WILLAMETTE VALLEY VINEYARDS INC
Form 10KSB
April 02, 2007

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

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

OR

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

Commission File number 0-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Name of Small Business Issuer in Its Charter)

OREGON	93-0981021
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

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

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

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES [X] NO [ ]

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.
YES [X] NO [ ]

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-KSB or any amendment to this Form 10-KSB [X].

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

Issuer's revenues for its most recent fiscal year: $14,916,072

Aggregate market value of the voting stock held by non-affiliates of the Issuer based upon the closing price of such stock as of March 30, 2007:

$33,496,963

Number of shares of Common Stock outstanding as of March 30, 2007: 4,805,877

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format: YES [ ] No [X]

ITEM 1. DESCRIPTION OF BUSINESS.

Introduction

Willamette Valley Vineyards, Inc. (the "Company") 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 in Turner, Oregon, where the Company's Turner Vineyard and Winery are located on 75 acres of Company-owned land adjacent to Interstate 5, approximately two miles south of Salem, Oregon. The Company's wines are made from grapes grown on the 538 acres of vineyard owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are crushed, 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 on approximately 120 acres near Forrest Grove, Oregon, and leases an additional 114 acres of vineyard land at the Forest Grove location.

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 2006, $19 to $50 per bottle; Chardonnay, $16 to $25 per bottle; Pinot Gris, $16 to $18 per bottle; Riesling and Oregon Blossom (blush blend), $12 to $10 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.

The Company currently produces and sells small quantities of Oregon's Nog (a seasonal holiday product), $10 per bottle, and Edelweiss, $10 per bottle, under a "Made in Oregon Cellars" label.

Under its Tualatin Estate Vineyards label, the Company currently produces and sells the following types of wine in 750 ml bottles: Pinot Noir, the brand's flagship, $28 per bottle; Chardonnay, $17 per bottle; Semi-Sparkling Muscat, $16 per bottle. The Company's mission for this brand is to be among the highest quality estate producers of Burgundy and Alsatian varietals in Oregon.

Under its Griffin Creek label, the Company produces and sells the following types of wine in 750 ml bottles: Syrah, the brand's flagship, $35 per bottle; Merlot, $30 per bottle; Cabernet Sauvignon, $35 per bottle; Cabernet Franc, $38 per bottle; The Griffin (a Bordeaux blend), $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.

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 and GRIFFIN CREEK marks.

Market Overview

Wine Consumption Trends: Beginning in 1994, per capita wine consumption began to rise. U.S. wine consumption rose 2.1 percent in 2005, continuing a decade-long trend of steady growth. Per capita consumption inched up as well, reaching 2.2 gallons per American, the highest level since 1988. Total wine sales in the United States continue to grow in the single digits; research has shown that much of this sales growth is coming from younger consumers. Data released by Wine Market Council in 2006, for example, showed younger consumers, in particular, drinking either less beer and less spirits (or both) but at the same time drinking more wine. According to the Nielson Company's Beverage Alcohol Annual Snapshot, in the 52 weeks ended January 13, 2007, Pinot Noir sales in particular grew 20.3 percent in dollars, while Pinot Gris and Riesling grew 17.9 and 25.2 percent, respectively.

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. By 2006 there were 350 commercial wineries licensed in Oregon and over 15,600 acres of wine grape vineyards, 12,600 acres of which are currently producing. Total production of Oregon wines in 2006 is estimated to be approximately 2.1 million cases. Oregon's entire 2006 production has an estimated retail value of approximately $432.9 million, assuming a retail price of $200 per case, and a FOB value of approximately one-half of the retail value, or $216.5 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 grape-vines, 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 Vineyard were with non-resistant rootstock. As of December 31, 2006, 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 on and all future planting will be on phylloxera resistant rootstock. The Company takes all necessary precautions to prevent the spread of phylloxera to its Turner site.

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 20 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.

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 US 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 self-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 22,934 square foot state-of-the-art Winery and a 12,500 square foot outdoor production area for the crushing, 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 (i) direct sales at the Winery, (ii) self-distribution to local and regional restaurants and retail outlets, and (iii) sales through independent distributors and wine brokers who market the Company's wine in specific targeted areas where self-distribution is not economically feasible.

