WILLAMETTE VALLEY VINEYARDS INC
Form 10QSB
August 14, 2007

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2007

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

Commission File Number 0-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in charter)

Oregon	93-0981021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

8800 Enchanted Way, S.E.
Turner, Oregon 97392
(503)-588-9463

(Address, including Zip code, and telephone number, including area code, of registrant's principal executive offices)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] YES [ ] NO

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

[ ] YES [X] NO

Number of shares of common stock outstanding as of June 30, 2007:
4,806,102 shares, no par value

Transitional Small Business Disclosure
[ ] YES [X] NO

WILLAMETTE VALLEY VINEYARDS, INC.

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Part 1 FINANCIAL INFORMATION

Item 1 FINANCIAL STATEMENTS

WILLAMETTE VALLEY VINEYARDS, INC.
Balance Sheet

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,577,221	$ 1,612,470
Accounts receivable trade, net	1,033,742	1,609,697
Inventories	6,592,444	6,751,927
Prepaid expenses and other current assets	171,445	107,743
Prepaid income taxes	23,817	-
Deferred income taxes	107,000	107,000
Total current assets	9,505,669	10,188,837
Vineyard development cost, net	1,495,794	1,538,002
Property and equipment, net	3,835,031	3,985,680
Note receivable	250,000	-
Debt issuance costs, net	24,682	28,258
Other assets	58,901	57,667

Total assets	$15,170,077	$15,798,444
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long term debt	$ 251,437	$ 251,437
Accounts payable	585,466	945,741
Accrued expenses	383,857	392,952
Income taxes payable	-	305,608
Grapes payable	94,352	481,590
Total current liabilities	1,315,112	2,377,328
Long-term debt, less current portion	1,112,908	1,237,571
Deferred rent liability	207,443	190,951
Deferred gain	394,072	410,119
Deferred income taxes	242,000	242,000
Total liabilities	3,271,535	4,457,969
Shareholders' equity		
Common stock, no par value - 10,000,000 shares authorized, 4,806,102 and 4,793,027 shares issued and outstanding at June 30, 2007 and December 31, 2006	7,994,456	7,935,829
Retained earnings	3,904,086	3,404,646
Total shareholders' equity	11,898,542	11,340,475
Total liabilities and shareholders' equity	$15,170,077	$15,798,444

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

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

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net revenues				
Case revenue	$ 3,717,426	$ 3,426,838	$ 7,303,987	$ 7,121,014
Facility Lease	8,793	8,793	17,586	17,586
Total net revenues	3,726,219	3,435,631	7,321,573	7,138,600
Cost of sales				
Case	1,999,942	1,779,274	3,896,173	3,730,693
Bulk	986	-	986	4,631
Total cost of sales	2,000,928	1,779,274	3,897,159	3,735,324
Gross profit	1,725,291	1,656,357	3,424,414	3,403,276
Selling, general and administrative expenses	1,266,844	1,200,629	2,577,017	2,329,745
Net operating income	458,447	455,728	847,397	1,073,531
Other income (expense)				

Interest income	11,053	18,878	28,111	23,156
Interest expense	(27,523)	(42,597)	(55,760)	(86,083)
Other income	-	-	12,667	16,895
Net income before income taxes	441,977	432,009	832,415	1,027,499
Income tax	176,800	172,803	332,975	410,999
Net income	265,177	259,206	499,440	616,500
Retained earnings beginning of period	3,638,909	2,470,166	3,404,646	2,112,872
Retained earnings end of period	$3,904,086	$ 2,729,372	$ 3,904,086	$ 2,729,372
Basic earnings per common share	$ .06	$ .06	$ .10	$ .13
Diluted earnings per common share	$ .05	$ .05	$ .10	$ .13
Weighted average number of basic common shares outstanding	4,805,877	4,711,620	4,803,326	4,692,942
Weighted average number of diluted common shares outstanding	5,014,213	4,893,871	5,009,580	4,875,194

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

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

	Six months ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 499,440	$ 616,500
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	268,879	267,152
Bad Debt Expense	8,333	-
Stock based compensation expense	22,386	16,780
Changes in operating assets and liabilities:		
Accounts receivable trade	567,623	780,633
Inventories	159,483	861,193
Prepaid expenses and other current assets	(63,702)	(36,965)
Prepaid income taxes	(23,817)	(89,514)
Other assets	(1,234)	694
Accounts payable	(360,275)	(221,893)
Accrued expenses	(9,096)	(14,722)
Income taxes payable	(305,608)	(344,987)
Grape payables	(387,238)	(177,487)

