WILLAMETTE VALLEY VINEYARDS INC
Form 10-K/A
January 26, 2010

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, 2008

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<br>(State or other jurisdiction of<br>incorporation or organization) | 93-0981021<br>(I.R.S. Employer<br>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 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. 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, 2008 was approximately $24,979,184.

The number of outstanding shares of the registrant's Common Stock as of March 27, 2009 was 4,851,329.

DOCUMENTS INCORPORATED BY REFERENCE

None

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends the Annual Report on Form 10-K of Willamette Valley Vineyards, Inc. (the “Company”) for the fiscal year ended December 31, 2008, originally filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2009 (the “Original Filing”). The purpose of this Amendment is to provide additional disclosures with respect to the information required under (i) Item 9A to Part II of Form 10-K, and (ii) Item 10 to Part III of Form 10-K. In addition, in accordance with the rules of the SEC, we are including certain currently dated certifications with this Amendment.

Except as expressly set forth in this Amendment, we are not amending any other part of the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and does not reflect events occurring after the filing of the Original Filing or modify or update any related or other disclosures unless expressly noted otherwise. Accordingly, this Amendment should be read in conjunction with the Original Filing and with our other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings. The filing of this Amendment shall not be deemed an admission that the Original Filing when made included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART II

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer/Controller as appropriate, to allow timely decisions regarding required disclosure. In connection with the preparation of this Annual Report on Form 10-K, our management carried out an evaluation, under the supervision and with the participation of our CEO and CFO/Controller, as of December 31, 2008, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO/Controller concluded that our disclosure controls and procedures were not effective as of December 31, 2008. Management's conclusion was based on discoveries and observations made during the 2008 year-end audit in conjunction with our independent audit firm, Moss-Adams LLP. Management identified the following material weaknesses:

- Inadequate reconciliations of our general ledger cash balances to the balances per our bank statements. This material weakness was identified during the 2007 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. During the course of the audit, several adjusting entries were necessary to properly reconcile the general ledger cash balance to the bank statements.

- Lack of sufficient procedures and controls related to our maintenance of our perpetual inventory records of in-state purchased wines. This is mainly due to the loss of key project owners in accounting who were therefore unable to oversee the implementation. This material weakness was identified during the 2007 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. During the course of the audit, we tested our perpetual inventory costs by comparing costs as recorded in the system versus the supplier invoiced amount and multiple differences were discovered.

- Lack of sufficient procedures and controls related to the allocation of costs to our produced wines. This material weakness began when the Company modified its process for inventory cost allocation during the second quarter of 2008. This material weakness was identified during the 2008 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. During the 2008 year-end audit, key accounting personnel worked closely with independent audit staff to revise our inventory costing methods in an effort to remediate this weakness.

- Lack of adequate job sufficient accounting and finance personnel and transition/training of personnel responsible for preparation and review of such reconciliations, records, and allocations. This material weakness began when a key accounting resource terminated their employment with the Company during the third quarter of 2008. This material weakness was identified during the 2008 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. The Company is actively pursuing the permanent and temporary resources necessary to remediate this deficiency in an effort to remediate this weakness.

Management's Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. In performing this assessment, management identified the following material weaknesses:

- Inadequate reconciliations of our general ledger cash balances to the balances per our bank statements. This weakness was identified during the 2007 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. Management has difficulty discerning when this material weakness first began due to the turnover in key accounting personnel during 2007. It is management's best estimate that this weakness likely existed since the first quarter of 2007.

- Lack of sufficient procedures and controls related to our maintenance of our perpetual inventory records of in-state purchased wines. This weakness was identified during the 2007 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. Management believes this material weakness began at the point of an order fulfillment system conversion that was not properly managed prior to and during implementation. This is mainly due to the loss of key project owners in accounting who were therefore unable to oversee the implementation.

- Lack of sufficient procedures and controls related to the allocation of costs to our produced wines. This weakness was identified during the 2008 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. This material weakness began when we converted our process for inventory cost allocation during the second quarter of 2008. During the 2008 year-end audit key accounting personnel worked closely with independent audit staff to revise our inventory costing methods.

