions split the property, and the company continues to lease and manage the Peter Michael Vineyards and Meadowview Vineyards, located adjacent to the Tualatin Estate Vineyards.

Ingram Vineyards – The Company purchased 86 acres near Hopewell, Oregon, for future vineyard plantings. Adjacent to the purchased land is an additional 109 leased acres, also for future vineyard development. The Company believes the site is ideally situated to grow premium Pinot Noir, and anticipates planting over-time, starting with 20 acres in 2013. The Ingram site is also adjacent to Elton Vineyards, where the Company leases 54 acres of established vineyards.

Grape Vines - Beginning in 1997, the Company embarked on a major effort to improve the quality of its flagship varietal by planting new Pinot Noir clones that originated directly from the cool climate growing region of Burgundy rather than the previous source, Napa, California, where winemakers believe the variety adapted to the warmer climate over the many years it was grown there.

These new French clones are called “Dijon clones” after the University of Dijon in Burgundy, which assisted in their selection and shipment to a U.S. government authorized quarantine site, and then seven years later to Oregon winegrowers. The most desirable of these new Pinot Noir clones are numbered 113, 114, 115, 667 and 777. In addition to certain flavor advantages, these clones ripen up to two weeks earlier, allowing growers to pick before heavy autumn rains. Heavy rains can dilute concentrated fruit flavors and promote bunch rot and spoilage. These new Pinot Noir clones were planted at the Tualatin Estate with phylloxera-resistant rootstock and the 667 and 777 clones have been grafted onto 7 acres of self-rooted, non-phylloxera-resistant vines at the Company’s Estate Vineyard near Turner.

New clones of Chardonnay preceded Pinot Noir into Oregon and were planted at the Company’s Estate Vineyard with phylloxera-resistant rootstock.

ITEM 1. BUSINESS - continued

Grape supply – In 2012, the Company's 48 producing acres in the WVV Estate Vineyard yielded approximately 140 tons of grapes for the Winery's 24th harvest. Tualatin/Peter Michael/Meadowview Vineyards produced 410 tons of grapes in 2012. Elton Vineyards produced 108 tons of grapes in 2012.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices or from bulk wine purchases from neighboring wineries. In 2012, the Company purchased an additional 670 tons of grapes from other growers. The Company cannot grow enough grapes to meet anticipated production needs, and therefore contracts grape purchases to make up the difference. Contracted grape purchases are considered an important component of the Company's long-term growth and risk-management plan. The Company believes high quality grapes and bulk wine will be available for purchase in sufficient quantity to meet the Company's requirements.

The grapes grown on the Company's vineyards establish a foundation of quality, through the Company's farming practices, upon which the quality of the Company's wines is built. In addition, wine produced from grapes grown in the Company's own vineyards may be labeled as "Estate Bottled" wines. These wines traditionally sell at a premium over non-estate bottled wines.

Viticultural conditions – Oregon's Willamette Valley is recognized as a premier location for growing certain varieties of high quality wine grapes, particularly Pinot Noir, Chardonnay, Riesling and Pinot Gris. The Company believes that the Vineyard's growing conditions, including its soil, elevation, slope, rainfall, evening marine breezes and solar orientation are among the most ideal conditions in the United States for growing certain varieties of high-quality wine grapes. The Vineyard's grape growing conditions compare favorably to those found in some of the famous Viticultural regions of France. Western Oregon's latitude (42o–46o North) and relationship to the eastern edge of a major ocean is very similar to certain centuries-old wine grape growing regions of France.

The Vineyard's soil type is Jory/Nekia, a dark, reddish-brown, silky clay loam over basalt bedrock, noted for being well drained, acidic, of adequate depth, retentive of appropriate levels of moisture and particularly suited to growing high quality wine grapes.

The Vineyard's elevation ranges from 533 feet to 700 feet above sea level with slopes from 2 percent to 30 percent (predominately 12-20 percent). The Vineyard's slope is oriented to the south, southwest and west. Average annual precipitation at the Vineyard is 41.3 inches; average annual air temperature is 52 to 54 degrees Fahrenheit, and the length of each year's frost-free season averages from 190 to 210 days. These conditions compare favorably with conditions found throughout the Willamette Valley viticultural region and other domestic and foreign viticultural regions, which produce high quality wine grapes.

In the Willamette Valley, permanent vineyard irrigation generally is not required. The average annual rainfall provides sufficient moisture to avoid the need to irrigate the Vineyard. However, if the need should arise, the Company's Estate property contains one water well which can sustain sufficient volume to meet the needs of the Winery and to provide auxiliary water to the Vineyard for new plantings and unusual drought conditions. At Tualatin Estate vineyard the Company has water rights to a year round spring that feeds an irrigation pond.

Susceptibility of vineyards to disease – The Tualatin Vineyard and the leased vineyards are known to be infested with phylloxera, an aphid-like insect, which can destroy vines. The Company has not detected any phylloxera at its Turner Vineyard.

It is not possible to estimate any range of loss that may be incurred due to the phylloxera infestation of the Company's vineyards. The phylloxera at Tualatin Estate Vineyard is believed to have been introduced on the roots of the vines first planted on the property in the southern most section Gewurztraminer in 1971 that the Company partially removed in 2004. The remaining vines, and all others infested, remain productive at low crop levels. The Company is in the process of gradually replacing infested areas with new, phylloxera-resistant vines.

ITEM 1. BUSINESS - continued

Winery

Wine production facility – The Company's Winery and production facilities are capable of efficiently producing up to 125,000 cases (297,000 gallons) of wine per year, depending on the type of wine produced. In 2012, the Winery produced approximately 217,000 gallons (91,181 cases) from its 2010 and 2011 harvest. The Company expects to produce approximately 221,000 gallons in 2013 (93,000 cases) from its 2011 and 2012 harvests.

The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, a tasting room, a retail sales room and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,000 square foot insulated storage facility with a capacity of 30,000 cases of wine. The Company also has a 20,000 square foot storage building to store its inventory of bottled product. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations.

In addition to the production capacity discussed above, Tualatin Estate Vineyards has 20,000 square feet of production capacity. This adds approximately 25,000 cases (59,000 gallons) of wine production capacity to the Company. The capacity at Tualatin is available to the Company to meet any anticipated future production needs. In 2008, the Company replaced the roof and production floor, insulation and walls, in anticipation of using it for wine storage and future production.

Hospitality facility – The Company has a large tasting and hospitality facility of 19,470 square feet (the "Hospitality Center"). The first floor of the Hospitality Center includes retail sales space and a "great room" designed to accommodate approximately 400 persons for gatherings, meetings, weddings and large wine tastings. An observation tower and decking around the Hospitality Center enable visitors to enjoy the view of the Willamette Valley and the Company's Vineyard. The Hospitality Center is joined with the present Winery by an underground cellar tunnel. The facility includes a basement cellar of 10,150 square feet (including the 2,460 square foot underground cellar tunnel) to expand storage of the Company's wine in a proper environment. The cellar provides the Winery with ample space for storing up to 1,600 barrels of wine for aging.

Just outside the Hospitality Center, the Company has a landscaped park setting consisting of one acre of terraced lawn for outdoor events and five wooded acres for picnics and social gatherings. The area between the Winery and the Hospitality Center forms a 20,000 square foot quadrangle. As designed, a removable fabric top can cover the quadrangle, making it an all-weather outdoor facility to promote sale of the Company's wines through outdoor festivals and social events.