Deferred rent liability	16,493	9,687
Deferred gain	(16,047)	(16,047)
Net cash provided by operating activities	375,620	1,651,024
Cash flows from investing activities;		
Additions to property and equipment	(72,446)	(135,458)
Vineyard development expenditures	-	(16,927)
Net cash used in investing activities	(72,446)	(152,385)
Cash flows from financing activities:		
Proceeds from stock options exercised	36,240	202,644
Loan to grape producer	(250,000)	-
Repayments of long-term debt	(124,663)	(140,650)
Net cash provided by (used in) financing activities	(338,423)	61,994
Net increase (decrease) in cash and cash equivalents	(35,249)	1,560,633
Cash and cash equivalents:		
Beginning of period	1,612,470	415,591
End of period	$ 1,577,221	$ 1,976,224

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements as of June 30, 2007 and for the three and six months ended June 30, 2007 and 2006, have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial information as of December 31, 2006 is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the "Company") Annual Report on Form 10-KSB for the year ended December 31, 2006. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006, as presented in the Company's Annual Report on Form 10-KSB.

Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2007, or any portion thereof.

The Company has a single operating segment consisting of the retail, in-state self-distribution and out-of-state sales departments. These departments have similar economic characteristics, offer comparable products to customers, and utilize similar processes for production and distribution.

The Company entered into a lease agreement for approximately 60 acres of vineyards and related equipment in 2007. The original term of the lease is 11 years through 2017, with four successive 5 year renewal options.

The Company loaned $250,000, at an 8.5% per annum interest rate, to a grape grower for the sole purpose of making improvements to vineyards subject to grape contracts with the Company. The loan will be repaid, including principal and interest, through deductions from grape payments owed by the Company to the grape grower through 2012. The loan is secured by, along with other instruments, a Deed of Trust on the subject vineyard.

Basic earnings per share are computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive common shares outstanding during the year. Potentially dilutive shares from stock options and other potentially dilutive shares are excluded from the computation when their effect is anti-dilutive. 208,336 and 206,254 potentially dilutive shares are included in the computation of dilutive earnings per share for the three months and six months ended June 30, 2007, respectively. 182,251 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and six months ended June 30, 2006.

2) STOCK BASED COMPENSATION

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

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

	Quarter to date June 30, 2007		Year to date June 30, 2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	483,000	$ 3.96	495,000	$ 3.94
Granted	-	-	-	-
Exercised	-	-	(12,000)	$ 3.02
Forfeited	-	-	-	-
Outstanding at end of Period	483,000	$ 3.96	483,000	$ 3.96

The following table presents information on stock options outstanding for the periods shown:

Quarter Ended Quarter Ended

	June 30, 2007	June 30, 2006
Intrinsic value of options exercised in the period	-	$ 408,375
Stock options fully vested and expected to vest		
Number	483,000	530,500
Weighted average exercise Price	$3.96	$ 3.82
Aggregate intrinsic value	$1,444,846	$2,616,381
Weighted average contractual term of options	6.37 years	7.11 years
Stock options vested and Currently exercisable		
Number	444,134	
Weighted average exercise Price	$3.98	
Aggregate intrinsic value	$1,318,271	
Weighted average contractual term of options	6.26 years	

At January 1, 2006, the Company began recognizing compensation expense for stock options with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment," ("SFAS 123R"). The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes stock option valuation model. This model uses the assumptions listed in the table below. Expected volatilities are based on implied volatilities from the Company's stock, historical volatility of the Company's stock, and other factors. Expected dividends are based on the Company's plan not to pay dividends for the foreseeable future. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Black-Scholes assumptions June 30, 2007
Risk Free interest rates	4.26%
Expected dividend	0%
Expected lives, in years	5-10
Expected volatility	48.8%

The Company expenses stock options on a straight line basis over the options' related vesting term. For the three months ended June 30, 2007 and 2006, the Company recognized pretax compensation expense related to stock options of $8,325 and $8,390, respectively; and for the six months ended June 30, 2007 and 2006, the Company recognized pretax compensation expense related to stock options of $22,386 and $16,780, respectively.

There were no transactions related to stock option and warrant exercise during the three months ended June 30, 2007.