- Lack of adequate job sufficient accounting and finance personnel and transition/training of personnel responsible for preparation and review of such reconciliations, records, and allocations. This weakness was identified during the 2008 year-end audit by management and accounting staff present at the time of the audit, in conjunction with our independent auditors, Moss-Adams LLP. This material weakness began when a key accounting resource terminated their employment with the Company during the third quarter of 2008. The Company is actively pursuing the permanent and temporary resources necessary to remediate this deficiency.

Based on its assessment, our management concluded that, as of December 31, 2008, our internal control over financial reporting was not effective. Management believes that these material weaknesses have not affected our ability to present GAAP-compliant financial statements in this Form 10-K. During the independent audit review we were able to recognize and adjust our financial records to properly present our financial statements and we were thefore able to present GAAP-compliant financial statements. Management does not believe that its weaknesses with respect to its procedures and controls have had a pervasive effect upon our financial reporting and the overall control environment due to our ability to make the necessary reconciling adjustments to our financial statements.

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The reconciling adjustments posted to our 2008 closing trial balance were identified by both the company's internal accounting personnel and our auditors after our closing trial balance was provided to our auditors for their final fieldwork in February. Of the adjustments posted during this period, one was deemed to be a significant fourth quarter adjustment and was disclosed in Footnote 14 of our 2008 financial statements. This adjustment, which increased cost of goods sold and decreased ending inventory by $140,540 for the allocation of certain produced wine expenditures to the cost of goods sold, was identified by our auditors. The other significant fourth quarter adjustment disclosed in Note 14 of our 2008 financial statements for the adjustment of inventory for our year-end physical count was identified by management prior the time our closing trial balance was provided to our auditors. There were other insignificant adjustments identified by both management and our auditor after the commencement of the audit final fieldwork.

Given the reconciling adjustments posted during the year-end financial statement close, combined with the year-end physical inventory adjustment, we undertook an evaluation of the underlying causes of these errors, including an evaluation the accounting and finance personnel, in connection with our assessment of the effectiveness of internal control over financial reporting at December 31, 2008. We expanded the scope of the related reconciliations and as well as additional analysis of other accounts in light of the material weaknesses identified. We believe the additional procedures performed by management subsequent to the commencement of our auditors fieldwork, but prior to the filing of our Form 10-K mitigated the risk of material misstatement in the financial statements.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Management's Remediation Initiatives

In addition to the remediation efforts specifically discussed above, management has commenced a number of initiatives to address the materials weaknesses noted above, including the following:

Management has engaged experienced resources in the first quarter of 2009 to ensure that a process design is created and implemented with proper training of accounting personnel.

Management has determined that additional education and proper system training of personnel in the wholesale inventory department is required. In the first quarter 2009 the Company has brought in a qualified instructor/trainer to work closely with the end users in this department. This training is meant to effectively ensure that they have the proper system training and education to properly adjust inventory cost based on invoice pricing. Additionally, more training is being scheduled in Q2 2009 on purchasing and inventory control.

Management is undertaking a review of its cash reconciliation and inventory costing processes and intends to revise the related daily and period end cash reconciliation and inventory procedures, controls and review.

Key managers and accounting personnel will work closely with our independent audit firm in evaluating our progress in remediating our material weaknesses with oversight by the audit committee.

Elements of our remediation plan can only be accomplished over time and we can offer no assurances that those initiatives will ultimately have the intended effects.

Management will continue the process of reviewing existing controls, procedures and responsibilities to more closely identify financial reporting risks and the required controls to address them. Key control and compensating control procedures will be developed to ensure that material weaknesses are properly addressed and related financial reporting risks are mitigated. Periodic control validation and testing will also be implemented to ensure that controls continue to operate consistently and as designed.