The Company believes the Hospitality Center and the park and quadrangle make the Winery an attractive recreational and social destination for tourists and local residents, thereby enhancing the Company's ability to sell its wines.

Mortgages on properties – The Company's winery facilities in Turner are subject to three mortgages with an aggregate principal balance of $4,016,771 at December 31, 2012. The mortgages are payable in monthly aggregate installments, including principal and interest, of approximately $37,500. The maturity dates of the mortgages range from December 1, 2024 through October 1, 2026.

Wine production – The Company operates on the principle that winemaking is a natural but highly technical process requiring the attention and dedication of the winemaking staff. The Company's Winery is equipped with current technical innovations and uses modern laboratory equipment and computers to monitor the progress of each wine through all stages of the winemaking process.

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ITEM 1. BUSINESS - continued

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

Harvest Year	Tons of Grapes Harvested	Gallons of Bulk Purchases	Production Year	Cases Produced
2005	1,132	-	2005	72,297
2006	1,488	-	2006	81,081
2007	1,746	-	2007	115,466
2008	1,425	57,736	2008	121,027
2009	2,133	74,954	2009	132,072
2010	1,045	4,276	2010	110,224
2011	1,327	9,620	2011	81,357
2012	1,328	7,910	2012	91,181

Cases produced per ton harvested often varies between years mainly due to the timing of when the cases are produced.

Sales and Distribution

Marketing strategy – The Company markets and sells its wines through a combination of direct sales at the Winery, directly through mailing lists, and through distributors and wine brokers. As the Company has increased production volumes and achieved greater brand recognition, sales to other domestic markets have increased, both in terms of absolute dollars and as a percentage of total Company sales.

Prior to August of 2011, the Company self-distributed a portfolio of produced wines and purchased wines throughout much of Oregon. In August of 2011, the Company ceased self-distribution of its produced wines in Oregon, and began using a third-party distributor. As of June 2012, the Company sold through substantially all purchased wine inventory, and ceased all distribution activities. Management feels that the new process of distribution in Oregon will allow the Company to redirect its focus to the vineyards and wine making process as well as increasing placements through our distribution network.

The Company believes that online, consumer wine reviews are and will continue to play a significant role in "word of mouth" recommendations and consumer choices, and thus have been focusing the Company's efforts in recent years on generating online interest in Willamette Valley Vineyards and its wines.

Our online efforts include the world of social marketing, and Willamette Valley Vineyards is now active on Facebook and Twitter. The Company also uploads videos to YouTube and has a company blog. The number of people who follow the Company on each of these applications has grown consistently since these programs have been active.

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

The Company holds four major festivals and events at the Winery each year. In addition, open houses are held at the Winery during major holiday weekends such as Memorial Day, Independence Day, Labor Day and Thanksgiving, where barrel tastings and cellar tours are given. Numerous private parties, wedding receptions and political and other events are also held at the Winery.

Direct sales are profitable because the Company is able to sell its wine directly to consumers at retail prices rather than to distributors at FOB prices. Sales made directly to consumers at retail prices result in an increased profit margin equal to the difference between retail prices and distributor prices. For 2012 and 2011, direct sales contributed approximately 27% and 24% of the Company’s revenue from continuing operations, respectively.

ITEM 1. BUSINESS - continued

Distributors and wine brokers – The Company uses both independent distributors and wine brokers primarily to market the Company's wines in specific targeted areas. Only those distributors and wine brokers who have demonstrated knowledge of and a proven ability to market premium, super premium, and ultra-premium wines are utilized. The Company's products are distributed in 49 states and the District of Columbia and there are 8 non-domestic (export) customers. For 2012 and 2011, sales to distributors and wine brokers contributed approximately 72% and 76% of the Company's revenue from continuing operations, respectively.

Tourists – Oregon wineries are a popular tourist destination with many bed & breakfasts, motels and fine restaurants available. The Willamette Valley, Oregon's leading wine region, has two-thirds of the state's wineries and vineyards and is home to approximately 450 wineries. An additional advantage for the Willamette Valley wine tourist is the proximity of the wineries to Portland (Oregon's largest city and most popular destination). From Portland, tourists can visit the Willamette Valley winery of their choice in anywhere from 45 minutes to two hours.

The Company believes its convenient location, adjacent to Interstate 5, enables the Winery to attract a significant number of visitors. The Winery is located 45 minutes from Portland and less than one mile from The Enchanted Forest, which operates from March 15 to September 30 each year and attracts approximately 130,000 paying visitors per year. Adjacent to the Enchanted Forest is the Hope Valley Recreational Vehicle Park, which contains approximately 110 overnight recreational vehicle sites. Many of the visitors to the Enchanted Forest and RV Park visit the Winery.

Dependence on Major Customers

Historically, the Company's revenue has been derived from thousands of customers annually. In 2012, sales to one distributor represented approximately 18.6% of total Company revenue. In 2011, no one customer represented greater than 10% of company revenue.

Research and Development

The nature of the Company's business does not require the Company to incur a material amount of research and development expense.

Competition

The wine industry is highly competitive. In a broad sense, wines may be considered to compete with all alcoholic and nonalcoholic beverages. Within the wine industry, the Company believes that its principal competitors include wineries in Oregon, California and Washington, which, like the Company, produce premium, super premium, and ultra-premium wines. Wine production in the United States is dominated by large California wineries that have significantly greater financial, production, distribution and marketing resources than the Company. Currently, no Oregon winery dominates the Oregon wine market. Several Oregon wineries, however, are older and better established and have greater label recognition than the Company.

The Company believes that the principal competitive factors in the premium, super premium, and ultra-premium segment of the wine industry are product quality, price, label recognition, and product supply. The Company believes it competes favorably with respect to each of these factors. The Company has received "Excellent" to "Recommended" reviews in tastings of its wines and believes its prices are competitive with other Oregon wineries. Larger scale production is necessary to satisfy retailers' and restaurants' demand and the Company believes that additional production capacity will be needed to meet estimated future demand. Furthermore, the Company believes that its ultimate forecasted production level of 297,000 gallons (125,000 cases) per year will give it significant competitive advantages over most Oregon wineries in areas such as marketing, distribution arrangements, grape purchasing, and access to financing. The current production level of most Oregon wineries is generally much smaller than the projected production level of the Company’s Winery. With respect to label recognition, the Company believes that its unique structure as a consumer-owned company will give it a significant advantage in gaining market share in Oregon as well as penetrating other wine markets.

ITEM 1. BUSINESS - continued

Governmental Regulation of the Wine Industry

The production and sale of wine is subject to extensive regulation by the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau and the Oregon Liquor Control Commission. The Company is licensed by and meets the bonding requirements of each of these governmental agencies. Sale of the Company's wine is subject to federal alcohol tax, payable at the time wine is removed from the bonded area of the Winery for shipment to customers or for sale in its tasting room. The current federal alcohol tax rate is $1.07 per gallon for wines with alcohol content at or below 14.0% and $1.57 per gallon for wines with alcohol content above 14.0%; however, wineries that produce not more than 250,000 gallons during the calendar year are allowed a graduated tax credit of up to $0.90 per gallon on the first 100,000 gallons of wine (other than sparkling wines) removed from the bonded area during that year. The Company also pays the state of Oregon an excise tax of $0.67 per gallon for wines with alcohol content at or below 14.0% and $0.77 per gallon for wines with alcohol content above 14.0% on all wine sold in Oregon. In addition, most states in which the Company's wines are sold impose varying excise taxes on the sale of alcoholic beverages. As an agricultural processor, the Company is also regulated by the Oregon Department of Agriculture and, as a producer of wastewater, by the Oregon Department of Environmental Quality. The Company has secured all necessary permits to operate its business.