3) INVENTORIES

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

	June 30, 2007 (unaudited)	December 31, 2006

Winemaking and packaging materials	$ 50,000	$ 142,737
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	1,914,678	2,697,354
Finished goods (bottled wines and related products)	4,627,765	3,911,836
Current inventories	$ 6,592,444	$ 6,751,927

4) PROPERTY AND EQUIPMENT

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

	June 30, 2007 (unaudited)	December 31, 2006
Land and improvements	$ 769,644	$ 769,644
Winery building and hospitality center	4,791,733	4,782,064
Equipment	4,071,800	4,009,023
	9,633,177	9,560,731
Less accumulated depreciation	(5,798,146)	(5,575,051)
	$ 3,835,031	$ 3,985,680

Item 2

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

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operation and other sections of this Form 10-QSB contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that are based on current expectations, estimates and projections about the Company's business, and beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to: availability of financing for growth, availability of adequate supply of high quality grapes, successful performance of internal operations, impact of competition, changes in wine broker or distributor relations or performance, impact of possible adverse weather conditions, impact of reduction in grape quality or supply due to disease, impact of governmental regulatory decisions, and other risks detailed below as well as those discussed elsewhere in this Form 10-QSB and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions. The Company undertakes no obligation to revise forward-looking statements to reflect events or changes after the date of this discussion or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

The foregoing discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in our Annual Report on Form 10-KSB for the year ended December 31, 2006. Such policies were unchanged during the three and six months ended June 30, 2007.

Overview

Continuing demand from out-of-state distributors for our Pinot Noir and Pinot Gris, in excess of recent year's production levels, has drawn down the inventory of those varieties to the point that income from those products is now being significantly affected.

We again generated positive net income during the three and six months ended June 30, 2007. Although we continue to have constraints on inventories of key varietals produced which have been allocated to distributors to be shipped on a scheduled basis over the calendar year, we have increased sales of other producers products which have a lower profit margin. We have also seen an increase in the costs for production.

Despite these inventory constraints, we generated $0.05 and $0.06 basic earnings per share in the first and second quarter of 2007, respectively. During the first three months of 2007, we paid down Current Liabilities by over $1 million, resulting in current ratio of 6.8 to 1. This improved in the second quarter of 2007 to 7.3 to 1.

We believe the proper steps are being taken to increase the production of high quality wine inventories over time as vineyard plantings mature. In the first quarter of 2007 we loaned one of our growers $250,000 to support additional plantings during the first quarter. We continue to improve our internal staffing and management systems in anticipation of these higher, future volumes.

We entered a long-term lease for Elton Vineyards, a related party located in the Eola Hills, to help address the inventory constraints. The vineyard consists of 60 acres of mature grapevines of which approximately 42 acres are Pinot Noir. Willamette Valley Vineyards has an initial 11 year lease with the option to renew for 4 successive terms of 5 years each plus a first right of refusal on the property's sale.

We continue partnering with the high quality, northwest fresh seafood restaurant group, McCormick & Schmick's, or M&S, for a "Summer of Salmon" campaign in all of the M&S restaurants nationwide where our Willamette Valley Vineyards Pinot Noir and Pinot Gris will be paired with wild, seasonal salmon entrees.

We continue to receive high marks for our Pinot Noir from national reviewers, including a 90 point rating for our '05 Estate Pinot from Anthony Dias Blue, as well as from Wine & Spirits Magazine. The newly released '06 Pinot Gris is following in the tradition as being recognized as one of America's best by earning 90 points from the Wine Enthusiast, 94 points from Epicurean-Traveler and being named a winner of the Pacific Coast Oyster Wine Competition again in 2007.

RESULTS OF OPERATIONS

Revenue

Our revenues from winery operations are summarized as follows:

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Tasting Room Sales and Rental Income	$ 517,080	$ 429,184	$ 962,544	$ 808,168
On-site and off-site festivals	14,634	14,052	64,739	50,085
In-state sales	1,877,754	1,718,509	3,644,981	3,267,244
Out-of-state sales	1,420,283	1,351,703	2,829,140	3,175,469
Bulk wine/ Misc. sales	8,793	8,793	17,586	17,586
Total Revenue	3,838,544	3,522,241	7,518,990	7,318,552
Less Excise Taxes	112,325	86,610	197,417	179,952
Net Revenue	$ 3,726,219	$ 3,435,631	$ 7,321,573	$ 7,138,600

Net revenues for the three and six months ended June 30, 2007 increased $290,588 or 8.5% and $182,973 or 2.6%, respectively, over the corresponding periods in the preceding year. This also represents an increase in net revenues over the preceding three month period of 2007 of $130,865 or 3.6%.

Tasting room sales and rental income for the three and six months ended June 30, 2007 increased $87,896, or 20.5% and $154,376 or 19.1%, compared to the corresponding prior year periods. Tasting room sales increased during the three and six months ended June 30, 2007 due primarily to increased purchases in the tasting room and increased room rental revenues.