Changes in Internal Control over Financial Reporting

In 2008 the Company revised the procedures for accounts receivable and the related cash receipts posting. Additionally, the accounts receivable aging is reviewed carefully for outstanding invoices and customer account statements sent out timely. This has greatly improved the accuracy of our outstanding accounts receivable. Also, in 2008 the Company's Senior Accountant resigned and to date has not been replaced. The Company has relied on contract accounting resources to help manage the period end accounting activities. There have not been any other changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors, nominees for election as a director, and each such person's age at December 31, 2008 and position with the Company.

| Name | Position(s) with the Company | Age |
|---|---|---|
| James W. Bernau *** | Chairperson of the Board, President and Director | 55 |
| James L. Ellis *** | Secretary and Director | 64 |
| Jeffrey J. Fox | Chief Financial Officer and Controller | 44 |
| Sean M. Cary | Director | 35 |
| Thomas M. Brian ** | Director | 60 |
| Delna L. Jones * *** | Director | 68 |
| Craig Smith ** | Director | 62 |
| Betty M. O'Brien * | Director | 64 |
| Stan G. Turel * ** *** | Director | 61 |

*Member of the Compensation Committee
**Member of the Audit Committee
***Member of the Executive Committee

All directors hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. Executive officers are appointed by the Board of Directors and serve at the pleasure of the Board of Directors. Set forth below is additional information as to each director and executive officer of the Company.

James W. Bernau. Mr. Bernau has been President and Chairperson of the Board of Directors of the Company since its inception in May 1988. Willamette Valley Vineyards was originally established as a sole proprietorship by Oregon winegrower Jim Bernau in 1983, and he co-founded the Company in 1988 with Salem grape grower, Donald Voorhies. From 1981 to September 1989, Mr. Bernau was Director of the Oregon Chapter of the National Federation of Independent Businesses ("NFIB"), an association of 15,000 independent businesses in Oregon. Mr. Bernau has served as the President of the Oregon Winegrowers Association and the Treasurer of the association's Political Action Committee (PAC) and Chair of the Promotions Committee of the Oregon Wine Advisory Board, the State of Oregon's agency dedicated to the development of the industry. In March 2005, Mr. Bernau received the industry's Founder's Award for his service.

James L. Ellis. Mr. Ellis has served as a Director since July 1991 and Secretary since June 1997. Mr. Ellis has served as the Company's Director of Human Resources from January 1993, and Vice President /Corporate since 1998. From 1990 to 1992, Mr. Ellis was a partner in Kenneth L. Fisher, Ph.D. & Associates, a management-consulting firm. From 1980 to 1990, Mr. Ellis was Vice President and General Manager of R.A. Kevane & Associates, a Pacific Northwest personnel-consulting firm. From 1962 to 1979, Mr. Ellis was a member of and administrator for the Christian Brothers of California, owner of Mont La Salle Vineyards and producer of Christian Brothers wines and brandy.

Jeffrey J. Fox. Mr. Fox has been Chief Financial Officer and Controller since October 2007. Previously, from 2006 to 2007, Mr. Fox served as the Chief Financial Officer for Traeger Pellet Grills LLC based in Wilsonville, Oregon. The principal business of Traeger Pellet Grills LLC is the manufacturing and distribution of barbecue grills. From 2005 to 2006 he served as Analysis Manager and acting Controller for the Georgia-Pacific paper mill based in Bellingham, Washington. The principal business of Georgia-Pacific is the manufacturing of consumer paper products. Prior to that, from 2001 to 2005, he served as Controller for Georgia-Pacific Northwest Handling Division located in Portland, Oregon. The principal business of Georgia-Pacific Northwest Handling Division is the distribution of Georgia-Pacific brand consumer paper products. None of the foregoing organizations are a parent, subsidiary or other affiliate of the Company. Mr. Fox holds a Bachelor of Science Degree in Finance from Oregon State University.

Sean M. Cary. Mr. Cary was elected to the Board of Directors in 2007. Mr. Cary is the Corporate Controller of National Warranty Corporation, a Eugene, Oregon based provider of finance and insurance products sold through automobile dealers located in the Pacific Northwest. Previously, Mr. Cary served as the CFO of Cascade Structural Laminators, a laminated bean manufacturer headquartered in Eugene, Oregon and prior to that as Controller of Willamette Valley Vineyards. Mr. Cary served in the U.S. Air Force as a Financial Officer. Mr. Cary holds a Master of Business Administration degree from the University of Oregon and a Bachelor of Science Degree in Management from the U.S. Air Force Academy.