Prompted by growing government budget shortfalls and public reaction against alcohol abuse, Congress and many state legislatures are considering various proposals to impose additional excise taxes on the production and sale of alcoholic beverages, including table wines. Some of the excise tax rates being considered are substantial. The ultimate effects of such legislation, if passed, cannot be assessed accurately since the proposals are still in the discussion stage. Any increase in the taxes imposed on table wines can be expected to have a potentially adverse impact on overall sales of such products. However, the impact may not be proportionate to that experienced by producers of other alcoholic beverages and may not be the same in every state.

Costs and Effects of Compliance with Local, State and Federal Environmental Laws

The Company management is strongly focused on environmental stewardship and maintains a variety of policies and processes designed to protect the environment, the public and consumers of its wine. Much of the Company's expenses for protecting the environment are voluntary, however the Company is regulated by various local, state and federal agencies regarding environmental laws where these costs and processes are effectively integrated into the Company's regular operations and do not cause significant alternative processes or costs.

Employees

As of December 31, 2012 the Company had approximately 81 full-time employees and 31 part-time employees. In addition, the Company hires additional employees for seasonal work as required. The Company's employees are not represented by any collective bargaining unit. The Company believes it maintains positive relations with its employees.

Additional Information

The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and proxy statements with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issues, including the Company, that file electronically with the SEC at www.sec.gov. You may learn more about the Company by visiting the Company's website at www.wvv.com.

ITEM 1A. RISK FACTORS

The following disclosures should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations. These disclosures are intended to discuss certain material risks of the Company's business as they appear to Management at this time. However, this list is not exhaustive. Other risks may, and likely will, arise from time to time.

Agricultural risks could adversely affect the Company

Winemaking and grape growing are subject to a variety of agricultural risks. Various diseases, pests, fungi, viruses, drought, frost and certain other weather conditions can affect the quantity of grapes available to the Company, decreasing the supply of the Company's products and negatively impacting profitability. In particular, certain of the Company's vines are not resistant to phylloxera; accordingly, those vines are particularly at risk to the effects from an infestation of phylloxera. Phylloxera is a pest that attacks the rootstocks of wine grape plants. Vineyards in the United States, including some in Oregon and some owned by us, have been infested in recent years with phylloxera. Since May of 1992, the Company's vineyard properties have been planted with rootstocks believed to be resistant to phylloxera. However, rootstocks planted by the Company prior to 1992 are not resistant. There can be no assurance that the Company's existing vineyards, or the rootstocks the Company is now using in its planting programs, will not become susceptible to current or new strains of phylloxera. Pierce's Disease is a vine bacterial disease. It kills grapevines and there is no known cure. Small insects called Sharpshooters spread this disease. A new strain of the Sharpshooter was discovered in Southern California and is believed to be migrating north. The Company is actively supporting the efforts of the agricultural industry to control this pest and is making every reasonable effort to prevent an infestation in its own vineyards. The Company cannot, however, guarantee that it will succeed in preventing contamination in its vineyards. Future government restrictions regarding the use of certain materials used in grape growing may increase vineyard costs and/or reduce production. Additionally, long-term changes in weather patterns could adversely affect the Company.

The Company may not be able to grow or acquire enough quality fruit for its wines

The adequacy of the Company's grape supply is influenced by consumer demand for wine in relation to industry-wide production levels. While the Company believes that it can secure sufficient supplies of grapes from a combination of its own production and from grape supply contracts with independent growers, the Company cannot be certain that grape supply shortages will not occur. A shortage in the supply of wine grapes could result in an increase in the price of some or all grape varieties and a corresponding increase in wine production costs.

Loss of key employees could harm the Company's reputation and business

The Company's success depends to some degree upon the continued service of a number of key employees. The loss of the services of one or more of these key employees, including the President, Winemaker, and Controller, could harm the Company and its reputation and negatively impact its profitability, particularly if one or more of the Company's key employees resigns to join a competitor or to form a competing company.

The Company's ability to operate requires utilization of the line of credit

The Company's cash flow from operations historically has not been sufficient to provide all funds necessary for the Company's operations. The Company has entered into a line of credit agreement to provide such funds and entered into term loan arrangements, the proceeds of which were used to acquire the Tualatin operations, construct the Hospitality Center and pay down the revolving line of credit. There is no assurance that the Company will be able to comply with all conditions under its credit facilities in the future or that the amount available under the line of credit facility will be adequate for the Company’s future needs. Failure to comply with all conditions of the credit facilities or to have sufficient funds for operations could adversely affect the Company’s results of operations and shareholder value.

ITEM 1A. RISK FACTORS - continued

Costs of being a publicly-held company may put the Company at a competitive disadvantage

As a public company, the Company incurs substantial costs that are not incurred by its competitors that are privately-held. These compliance costs may result in the Company’s wines being more expensive than those produced by its competitors and/or may reduce profitability compared to such competitors.

The Company faces significant competition which could adversely affect profitability

The wine industry is intensely competitive and highly fragmented. The Company’s wines compete in several premium wine market segments with many other premium domestic and foreign wines, with imported wines coming from the Burgundy and Bordeaux regions of France, as well as Italy, Chile, Argentina, South Africa and Australia. The Company’s wines also compete with popular priced generic wines and with other alcoholic and, to a lesser degree, non-alcoholic beverages, for shelf space in retail stores and for marketing focus by the Company’s independent distributors, many of which carry extensive brand portfolios. A result of this intense competition has been and may continue to be upward pressure on the Company’s selling and promotional expenses. In addition, the wine industry has experienced significant consolidation. Many of the Company’s competitors have greater financial, technical, marketing and public relations resources than the Company does. Company sales may be harmed to the extent it is not able to compete successfully against such wine or alternative beverage producers’ costs. There can be no assurance that in the future the Company will be able to successfully compete with its current competitors or that it will not face greater competition from other wineries and beverage manufacturers.

The Company competes for shelf space in retail stores and for marketing focus by its independent distributors, most of whom carry extensive product portfolios

Nationwide, the Company sells its products primarily through independent distributors and brokers for resale to retail outlets, restaurants, hotels and private clubs across the United States and in some overseas markets. Sales to distributors are expected to continue to represent a substantial portion of the Company’s net revenue in the future. A change in the relationship with any of the Company’s significant distributors could harm the Company’s business and reduce Company sales. The laws and regulations of several states prohibit changes of distributors, except under certain limited circumstances, making it difficult to terminate a distributor for poor performance without reasonable cause, as defined by applicable statutes. Any difficulty or inability to replace distributors, poor performance of the Company’s major distributors or the Company’s inability to collect accounts receivable from its major distributors could harm the Company’s business. There can be no assurance that the distributors and retailers the Company uses will continue to purchase the Company’s products or provide Company products with adequate levels of promotional support. Consolidation at the retail tier, among club and chain grocery stores in particular, can be expected to heighten competitive pressure to increase marketing and sales spending or constrain or reduce prices.

Fluctuations in quantity and quality of grape supply could adversely affect the Company

A shortage in the supply of quality grapes may result from a variety of factors that determine the quality and quantity of the Company’s grape supply, including weather conditions, pruning methods, diseases and pests and the number of vines producing grapes. Any shortage in the Company’s grape production could cause a reduction in the amount of wine the Company is able to produce, which could reduce sales and adversely impact the Company’s results from operations. Factors that reduce the quantity of the Company’s grapes may also reduce their quality, which in turn could reduce the quality or amount of wine the Company produces. Deterioration in the quality of the Company’s wines could harm its brand name and could reduce sales and adversely impact the Company’s results of operations.