The Company believes the location of its Winery next to Interstate 5, Oregon's major north-south freeway, significantly increases direct sales to consumers and facilitates self-distribution of the Company's products. 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.

Vineyard

The Company now owns, leases or contracts for 538 acres of vineyard land. At full production, we anticipate these vineyards will enable the Company to grow approximately 85% of the grapes needed to meet the Winery's ultimate production capacity of 298,000 gallons (124,000 cases).

The Property. The Company's estate vineyard at the Turner site currently has 48 acres planted and producing, with 24 acres of Pinot Noir and 24 acres of Pinot Gris and Chardonnay. The oldest grapevines were planted in 1985, with additional grapevines planted in 1992, 1993, and 1999. Vineyards generally remain productive for 30 to 100 years, depending on weather conditions, disease and other factors. We estimate these vines will continue to produce for another 35 years under conditions known today.

The 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 increase production and improve grape quality over traditional designs.

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 adopted 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 US 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 on disease resistant rootstock and the 667 and 777 clones have been grafted onto 7 acres of self rooted, non-disease resistant vines at the Company's Estate Vineyard near Turner.

New clones of Chardonnay preceded Pinot Noir into Oregon also arranged by the University of Dijon, and were planted at the Company's Estate Vineyard on disease resistant rootstock.

The purchase of Tualatin Vineyards, Inc. in April 1997 (including the subsequent sale-leasebacks of portions of the property in December 1999 and 2004) added 83 acres of additional producing vineyards and approximately 60 acres of bare land for future plantings. In 1997, the Company planted 19 acres at the Tualatin site and planted another 41 acres in 1998, the majority being Pinot Noir.

In 1999, the Company purchased 33 acres of vineyard land adjoining Tualatin Estate for future plantings and used lot line adjustments to create three separate land parcels at Tualatin Estate.

Grape Supply. In 2006, the Company's 48 acres of producing estate vineyard yielded approximately 162 tons of grapes for the Winery's sixteenth crush. Tualatin Vineyards produced 551 tons of grapes in 2006. Belle Provenance Vineyards produced 151 tons of grapes in 2006. In 2006, the Company purchased an additional 624 tons of grapes from other growers. The Winery's 2006 total wine production was 192,772 gallons (81,081 cases) from its 2005 and 2006 crushes. The Company expects to produce 225,000 gallons in 2007 (94,600 cases). The Vineyard cannot and will not provide the sole supply of grapes for the Winery's near-term production requirements. The Company has also entered into a grape purchase contract with a certain director or their respective affiliates of the Company.

In 2005, the Company entered into a long-term grape purchase agreement with one of its Willamette Valley wine grape growers whereby the grower agreed to plant 40 acres of Pinot Gris and 50 acres of Riesling and the Winery agreed to purchase the yield at fixed contract prices through 2015, with the first crop expected in 2007. In 2006, the Company entered into a long-term grape purchase agreement with the same Willamette Valley wine grape growers whereby the grower agreed to plant 100 acres of Pinot Noir, 50 acres of Pinot Gris and 20 acres of Riesling and the Winery agreed to purchase the yield at fixed contract prices through 2016, with the first crop expected in 2008. The wine grape grower must meet strict quality standards for the wine grapes to be accepted by the Winery at time of harvest and delivery. The Company is obligated to purchase 100% of the crop produced within the strict quality standards and crop loads, equating to maximum payments of approximately $1,500,000 per year. We cannot calculate the minimum payment as such a calculation is dependent in large part on an unknown - the amount of grapes produced in any given year. If there are no grapes produced in any given year, or if the grapes are rejected for failure to meet contractual quality standards, the Company has no payment obligation for that year. Failure of the Grower to comply with the provisions of the contracts would constitute a default, allowing the Company to recover damages, including expected lost profits. The Company has no right to use of the underlying properties. These new long-term grape purchase agreements will increase the Company's supply of high quality wine grapes and provide a long-term grape supply, at fixed prices.