Thomas M. Brian. Mr. Brian was appointed to the Board of Directors in June of 2004. Mr. Brian has served as Chairman of the Washington County Board of Commissioners since 1999. Previously, he served for 10 years in the Oregon House of Representatives. While in the legislature, Mr. Brian was Chairman of the Revenue Committee and served on the Judicial and Ways and Means Committees. He also served 10 years as City Councilor and Mayor of Tigard, OR. Mr. Brian has successfully owned and operated a commercial/industrial real estate company for eighteen years.

Delna L. Jones. Ms. Jones has served as a Director since November 1994. Ms. Jones resigned from the Board in December of 2002 having moved to Southern California and was reappointed by the Board in March of 2005 having returned to Oregon. Currently Ms. Jones is President of Delna Jones and Associates, an independent consulting firm. Ms. Jones was elected in 1998 and served as a County Commissioner for Washington County, Oregon from 1998 to 2000. Ms. Jones has served as project director for the CAPITAL Center, an education and business consortium from 1994 to 1998. From 1985 to 1990, Ms. Jones served as Director of Economic Development with US West Communications. Beginning in 1982, she was elected six times to the Oregon House as the State Representative for District 6. During her tenure, she served as the Assistant Majority Leader; she also chaired the Revenue and School Finance committee, and served on the Legislative Rules and Reorganization committee and the Business and Consumer Affairs committee.

Craig Smith, CPA, MBA, JD. Mr. Smith has served as a Director since October 2007. Mr. Smith is the Vice President/Chief Financial Officer of Chemeketa Community College in Salem, Oregon. He was an Adjunct Professor at the Atkinson Graduate School of Management at Willamette University, as well as Managing Partner of a large local CPA firm. He has served on many State of Oregon commissions and he has served as the Board Chairperson for many of the local non-profit and educational institutions including the Salem Keizer School Board, Chemeketa Community College Board of Education, State Fair Dismissal Appeals Board, Mid-Willamette Valley Council of Governments, Oregon School Boards Association and the United Way. Mr. Smith is an active member of the Oregon State Bar and a Certified Public Accountant. Mr. Smith is an independent director as defined under NASDAQ rules.

Betty M. O’Brien. Ms. O’Brien has served as a Director since July 1991. Ms. O’Brien is co-owner of Elton Vineyards L.L.C., a commercial vineyard located in Eola Hills in Yamhill County, Oregon and established in 1983. Ms. O’Brien was the Executive Director of the Oregon Wine Board from 2001 to 2004. Ms. O’Brien was employed by Willamette University as its Director of News and Publications from 1988 to 2000. She is a member of the Oregon Winegrowers Association, having previously served as its President and Treasurer and as a director. Ms. O’Brien is a member of the Vineyard Management/Winemaking Program Advisory Committee at Chemeketa Community College (CCC). She headed a wine industry task force developing a new wine marketing program and curriculum leading to a two-year degree at CCC. She now teaches Introduction to Wine Marketing. She serves as Chair of the Board of Directors of LIVE (Low Input Viticulture and Enology).

Stan G. Turel. Mr. Turel has served as a Director since November of 1994. Mr. Turel is President of Turel Enterprises, a real estate management company managing his own properties in Oregon, Washington and Idaho. Prior to his current activities, Mr. Turel was the Principal and CEO of Columbia Turel, (formally Columbia Bookkeeping, Inc.) a position which he held from 1974 to 2001. Prior to the sale of the company to Fiducial, one of Europe’s largest accounting firms, Columbia had 26,000 annual tax clients including 4,000 small business clients. Additionally Mr.

Turel successfully operated as majority owner two cable TV companies during the 80's and 90's which were eventually sold to several public corporations. Mr. Turel is a pilot, was a former delegate to the White House Conference on Small Business and held positions on several state and local Government committees.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLAMETTE VALLEY VINEYARDS, INC.
(Registrant)

By /s/ James W. Bernau
James W. Bernau,
Chairperson of the Board, President

Date: January 25, 2010

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