Contamination of the Company’s wines would harm the Company’s business

The Company is subject to certain hazards and product liability risks, such as potential contamination, through tampering or otherwise, of ingredients or products. Contamination of any of the Company’s wines could cause it to destroy its wine held in inventory and could cause the need for a product recall, which could significantly damage the Company’s reputation for product quality. The Company maintains insurance against certain of these kinds of risks, and others, under various insurance policies. However, the insurance may not be adequate or may not continue to be available at a price or on terms that are satisfactory to the Company and this insurance may not be adequate to cover any resulting liability.

ITEM 1A. RISK FACTORS - continued

A reduction in consumer demand for premium wines could harm the Company’s business

There have been periods in the past in which there were substantial declines in the overall per capita consumption of beverage alcohol products in the United States and other markets in which the Company participates. A limited or general decline in consumption in one or more of the Company’s product categories could occur in the future due to a variety of factors, including: a general decline in economic conditions; increased concern about the health consequences of consuming beverage alcohol products and about drinking and driving; a trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices and water products; the increased activity of anti-alcohol consumer groups; and increased federal, state or foreign excise and other taxes on beverage alcohol products. The competitive position of the Company’s products could also be affected adversely by any failure to achieve consistent, reliable quality in the product or service levels to customers.

Changes in consumer spending could have a negative impact on the Company’s financial condition and business results

Wine sales depend upon a number of factors related to the level of consumer spending, including the general state of the economy, federal and state income tax rates, deductibility of business entertainment expenses under federal and state tax laws, and consumer confidence in future economic conditions. Changes in consumer spending in these and other regions can affect both the quantity and the price of wines that customers are willing to purchase at restaurants or through retail outlets. Reduced consumer confidence and spending may result in reduced demand for the Company’s products, limitations on the Company’s ability to increase prices and increased levels of selling and promotional expenses. This, in turn, may have a considerable negative impact upon the Company’s sales and profit margins.

Increased regulation could adversely affect the Company

The wine industry is subject to extensive regulation by the Federal Alcohol Tobacco Tax and Trade Bureau (“TTB”) and various foreign agencies, state liquor authorities, such as the Oregon Liquor Control Commission (“OLCC”), and local authorities. These regulations and laws dictate such matters as licensing requirements, trade and pricing practices, permitted distribution channels, permitted and required labeling, and advertising and relations with wholesalers and retailers. Any expansion of the Company’s existing facilities or development of new vineyards or wineries may be limited by present and future zoning ordinances, environmental restrictions and other legal requirements. In addition, new regulations or requirements or increases in excise taxes, income taxes, property and sales taxes or international tariffs, could affect the Company’s financial condition or results of operations. Recently, many states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. New or revised regulations or increased licensing fees, requirements or taxes could have a material adverse effect on the Company’s financial condition or results of operations. There can be no assurance that new or revised regulations or increased licensing fees and requirements will not have a material adverse effect on the Company’s business and its results of operations and its cash flows.

The Company’s common stock is thinly traded, and therefore not as liquid as other investments.

The trading volume of the Company’s common stock on NASDAQ is consistently “thin,” in that there is not a great deal of trading activity on a daily basis. Because the average active trading volume is thin, there is less opportunity for shareholders to sell their shares of the Company’s common stock on the open market, resulting in the common stock being less liquid than common stock in other publicly traded companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vineyards – The Company owns or leases 592 acres of land, of which 300 acres is owned and 292 acres leased. Of the 592 acres of land owned or leased, 267 acres are productive vineyards, 204 acres are pre-productive vineyards or are suitable for future vineyard plantings, and 121 acres are not suitable for vineyard planting or are used for winery or hospitality purposes.

ITEM 2. PROPERTIES - continued

Wine production facility – The Company's Winery and production facilities are capable of efficiently producing up to 125,000 cases (297,000 gallons) of wine per year, depending on the type of wine produced. In 2012, the Winery produced approximately 217,000 gallons (91,181 cases) from its 2010 and 2011 harvest. The Winery is 12,784 square feet in size and contains areas for processing, fermenting, aging and bottling wine, as well as an underground wine cellar, a tasting room, a retail sales room and administrative offices. There is a 12,500 square foot outside production area for harvesting, pressing and fermenting wine grapes, and a 4,000 square foot insulated storage facility with a capacity of 30,000 cases of wine. The Company also has a 20,000 square foot storage building to store its inventory of bottled product. The production area is equipped with a settling tank and sprinkler system for disposing of wastewater from the production process in compliance with environmental regulations. The Company has a large tasting and hospitality facility of 19,470 square feet (the "Hospitality Center"). The facility includes a basement cellar of 10,150 square feet (including the 2,460 square foot underground cellar tunnel) to expand storage of the Company's wine in a proper environment. The cellar provides the Winery with ample space for storing up to 1,600 barrels of wine for aging.

The Company carries Property and Liability insurance coverage in amounts deemed adequate by Management.

See additional discussion of vineyard and wine production facility under Item 1. Business.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings pending to which the Company is a party or to which any of its property is subject, and the Company's management does not know of any such action being contemplated.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's common stock is traded on the NASDAQ Capital Market under the symbol "WVVI."

The following table below sets forth for the quarters indicated the high and low intraday sales prices for the Company's common stock as reported on the NASDAQ Capital Market:

Quarters ended 2012	12/31/2012	9/30/2012	6/30/2012	3/31/2012
High	$ 3.95	$ 4.01	$ 3.67	$ 3.45

Low	$ 3.51	$ 3.33	$ 3.20	$ 3.00

Quarters ended 2011	12/31/2011	9/30/2011	6/30/2011	3/31/2011
High	$ 3.24	$ 3.70	$ 3.40	$ 3.55
Low	$ 2.85	$ 2.65	$ 3.00	$ 3.02

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES - continued

Holders

As of May 11, 2012, the Company had approximately 4,555 stockholders of record.

Dividends

The Company has not paid any dividends on the Common Stock, and the Company does not anticipate paying any dividends in the foreseeable future. The Company intends to use its earnings to expand winemaking and customer service facilities.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Issuer purchases of equity securities not disclosed in previous submissions are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 2012	3,257	$ 3.77	3,257	$ 227,954
November 2012	2,250	$ 3.76	2,250	$ 219,483
December 2012	10,235	$ 3.78	10,235	$ 180,785
Total	15,742	$ 3.78	15,742	$ 180,785

As originally disclosed in the form 10-K for the fiscal year ended December 31, 2011, filed March 27, 2012, the Board of Directors authorized the expenditure of $200,000 to be used in the buyback program to 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. As of December 31, 2012, $180,785 remains unspent.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and related notes. Some statements and information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are not historical facts but are forward-looking statements. For a discussion of these forward-looking statements, and of important factors that could cause results to differ materially from the forward-looking statements contained in this report, see Item 1 of Part I, "Business – Forward-Looking Statements."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Critical Accounting Policies and Estimates

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

The Company's principal sources of revenue are derived from sales and distribution of wine. Revenue is recognized from wine sales at the time of shipment and passage of title. The Company's payment arrangements with customers provide primarily 30-day terms and, to a limited extent, 45-day, 60-day or longer terms for some international customers.