Sales in the state of Oregon, through our wholesale department, Bacchus Fine Wines, increased $159,245, or 9.3%, and $377,737, or 11.6%, in the three and six months ended June 30, 2007, respectively compared to the corresponding prior year periods. In the three and six months ended June 30, 2007, our direct in-state sales to its largest customer increased $48,739, or 30.4%, and decreased $56,093, or 14.3%, respectively over the comparable prior year periods. These increases are largely the result of the broader product lines presented and increased product placements through the development of the wholesale department's portfolio of brands produced by wineries outside of Oregon.

Out-of-state sales in the three and six months ended June 30, 2007 increased $68,580, or 5.1%, and decreased $346,328 or 10.9%, respectively, over the comparable prior year period. The decreased sales are primarily the result of inventory constraints.

Excise Taxes

Our excise taxes for the three and six months ended June 30, 2007 increased 25,715, or 29.7% and 17,465, or 9.7%, respectively compared to the corresponding prior year period. This was due primarily to increased sales, thereby increasing overall sales volumes and taxes calculated based on volume during the three and six months ended June 30, 2007 and due to payments for taxes calculated subsequent to an audit by the Alcohol and Tobacco Tax and Trade Bureau ("TTB") during the period.

Gross Profit

As a percentage of net revenue, gross profit from winery operations was 46.3% and 46.8% in the three and six months ended June 30, 2007, respectively, as compared to 48.2% and 47.7% in the comparable prior year period. While we continue to focus on improved distribution of higher margin products as well as continuing our efforts to reduce grape and production costs, we anticipate that our increased representation of brands other than our own through our Oregon sales force and increases in cost of production will erode the gross margins due to the lower margins associated with selling those brands. While the gross margin may erode due to such representation, we do not anticipate that our net income will materially decrease as a result of such representation.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the three and six months ended June 30, 2007 increased $66,216, or 5.5% and 247,273, or 10.6%, respectively, compared to the corresponding prior year periods. These increases are due primarily to higher employee compensation costs as we continue to add much needed staff and to improvements in our management systems in anticipation of higher, future wine volumes, and non-recurring repair costs related to deferred facility maintenance. As a percentage of net revenue from winery operations, selling, general and administrative expenses decreased to 34% for the three months ended June 30, 2007, and increased to 35.2% six months ended June 30, 2007 as compared to 34.9% and 32.6%, respectively, for the comparable prior year periods.

Interest Income, Other Income and Expense

Interest income decreased $7,825, or 41.4% and increased $4,955 or 21.4% for the three and six months ended June 30, 2007, respectively, compared to the comparable prior year periods. Interest expense for the three and six months ended June 30, 2007 decreased $15,074 or 35.4% and $30,323 or 35.2%, compared to the corresponding prior year periods. Interest costs were lower primarily due to less debt outstanding during the period.

Other income for the first quarter of 2007 was an interest rebate from Farm Credit Services for interest paid on our long-term debt in 2006, of $12,667, compared to $16,895 during the first quarter of 2006 that was received from Farm Credit Services for interest paid on our long-term debt in 2005.

Income Taxes

Income tax expense was $176,800 and $332,975 for the three and six months ended June 30, 2007, respectively, compared to $172,803 and 410,999 for the prior year periods. Our estimated tax rate for the three months ended June 30, 2007 and 2006 was 40 percent.

Net Income and Earnings per Share

As a result of the factors listed above, net income for the three and six months ended June 30, 2007 was $265,177, or $0.05 per diluted share and $499,440 or $0.10 per diluted share, respectively, compared to net income of $259,206, or $0.05 per diluted share and $616,500 or $0.13 per diluted share, in the comparable prior year period.

Liquidity and Capital Resources

At June 30, 2007, we had a working capital balance of $8.2 million and a current ratio of 7.3:1. At December 31, 2006, we had a working capital balance of $7.8 million and a current ratio of 4.3:1. We had a cash balance of $1,577,221 at June 30, 2007, compared to a cash balance of $1,612,470 at December 31, 2006. The decrease in cash was primarily due to our extension of a note for $250,000 and payments for grapes, income taxes and accounts payable.

Total cash provided operating activities in the six months ended June 30, 2007 was $375,620 compared to cash provided by operating activities of $1,651,024 for the same period in the prior year. The decrease in cash provided operating activities was primarily due to our payments for grapes, income taxes and accounts payable in the six months ended June 30, 2007.

Total cash used in investing activities in the six months ended June 30, 2007 was $72,446, compared to $152,385 in the prior year period.