The Company fulfills its remaining grape needs by purchasing grapes from other nearby vineyards at competitive prices. The Company believes high quality grapes 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. These conditions are unduplicated anywhere else in the world except in the great wine grape regions of Northern Europe.

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 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.

Winery

Wine Production Facility. The Company's Winery and production facilities are capable of producing up to 104,000 cases (247,000 gallons) of wine per year, depending on the type of wine produced. In 2006, the Winery produced 192,772 gallons (81,081 cases) from its 2005 and 2006 crushes. 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 crushing, 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.

With the purchase of Tualatin Vineyards, Inc., the Company added 20,000 square feet of additional production capacity. Although the Tualatin facility was constructed over twenty years ago, it adds 20,000 cases of wine production capacity to the Company, which the Company felt at the time of purchase was needed. To date, production and sales volumes have not expanded enough to necessitate the utilization of the Tualatin facilities. The Company decided to move current production to its Turner site to meet short-term production requirements. The capacity at Tualatin is available to the Company to meet any anticipated future production needs.

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 one mortgage with a principal balance of $1,489,008 at December 31, 2006. The mortgage is payable in monthly aggregate installments, including principal and interest, of approximately $362,000 annually through 2012.

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.

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

Crush Year	Tons of Grapes Crushed	Production Year	Cases Produced
2002	1091	2002	110,063
2003	917	2003	92,208
2004	994	2004	73,212
2005	1132	2005	72,297
2006	1488	2006	81,081

Sales and Distribution

Marketing Strategy. The Company markets and sells its wines through a combination of direct sales at the Winery, sales directly and indirectly through its shareholders, self-distribution to local restaurants and retail outlets in Oregon, directly through mailing lists, and through distributors and wine brokers selling in specific targeted areas outside of the state of Oregon. 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.

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 third largest metropolitan area (Salem), and 50 miles in either direction from the state's first and second 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 or retailers at wholesale prices. Sales made directly to consumers at retail prices result in an increased profit margin equal to the difference between retail prices and distributor or wholesale prices, as the case may be. For 2006, direct sales contributed approximately 14% of the Company's revenue.

Self-Distribution. The Company has established a self-distribution wholesale system, called Bacchus Fine Wines, to sell its wines to restaurant and retail accounts located in Oregon. Eighteen sales representatives, who take wine orders and make some deliveries primarily on a commission-only basis, currently carry out the self-distribution program. Company-provided trucks and delivery drivers support most of these sales representatives. The Company believes this program of self-representation and delivery has allowed its wines to gain a strong presence in the Oregon market with over 1,200 restaurant and retail accounts established as of December 31, 2006.

The Company has expended significant resources to establish its self-distribution system. The system initially focused on distribution in the Willamette Valley, but has expanded to the Oregon coast and southern Oregon. For 2006, approximately 49% of the Company's net revenues were attributable to self-distribution.

Distributors and Wine Brokers. The Company uses both independent distributors and wine brokers primarily to market the Company's wines in specific targeted areas where self-distribution is not feasible. 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. Outside of Oregon, the Company's products are distributed in 37 states and the District of Columbia.

On March 8, 2006 the Company terminated an incentive distribution agreement with a national wine distributor group (the "distributor") with fourteen affiliated distributors. Under the agreement, the Company had agreed to pay the distributor incentive compensation if certain sales goals were met over a five year period. The Company terminated the agreement because the distributors did not reach these goals in every year since the agreement's inception. Following the termination, the Company has continued to do business with the distributors on terms and conditions generally available to all of the Company's distributors.

Tourists. Oregon wineries are experiencing an increase in on-site visits by consumers. In California, visiting wineries is a very popular leisure time activity. Wineries in Washington are also experiencing strong interest from tourists. Chateau Ste. Michelle, located near Woodinville, Washington, for example attracts approximately 200,000 visitors per year.

The Company believes its convenient location, adjacent to Interstate 5, enables the Winery to attract a significant number of visitors. The Winery is located 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 Thrillville Amusement Park and the Forest Glen 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.

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 is needed to meet estimated future demand. Furthermore, the Company believes that its ultimate forecasted production level of 298,000 gallons (124,000 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.

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; however, wineries that produce not more than 150,000 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 on all wine sold in Oregon. In addition, all 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.