The Company values inventories at the lower of actual cost to produce the inventory or market value. The Company regularly reviews inventory quantities on hand and adjusts its production requirements for the next twelve months based on estimated forecasts of product demand. A significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. In the future, if the Company's inventory cost is determined to be greater than the net realizable value of the inventory upon sale, the Company would be required to recognize such excess costs in its cost of goods sold at the time of such determination. Therefore, although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the ultimate selling price and, therefore, the carrying value of the Company's inventory and its reported operating results.

The Company capitalizes internal vineyard development costs prior to the vineyard land becoming fully productive. These costs consist primarily of the costs of the vines and expenditures related to labor and materials to prepare the land and construct vine trellises. Amortization of such costs as annual crop costs is done on a straight-line basis for the estimated economic useful life of the vineyard, which is estimated to be 30 years. The Company regularly evaluates the recoverability of capitalized costs. Amortization of vineyard development costs are included in capitalized crop costs that in turn are included in inventory costs and ultimately become a component of cost of goods sold.

The Company pays depletion allowances to the Company's distributors based on their sales to their customers. The Company sets these allowances on a monthly basis and the Company's distributors bill them back on a monthly basis. All depletion expenses associated with a given month are expensed in that month as a reduction of revenues. The Company also pays a sample allowance to some of the Company's distributors in the form of a 1.5% discount applied to invoices for product sold to the Company's distributors. The expenses for samples are expensed at the time of sale in the selling, general and administrative expense. The Company's distributors use the allowance to sample product to prospective customers.

Amounts paid by customers to the Company for shipping and handling expenses are included in the net revenue. Expenses incurred for outbound shipping and handling charges are included in selling, general and administrative expense. Inbound freight costs for Bacchus purchased wines are capitalized into inventory at the time of purchase. The Company's gross margins may not be comparable to other companies in the same industry as other companies may include shipping and handling expenses as a cost of goods sold.

Overview

Results of Operations

The Company produced revenues of $12,527,268 and $12,235,986 in the years 2012 and 2011, respectively, an increase of $291,282 or 2.4%. The primary reasons for this increase are increased retail sales, partially offset by decreases in out-of-state sales to distributors.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Gross profit was $7,273,932 and $6,968,526 for the years ended December 31 2012 and 2011, respectively, an increase of $305,406 or 4.4%. This increase was generally driven by two key factors: reductions in sales depletion expenses paid to distributors, and; increased direct-to-consumer sales as a percentage of total sales.

The gross margin percent was 58.1% and 57.0% for the years ended December 31, 2012 and 2011, respectively, an increase of 1.1 points or 2.0%. This increase in the gross profit percent is mainly due to reductions in sales depletion expenses paid to distributors, and increased direct-to-consumer sales as a percentage of total sales.

Selling, general and administrative expenses were $5,075,052 and $4,548,125 for the years ended December 31, 2012 and 2011, respectively, an increase of $526,927 or 11.6%. This increase was primarily the result of the absorption of costs from activities that had previously been shared by the in-state distribution activities, which were discontinued during 2012.

Income from operations was $2,198,880 and $2,420,401 for 2012 and 2011, respectively, a decrease of $221,521 or 9.2%. The primary reasons for this decrease are increased selling, general and administrative expenses, partially offset by increases in gross margin.

Losses from discontinued operations before taxes were $242,878 and $919,961 for the years ended December 31, 2012 and 2011, respectively, a reduction of $677,083 or 73.6%. These reductions are primarily related to reductions in warehousing and distribution labor and overhead.

Provision for income taxes was $653,941 and $514,926 for the years ended December 31, 2012 and 2011, respectively, an increase of $139,015 or 27.0%. This increase is primarily related to increased net income before taxes.

Net income was $1,202,849 and $857,755, for 2012 and 2011, respectively, an increase of $345,094 or 40.2%. The primary reason for this increase is reductions in the loss from discontinued operations.

Diluted earnings per share were $0.25 and $0.18 for 2012 and 2011, respectively, an increase of $0.07 or 38.9%. The primary reason for this increase is the increase to net income.

The Company has three primary sales channels: direct-to-consumer sales, in-state sales to distributors, and out-of-state sales to distributors. These three sales channels represent 27.0%, 27.7% and 44.8%, of net sales for the year ended December 31, 2012, respectively. This compares to 23.9%, 28.1% and 48.0% of net sales for the year ended December 31, 2011, respectively.

The Company had cash balances of $4,553,113 and $3,411,292 at December 31, 2012 and 2011, respectively. The Company had a line of credit balance of $0 at December 31, 2012 and 2011.

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.

Management believes cessation of self-distribution activity, and utilization of Young's Market Company to distribute Company-produced wines in Oregon, also will result in increased gross margins by eliminating the sale of low-margin, purchased wines. In 2011, purchased wine sales accounted for approximately 20% of total sales. These sales generated a gross margin of approximately 19%. The remaining 80% of sales were generated primarily through the sale of Company-produced wine, and generated a gross margin of approximately 57%. In 2011, the overall Company gross margin was 49.0%. After separating out discontinued operations for 2011, gross margin from continuing operations was 57.0%. In 2012, the overall Company gross margin was 55.1%. After separating out discontinued operations for 2012, gross margin from continuing operations was 58.1%.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Management believes cessation of self-distribution activity, and utilization of Young's Market Company to distribute Company-produced wines in Oregon, will reduce operating expenses. In 2011, total selling, general and administrative expenses were $6,216,833. Of this, $1,668,708 is attributable to self-distribution activities. After separating out discontinued operations for 2011, selling, general and administrative expenses from continuing operations was $4,548,125. In 2012, total selling, general and administrative expenses were $5,532,579. Of this, $457,527 is attributable to self-distribution activities. After separating out discontinued operations for 2012, selling, general and administrative expenses from continuing operations was $5,075,052. This represents a reduction in selling, general and administrative expenses from all sources of $684,254. Management does not expect to incur any selling, general or administrative expenses from discontinued operations in 2013.

At December 31, 2011, purchased wine inventory balance was $612,989. Management successfully liquidated this inventory at or above cost during 2012. There are no other balance sheet amounts related to the cessation of self-distribution activities that are expected to have a material impact on future financial performance.

Hospitality Center

In December 2012, the Board of Directors approved a significant remodel and expansion of the Winery's Hospitality Center. The Board approved a total project cost of up to $4.5 million, to be financed with $2,000,000 of new borrowings from NW Farm Credit Services, with the balance of the costs funded by using existing cash reserves. Features of the remodeled and expanded facility include additional barrel storage capacity, a club-members tasting room, a larger general public tasting area, enhanced kitchen services, new spaces for hosting smaller parties, expanded deck seating to capitalize on views from the winery, and a new lawn terrace for large, outdoor events. Management believes that these enhancements will be critical in supporting the future growth of direct-to-consumer sales of Company wines. Construction began in February 2013, and is expected to be finished before the end of 2013.