Total cash used in financing activities in the six months ended June 30, 2007 was $338,423, compared to $61,994 provided by financing activities in the prior year period. Cash used in financing activities primarily consisted of payments on our long term debt offset by stock option proceeds and loan to a grape producer.

At June 30, 2007, the line of credit balance was $0, on a maximum borrowing amount of $2,000,000. We have 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 us on a quarterly basis. As of June 30, 2007, we were in compliance with all of the financial covenants.

As of June 30, 2007, we had a total long-term debt balance of $1,364,345, including the portion due in the next year, owed to Farm Credit Services. The debt with Farm Credit Services was used to finance our Hospitality Center, invest in new winery equipment to increase the our winemaking capacity and complete a larger storage facility.

At June 30, 2007, we owed $94,352 on grape contracts. This amount is primarily owed to a single grape grower, which will be paid as the wine made from those grapes is sold.

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

Item 3

CONTROLS AND PROCEDURES

(1) Disclosure Controls and Procedures - We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer, who is also acting as our principal financial officer as appropriate, to allow timely decisions regarding required disclosure. Our quarterly evaluation of disclosure controls and procedures includes an evaluation of some components of our internal control over

financial reporting. Internal control over financial reporting is also separately evaluated for purposes of providing management's report which is set forth below in paragraph (2). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as they are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of this Quarterly Report on Form 10-QSB, as of June 30, 2007, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). This evaluation identified a deficiency in our internal control over financial reporting and is discussed below in Management's Report on Internal Control over Financial Reporting. Based on this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures were effective as of June 30, 2007.

(2) Management's Report on Internal Control over Financial Reporting - Under Section 13(b)(2) of the Exchange Act, we are required to access whether our internal accounting controls are sufficient to meet applicable requirements under federal securities laws. We have evaluated, with the participation of our Chief Executive Officer, our internal control over financial reporting as of June 30, 2007, as required under Section 13(b)(2) and the applicable provisions of Rules 13a-15 and 15d-15. In performing our evaluation of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organization ("COSO") of the Treadway Commission in "Internal Control - Integrated Framework". Based on our evaluation of our internal controls over financial reporting, we concluded that, as of June 30, 2007, our internal control over financial reporting is effective.

PART II. OTHER INFORMATION

Item 1. Legal proceedings.

None.

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

None.

Item 3. Default Upon Senior Securities.

None.

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

None.

Item 5. Other Information

The Audit Committee of the Board of Directors has approved the following non-audit services, which are being performed by Moss Adams, our independent accountants, during the calendar year ending December 31, 2007:

Income tax advisory services related to: income tax returns

On June 27, 2007, the Department of the Treasury, Alcohol and Tobacco Tax and Trade Board ("TTB") notified the Company of the results of its excise tax audit. In this notification, the TTB asserted that the Company owed $19,580 in additional excise tax covering the period between April 2004 and December 2006. The Company had paid over $596,000 in excise tax during that time period. The Company does not agree with a number of the TTB assertions and intends to vigorously contest them. Even if the Company is not successful in contesting those assertions management believes that the net amount of excise tax owed would be $2,648, after netting out the amounts for credits due the Company as determined by the TTB auditors. The Management believes it has now paid all the taxes determined to be owed by the TTB as a result of the audit. Additionally, management believes all changes in report filing, inventory tabulation, tracking and reconciliation requested by the TTB auditors are being implemented. In addition to the imposition of excise tax and interest, the TTB has the authority to pursue adverse administrative action, which could include the imposition of fines, offers in compromise, or suspension of basic permits, to resolve what it deems willful violations of federal alcohol laws. If the TTB were to successfully pursue an adverse administrative action, such as a basic permit suspension, this may have a material adverse effect on the Company's financial position and results of operations. The situation is ongoing and the Company is not able to speculate with any degree of reasonable certainty as to what the results will be.

Item 6. Exhibits

Exhibit No. Description

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

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

4.1 1992 Stock Incentive Plan (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.2 Amendment dated July 21, 1996 (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.3 Amendment dated July 25, 1998 (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.4 Amendment dated April 15, 1999 (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.5 Amendment dated July 25, 2000 (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.6 Sample Incentive Stock Option Agreement (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

4.7 Sample Nonqualified Stock Option Agreement (incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-61181) filed September 10, 2001)

31.1 Certification by James W. Bernau pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

WILLAMETTE VALLEY VINEYARDS, INC.

Date: August 14, 2007 By /s/ James W. Bernau
James W. Bernau
President
Chief Executive and Financial Officer