Employees

As of December 31, 2006 the Company had 96 full-time employees and 6 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 quarterly and annual reports with the Securities and Exchange Commission. The public may read and copy any material that the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As the Company is an electronic filer, filings may be obtained via the SEC website at (www.sec.gov.). Also visit the Company's website (www.wvv.com) for links to stock position and pricing.

ITEM 2. DESCRIPTION OF PROPERTY.

See "DESCRIPTION OF BUSINESS -- Winery" and "-- Vineyard".

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

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the Company's Fourth Quarter ended December 31, 2006.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the Capital Market (formerly known as the NASDAQ Small Cap Market) under the symbol "WVVI." As of December 31, 2006, there were 2,852 stockholders of record of the Common Stock.

The table below sets forth for the quarters indicated the high and low bids for the Company's Common Stock as reported on the Capital Market. The Company's Common Stock began trading publicly on September 13, 1994.

Quarter Ended

	3/31/06	6/30/06	9/30/06	12/31/06
High	$7.56	$9.17	$8.83	$7.45
Low	$4.97	$5.90	$5.71	$5.71

Quarter Ended

	3/31/05	6/30/05	9/30/05	12/31/05
High	$3.45	$4.53	$5.46	$8.92
Low	$2.74	$3.11	$3.49	$4.44

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 grow the distribution of its brands, improve quality and reduce debt.

Equity Compensation Plan Information

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in common (a)) (c)
Equity compensation plans approved by security holders	495,000	$3.94	104,476
Equity compensation plans not approved by security holders	-	$ -	-

Total	495,000	$3.94	104,476

The Company does not have compensations plans under which equity securities of the Company are authorized for issuance which were adopted without the approval of security holders.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Forward Looking Statement

This Management's Discussion and Analysis of Financial Condition and Results of Operation and other sections of this Form 10KSB contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. Such forward-looking statements include, for example, statements regarding general market trends, predictions regarding growth and other future trends in the Oregon wine industry, expected availability of adequate grape supplies, expected positive impact of the Company's Hospitality Center on direct sales effort, expected increases in future sales. 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. 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 10KSB and from time to time in the Company's Securities and Exchange Commission filing and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions.

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. Our payment arrangements with customers provide primarily 30 day terms and, to a limited extent, 45 or 60 day terms.

The Company values inventories at the lower of actual cost to produce the inventory or market value. We regularly review inventory quantities on hand and adjust our 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 our inventory cost is determined to be greater than the net realizable value of the inventory upon sale, we would be required to recognize such excess costs in our cost of goods sold at the time of such determination. Therefore, although we make every effort to ensure the accuracy of our 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 our inventory and our reported operating results.

We capitalize 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 shipping and handling charges are included in selling, general and administrative expense. 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. Shipping and handling costs are included in general and administrative expenses.

OVERVIEW

RESULTS OF OPERATIONS

The Company produced its highest annual earnings to date despite significant constraints on inventory. Revenues increased by 9% to $14,916,072, net earnings by 12% to $1,291,774, and diluted earnings per share to 26 cents from 25 cents, compared to the prior year.

These historical results were due principally to production, out-of-state sales and marketing staffs working closely together to organize preorders and ship when the wine was ready to release. The winery continued to receive distributor orders in excess of its supply of Pinot Noir and Pinot Gris. In addition, the gross margins received from the sales of the winery's produced wines rose to 58% in 2006 compared to 56% for 2005.

Out-of-state distributor sales revenue increased 15% for the year ended December 31, 2006 as compared to the prior period and generated the lion's share of the increase in net profit. Retail sales increased 7% and generated positive contribution to net income growth. The Oregon Wholesale Department called Bacchus Fine Wines produced an increase of 18% in the sales of purchased wine from other wineries but a reduction in sales in winery produced products. As a result, this Department's contribution to net earnings as compared to the prior year was lower. The Board of Directors and Management are taking steps to improve Oregon wholesale operations by purchasing a state-of-the-art sales tracking system, strengthening Oregon marketing support and adding a new Oregon Brand Manager to be focused exclusively on winery produced wines all to be in place by mid-year 2007.