Sales

Wine sales and ending inventory amount for the year ended December 31, 2012, are shown on the following table, as well as planned production quantities for the year ending December 31, 2013:

Varietal/Product	Cases Sold 2012	Cases On-Hand December 31, 2012	Planned Bottling Production (Cases) 2013
Pinot Noir/Estate	13,000	24,500	16,000
Pinot Noir/Barrel Select	7,500	500	5,000
Pinot Noir/Founders Reserve	3,000	2,000	2,500
Pinot Noir/Special Designates	3,500	4,000	4,000
Pinot Noir/Whole Cluster	20,000	3,000	26,500
Pinot Gris	19,000	12,000	12,500
Riesling	21,500	7,500	16,500
Table Wine	6,000	4,500	4,000
Other	5,500	13,500	6,000

Total	99,000	71,500	93,000

Approximately 47% of the Company's case sales during 2012 were of the Company's flagship varietal, Pinot Noir. Case sales of Riesling and Pinot Gris follow with approximately 22% and 19% of case sales, respectively. The Company sold approximately 99,000 and 104,000 cases of Company-Produced wine during the years ended December 31, 2012 and 2011, respectively. This represents a reduction of approximately 5,000 cases, or 4.8%. This reduction in case sales can be largely attributed to the discontinuation of certain low-margin products that were inconsistent with the Company's overall brand positioning.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Wine Inventory

The Company had approximately 71,500 cases of bottled wine on-hand at the end of 2012. Sufficient bulk wine inventory was on-hand to bottle approximately 93,000 cases of wine in 2013. Due to low crop yields from the 2012 harvest, inventory balances and planned production amounts for certain varietals are lower than in previous years. Management believes that sufficient stock is on hand to meet current demand levels until the 2013 vintage becomes available.

Production Capacity

Current production volumes are well within the current production capacity constraints of the Winery. In 2012, approximately 91,181 cases were produced, and Management anticipates bottling approximately 93,000 cases in 2013. The winery has capacity to comfortably process about 125,000 cases of wine per year. Management continues to invest in new production technologies to increase the efficiency and quality of wine production. During 2012, the Company did not choose to utilize the wine production facilities at the Tualatin Vineyards location. The Tualatin Vineyards wine production facility has capacity to produce approximately 25,000 cases of wine. The facility is maintained in good condition, and is occasionally used by other local wineries. Management intends to fully utilize the production capacity at the primary Turner location before expanding into the Tualatin Vineyards facility.

Grape Supply

For the 2012 and 2011 vintages, the Company grew approximately 48% and 54% of all grapes harvested, respectively. The remaining grapes harvested were purchased from other growers. In 2012 and 2011, 32% and 25% of grapes harvested were purchased under short-term contracts, and 20% and 21% of grapes harvested were purchased under long-term contracts, respectively.

Grapes are typically harvested and received in October of the vintage year. Upon receipt, the grapes are weighed, and a quality analysis is performed to ensure the grapes meet the standards set forth in the purchase contract. Based on the amount of qualifying grapes received, the full amount payable to the grower is recorded to the grapes payable liability account. Approximately 50% of the grapes payable amount is due in November of the vintage year. The remaining amount is due in March of the following year. The grapes are processed into wine, which is typically bottled and available for sale between 5 months and 2 years from date of harvest.

The Company paid $326,894 and $306,805 for grapes purchased through long-term contracts during the years ended December 31, 2012 and 2011, respectively. The Company received $325,977 and $324,514 worth of grapes from long-term contracts during the years ended December 31, 2012 and 2011, respectively. Grapes payable includes $161,340 and $165,191 of grapes payable from long-term contracts as of December 31, 2012 and 2011, respectively.

The Company plans to address long-term grape supply needs by developing new vineyards on properties currently owned or secured by lease. The Company has approximately 21 acres of vineyards that have been planted but are in the pre-productive stage. These vineyards will begin bearing fruit in the next one to three years. The Company has approximately 183 acres of land that is suitable for future vineyard development. Management currently has plans to plant approximately 24 acres and 45 acres in the years 2013 and 2014, which will begin bearing fruit in years 2017 and 2018, respectively.

Wine Quality

Continued awareness of the Willamette Valley Vineyards brand, the Company and the quality of its wines, was enhanced by national and regional media coverage throughout 2012 and into 2013.

NBC's new hit show "Grimm" chose to feature our 2009 Pinot Noir in select scenes on recent episodes, further strengthening brand awareness.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

In January, our 2009 Pinot Noir and 2009 Pinot Gris received a Gold Medal at the United Way Miami Wine & Food Festival.

The San Francisco Chronicle Wine Competition judged our 2010 Pinot Gris in January, awarding it a Gold Medal.

Up against over 350 outstanding Pinots, our 2008 O'Brien Pinot Noir was awarded a gold medal in February 2012 at the 10th annual Pinot Noir Shootout in California.

Our South Block Pinot Noir was awarded a Gold Medal at Oregon's Newport Seafood & Wine Festival in February.

The OSU Austin Entrepreneurship Program held their 2012 Weatherford Awards in February, recognizing Jim Bernau and 3 other individuals who have "furthered Oregon's pioneering and innovative spirit."

Winemaker, Don Crank was featured in an article in Wines & Vines February issue about wineries adopting conservation methods to save on electricity.

In February, Editor at Large, Harvey Steiman of Wine Spectator magazine gave our 2009 Signature Cuvée Pinot Noir 90pts and our 2010 Riesling 89pts/Top Value.

In their Spring issue, Santé Magazine, for restaurant professionals, recommended and awarded "Gold Stars" to the following wines; 2009 Elton Pinot Noir, 2009 Signature Cuvée Pinot Noir, 2009 Tualatin Estate Pinot Noir, and 2010 Whole Cluster Pinot Noir.

The March 2012 issue of Wine Enthusiast magazine recognized several of our wines with 90+ point scores; 2010 Riesling, 90pts/Best Buy; 2009 Elton Pinot Noir, 91pts/Cellar Selection; 2009 Tualatin Estate Pinot Noir, 90pts.

The April issue of Wine & Spirits recognized several of our Pinots with 90+ point scores: 2009 Bernau Block Pinot Noir, 92pts; 2009 Estate Pinot Noir, 92pts; 2010 Whole Cluster Pinot Noir, 90pts/Best Buy.

The 5th annual Oregon Wine Awards, held every April, awarded three of our wines with Gold or Double Gold Medals: 2009 Tualatin Estate Pinot Noir, Double Gold; 2009 Bernau Block, Gold, 2009 Pinot Noir, Gold.

In June, Entrepreneur.com ran an article titled, "Willamette Valley Vineyards Offers Complex, Heady Oregon Blend." Stating, "This historic vineyard distills the essence of the Beaver State in its acclaimed Pinot Noir and other cool-climate varietals."

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.

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

Portland Monthly magazine's September 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 issue, Wine & Spirits magazine recognized our 2011 Whole Cluster Pinot Noir with 90 points and a best buy rating.

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

On November 27, 2012, The American Wine Society awarded its 2012 Award of Merit to winery owner and environmentalist Jim Bernau. The Award of Merit, the Society's highest honor, recognizes substantial and meritorious contributions to the wine industry. The American Wine Society also recognized our 2011 Pinot Gris with a double gold medal and our 2009 Bernau Block Pinot Noir with a gold medal at their 2012 Wine Awards in October.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Snooth.com readers got a chance to nominate and vote for their favorite wines in Snooth's 2012 People's Voice Wine Awards. The voting ended in November and our 2009 Pinot Gris was named one of the "Top 25 Premium Wines of 2012" and our 2009 Estate Pinot Noir was the #1 pick among Snooth's readers and recognized as the "Top Super Premium Wine."

Seasonal and Quarterly Results

The Company has historically experienced and expects to continue experiencing seasonal fluctuations in its revenue and net income. Typically, first quarter sales are the lowest of any given year, and sales volumes increase progressively through the fourth quarter because of consumer buying habits.

The following table sets forth certain information regarding the Company's revenue, excluding excise taxes, from Winery operations for the three and twelve months ended December 31, 2012 and 2011:

	Three months ended December 31, 2012	Three months ended December 31, 2011	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011
Retail sales	$ 1,028,956	$ 882,213	$ 3,470,802	$ 3,014,979
In-state sales	778,751	586,935	3,560,392	3,545,713
Out-of-state sales	2,049,778	1,833,696	5,734,737	6,066,194
Bulk wine/miscellaneous sales	65,859	-	65,859	610
Total revenue	3,923,344	3,302,844	12,831,790	12,627,496
Less excise taxes	(125,589)	(87,975)	(304,522)	(391,510)
Net revenue	$ 3,797,755	$ 3,214,869	$ 12,527,268	$ 12,235,986

2012 Compared to 2011

Retail sales for the years ended December 31, 2012 and 2011 were $3,470,802 and $3,014,979, respectively, an increase of $455,823 or 15.1%. This increase was primarily driven by membership growth in the Company's wine club program, and increased visitor traffic to the winery.

In-state sales for the years ended December 31, 2012 and 2011 were $3,560,392 and $3,545,713, respectively, an increase of $14,679 or 0.4%. Management believes this slight increase in sales is significant, because the 2011 in-state sales included eight months of self-distribution sales of company-produced wines. These sales were made at a higher average price per case than the sales made in 2012 where the company sold through an independent distributor. The Company has made-up for the reduction in average price per case by focusing on higher-end products and increasing product placement.

Out-of-state sales for the years ended December 31, 2012 and 2011 were $5,734,737 and $6,066,194, respectively, a decrease of $331,457 or 5.5%. Management believes this reduction is primarily related to increased competition for Oregon brands with the distributors. At the end of 2011, the Company dramatically reduced depletion incentive programs to distributors. This resulted in a savings of approximately $290,000, but out-of-state gross sales decreased approximately $620,000. Despite this gross sales decrease, Management believes the decision to reduce depletion incentive programs was sound, as it is believed to have helped strengthen the brand's position and has improved margins and profits.

The Company pays alcohol excise taxes to both the OLCC and to the TTB. These taxes are based on product sales volumes. The Company is liable for the taxes upon the removal of product from the Company's warehouse on a per gallon basis. The Company also pays taxes on the grape harvest on a per ton basis to the Oregon Liquor Control Commission for the Oregon Wine Board. The Company's excise taxes for the years ended December 31, 2012 and 2011 were $304,522 and $391,510, a decrease of $86,988 or 22.2%. This was due primarily to the discontinuation of wine importing activities to the state of Oregon, which are subject to Oregon excise taxes. Sales data in the discussion above is quoted before the exclusion of excise taxes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Cost of Sales was $5,253,336 and $5,267,460 for the years ended December 31, 2012 and 2011, respectively. This represents a decrease of $14,124 or 0.3%. The changes to cost of sales can be attributed to the overall reduction in cases sold, offset by changes in the product sales mix towards higher cost products that also generally yield higher margins.

As a percentage of net revenue, gross profit was 58.1% and 57.0% in the years ended December 31, 2012 and 2011, respectively, an increase of 1.1 points or 2.0%. This increase in the gross profit percent is mainly due to reductions in sales depletion expenses paid to distributors and increased direct-to-consumer sales as a percentage of total sales.

The Company is continuing its focus on improved distribution of higher margin products through distributors nationwide and through direct sales and strives to minimize increases in grape and production costs.

Selling, general and administrative expenses were $5,075,052 and $4,548,125 for the years ended December 31, 2012 and 2011, respectively, an increase of $526,927 or 11.6%. This increase was related to the absorption of costs from activities that had previously been shared by the in-state distribution activities, which were discontinued during 2012.

Interest income was $8,548 and $12,772 for the years ended December 31, 2012 and 2011, respectively. The decrease in interest income is primarily the result of changes to cash on hand in the Company's accounts. Interest expense was $232,291 and $217,037 for the years ended December 31, 2012 and 2011, respectively, an increase of $15,254 or 7.0%. The increase in interest expense was due to the increase in the average balance of long-term debt held during the year.

Other income was $124,531 and $76,506 for the years ended December 31, 2012 and 2011, respectively, an increase of $48,025 or 62.8%. The increase in other income relates primarily to the amortization of deferred revenue from the distribution agreement receivable. The amortization began midway in September 2011 and continues through all of 2012.

Pre-tax losses from discontinued operations were $242,878 and $919,961 for the years ended December 31, 2012 and 2011, respectively, a reduction of $677,083 or 73.6%. This decrease is primarily the result of the Company having completed the wind-down of discontinued operations midway through 2012.

The provision for income taxes and the Company's effective tax rate was $653,941 and 35.2%, respectively of pre-tax income in the year ended December 31, 2012. The provision for income taxes and the Company's effective tax rate was $514,926 and 37.5%, respectively of pre-tax income in the year ended December 31, 2011.

As a result of the above factors, net income was $1,202,849 and $857,755 for the years ended December 31, 2012 and 2011, respectively, an increase of $345,094 or 40.2%. Earnings per share was $0.25 and $0.18 for the years ended December 31, 2012 and 2011, respectively, an increase of $0.07 or 38.9%. The increase in Earnings per share is primarily a result of the increase in net income.

First Quarter 2013 Outlook

Sales in the first two months of 2013 are higher than the prior year's sales for the same period, showing a 3.2% overall increase. These sales results are composed of 19.3% increase in direct to consumer sales, 13.2% decrease in in-state sales, and 2.1% increase in out-of-state sales.

Liquidity and Capital Resources

At December 31, 2012, the Company had a working capital balance of $12.9 million and a current ratio of 6.43:1. At December 31, 2011, the Company had a working capital balance of $12.9 million and a current ratio of 8.11:1. The Company had cash balances of $4,553,113 and $3,411,292 at December 31, 2012 and 2011, respectively. The increase in cash year over year was primarily due to the reduction of inventory from discontinued operations as well as reducing operating expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Total cash provided from operating activities for the years ended December 31, 2012 and 2011 was $2,559,141 and $2,242,703, respectively. These results were primarily due to income from operations, buoyed by non-cash operating expenses such as depreciation.

Total cash used in investing activities for the years ended December 31, 2012 and 2011 was $1,726,978 and $1,745,891, respectively. These results were primarily due to additions to property and equipment.

Total cash provided (used) in financing activities for the years ended December 31, 2012 and 2011 was $(495,387) and $910,223. In 2012, these results were primarily due to cash paid to service long-term debt and cash paid for the repurchase of common stock. In 2011, these results were primarily due to cash obtained from new long-term financing, offset by cash paid to service long-term debt.

Total cash provided from discontinued operations for the years ended December 31, 2012 and 2011 was $805,045 and $485,393, respectively. These results are primarily a result of reductions in inventory balances.

At December 31, 2012, the line of credit balance was $0 on a maximum borrowing amount of $2,000,000. The Company has a loan agreement with Umpqua Bank that contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage that must be maintained by the Company on a quarterly basis. As of December 31, 2012, the Company was in compliance with all of the financial covenants. The current line of credit loan agreement with Umpqua Bank is due to renew in June 2013.

As of December 31, 2012, the Company had a total long-term debt balance of $4,016,771 owed to NW Farm Credit Services. The debt with NW Farm Credit Services was used to finance the Hospitality Center, invest in winery equipment to increase the Company's winemaking capacity, complete the storage facility, acquire new vineyard land for future development and, most recently, to upgrade the Hospitality Center and other property infrastructure.

The Company believes that cash flow from operations and funds available under its existing credit facilities will be sufficient to meet the Company's foreseeable short and long-term operating needs. The Company anticipates borrowing an additional $2,000,000 from NW Farm Credit Services in 2013, to partially fund the remodel and expansion of the Hospitality Center at the Winery.

The Company's contractual obligations as of December 31, 2012 including long-term debt, grape payables and commitments for future payments under non-cancelable lease arrangements are summarized below:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Long-term debt	$ 4,026,238	$ 209,327	$ 453,413	$ 510,360	$ 2,853,138
Grape payables	539,584	539,584	-	-	-
Operating leases	2,958,983	345,731	693,240	719,921	1,200,091
Total contractual obligations	$ 7,524,805	$ 1,094,642	$ 1,146,653	$ 1,230,281	$ 4,053,229

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Willamette Valley Vineyards, Inc.

We have audited the accompanying balance sheets of Willamette Valley Vineyards, Inc. (the "Company") as of December 31, 2012 and 2011, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette Valley Vineyards, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Portland, Oregon
March 29, 2013

WILLAMETTE VALLEY VINEYARDS, INC.
BALANCE SHEETS

ASSETS

		December 31, 2012 (audited)		December 31, 2011 (audited)
CURRENT ASSETS				
Cash and cash equivalents	$	4,553,113	$	3,411,292
Accounts receivable, net		1,088,550		986,591
Inventories (Note 3)		9,226,884		8,843,813
Prepaid expenses and other current assets		89,503		138,382
Current portion of note receivable		23,231		61,492
Current portion of assets from discontinued operations, net		-		847,053
Current portion of distribution agreement receivable		250,000		250,000
Income tax receivable		8,734		229,337
Total current assets		15,240,015		14,767,960
Vineyard development costs, net		1,567,976		1,643,546
Property and equipment, net (Note 4)		8,305,636		7,238,437
Assets from discontinued operations, net of current portion		-		62,300
Debt issuance costs, net		47,369		50,752
Distribution agreement receivable, net of current portion		250,000		500,000
Note receivable, net of current portion		-		19,276
Other assets		-		4,456
TOTAL ASSETS	$	25,410,996	$	24,286,727
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable	$	728,596	$	301,168
Accrued expenses		474,776		438,983
Current portion of long-term debt		209,327		197,936
Income taxes payable		17,659		-
Deferred income taxes		254,000		351,000
Current portion of liabilities from discontinued operations, net		4,337		-
Current portion of deferred revenue-distribution agreement		142,857		142,857
Grapes payable		539,584		389,233
Total current liabilities		2,371,136		1,821,177

Long-term debt, net of current portion		3,816,911		4,010,654
Deferred rent liability		197,241		208,047
Deferred revenue-distribution agreement, net of current portion		666,663		809,523
Deferred gain		217,551		249,646
Deferred income taxes		800,000		754,000
Total liabilities		8,069,502		7,853,047
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY				
Common stock, no par value, 10,000,000 shares authorized,				
4,804,708 and 4,892,977 issued and outstanding at				
December 31, 2012 and December 31, 2011, respectively		8,656,926		8,632,746
Retained earnings		9,003,783		7,800,934
Less: Common stock held in treasury, at cost, 90,269 and 0 at				
December 31, 2012 and December 31, 2011, respectively		(319,215)		-
Total shareholders' equity		17,341,494		16,433,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	25,410,996	$	24,286,727

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

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF INCOME

	Twelve months ended December 31, 2012 (audited)	2011 (audited)
SALES	$ 12,527,268	$ 12,235,986
COST OF SALES	5,253,336	5,267,460
GROSS PROFIT	7,273,932	6,968,526
SELLING, GENERAL & ADMIN EXPENSES	5,075,052	4,548,125
INCOME FROM OPERATIONS	2,198,880	2,420,401
OTHER INCOME (EXPENSE)		
Interest income	8,548	12,772
Interest expense	(232,291)	(217,037)
Other income, net	124,531	76,506
INCOME BEFORE INCOME TAXES	2,099,668	2,292,642
INCOME TAX PROVISION	(739,434)	(859,911)
INCOME FROM CONTINUING OPERATIONS	$ 1,360,234	$ 1,432,731
DISCONTINUED OPERATIONS		
Loss from operations	(242,878)	(919,961)
Income tax benefit	85,493	344,985
LOSS FROM DISCONTINUED OPERATIONS	(157,385)	(574,976)
NET INCOME	$ 1,202,849	$ 857,755
BASIC NET INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE	$ 0.28	$ 0.29
BASIC NET LOSS FROM DISCONTINUED OPERATIONS PER COMMON SHARE	$ (0.03)	$ (0.11)
BASIC NET INCOME PER COMMON SHARE	$ 0.25	$ 0.18
DILUTED NET INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE	$ 0.28	$ 0.29
DILUTED NET LOSS FROM DISCONTINUED OPERATIONS PER COMMON SHARE	$ (0.03)	$ (0.11)

DILUTED NET INCOME PER COMMON SHARE	$	0.25	$	0.18
Weighted average number of basic common shares outstanding		4,849,163		4,892,977
Weighted average number of diluted common shares outstanding		4,855,756		4,896,968

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

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WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Dollars	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2010	4,892,977	$ 8,623,744	$ -	$ 6,943,179	$ 15,566,923
Stock based compensation expense	-	9,002	-	-	9,002
Net income	-	-	-	857,755	857,755
Balance at December 31, 2011	4,892,977	8,632,746	-	7,800,934	16,433,680
Stock based compensation expense	-	18,000	-	-	18,000
Common stock issued and options exercised	2,000	6,180	-	-	6,180
Treasury stock purchased	(90,269)	-	(319,215)	-	(319,215)
Net income	-	-	-	1,202,849	1,202,849
Balance at December 31, 2012	4,804,708	$ 8,656,926	$ (319,215)	$ 9,003,783	$ 17,341,494

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

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WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF CASH FLOWS

	Year ended December 31, 2012 (audited)	2011 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
Net income from continuing operations	$ 1,360,234	$ 1,432,731
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	725,286	747,144
Loss on disposition of property & equipment	22,243	6,293
Stock based compensation expense	18,000	9,002
Deferred rent liability	(10,806)	(6,956)
Deferred income taxes	(51,000)	295,000
Deferred revenue-distribution agreement	(142,860)	952,380
Deferred gain	(32,095)	(32,095)
Change in operating assets and liabilities:		
Accounts receivable	(101,959)	182,503
Inventories	(383,071)	64,953
Prepaid expenses and other current assets	48,879	(56,141)
Distribution agreement receivable	250,000	(750,000)
Income taxes receivable	220,603	(114,274)
Other assets	4,456	-
Grapes payable	150,351	116,022
Accounts payable	427,428	(447,645)
Accrued expenses	35,793	(156,214)
Income taxes payable	17,659	-
Net cash from operating activities	2,559,141	2,242,703
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
Additions to property and equipment	(1,545,836)	(1,746,998)
Additions to vineyard development	(246,064)	(56,298)
Proceeds from sale of property and equipment	7,385	4,301
Payments received on note receivable	57,537	53,104
Net cash from investing activities	(1,726,978)	(1,745,891)
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
Payments on long-term debt	(182,352)	(470,722)
Borrowings on long-term debt	-	1,400,000
Payment of debt issuance costs	-	(19,055)
Proceeds from stock options exercised	6,180	-
Repurchase of common stock	(319,215)	-
Net cash from financing activities	(495,387)	