The Company used $509,190 of the cash generated from net earnings and reduction in wine inventories to payoff the mortgage on the Tualatin Estates vineyard and winery. The winery had a zero credit line balance at December 31, 2006.

Sales

In the year ended December 31, 2006, the Company sold approximately 1,400 cases of Estate Pinot Noir, 28,300 cases of Willamette Valley Pinot Noir (vintage level), 2,100 cases of Barrel Select Pinot Noir, 12,200 cases of Whole Cluster Pinot Noir, 16,600 cases of Pinot Gris and 13,800 cases of Riesling.

The Company has or plans to bottle 2,500 cases of '06 Estate Pinot Noir, 25,000 cases of '06 Willamette Valley Pinot Noir (vintage level), 4,800 cases of '04 Barrel Select Pinot Noir, 16,500 '06 cases of Whole Cluster Pinot Noir, 21,000 cases of '06 Pinot Gris and 20,000 cases of '06 Riesling in December of 2006 and in 2007. In December 2006, 2,592 cases of the '06 Whole Cluster Pinot Noir and 258 cases of the '06 Pinot Gris were sold.

The Company sold a total of 100,280 cases of its own wine in 2006, of which 74,400 were the above listed varieties. The 2006 harvest produced 1,495 tons of wine grapes. Fortunately, the 2006 harvest yielded higher quality and volumes, approximately 20% more than expected. The expected '06 vintage yield is expected to produce approximately 109,667 cases, including a few selected bulk wine purchases.

Wine Inventory

Management has taken steps to address inventory shortages relative to orders by increasing production through additional plantings in 2006 of 5 acres, contracting for an additional 170 new acres of wine grapes on a long-term basis, and in 2007, providing a loan to a key grower for vineyard establishment costs and leasing the 60 acre Elton Vineyard in the Eola Hills. Elton Vineyard is regarded as one of Oregon's best sources of Pinot Noir wine grapes. This lease is for a 10 year term with four 5 year renewals at the Company's option and a first right of refusal in the event of the vineyard's sale. Betty M. O'Brien, a Director of the Company, is a principal owner of Elton Vineyards.

These actions bring to a total of 538 acres of vineyard owned, leased or contracted by the Company, with 282 of those acres recently planted and not productive. The total acres of Pinot Noir are 235, of which 105 are young, non-productive vines; Pinot Gris 122 and 105; Riesling 95 and 70 respectively.

Management expects to plant an additional 7 acres of Pinot Noir in 2007. The Company continues to allocate its Pinot Noir and Pinot Gris to distributors to fairly apportion available supplies. Management expects the shortage of these products to limit the potential for growth until such time as current plantings mature.

Production Capacity

In addition to securing additional wine grape supplies, Management is expecting to purchase capital assets at a significantly higher level in 2007 than in past years. Purchases will be made to address future production requirements based on the expected increases in wine grape quantities. Management is planning for increasing production capacity with the expectation additional construction and equipment expenses will be made through 2009. The Company is required to install additional water storage capacity on the Turner property and fire sprinklers in its 20,000 square foot wine warehouse, which will also require significant capital investment in 2007.

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 2006.

The Willamette Valley Vineyards Pinot Noir was named among the most popular Pinot Noirs in Wine & Spirits magazine 17th annual restaurant poll in April and nationally acclaimed wine author and teacher, Kevin Zraly, recommended the winery's Pinot Noir in his new book "American Wine Guide" as one of his top picks. The 2004 Pinot Noir received 88 points in Stephen Tanzer's International Wine Cellar. In June, this wine was recommended in the Chicago Tribune article "Mixed case of wine can give newlyweds years of memories" by writer Bill Daley. In addition, it was featured in the December issue of Instyle magazine as one of Jaime Pressley's (star of My Name Is Earl) "Guilty Pleasures".

The '04 Estate Pinot Noir was listed as one of the "Top Oregon Pinots" in the 2006 summer edition of Luxury Living Magazine and received 90 points from nationally known wine writer Anthony Dias Blue in the March 2007 issue of Virtuoso Life magazine. Scott Greenberg of the DC Examiner also recommended the wine as did Food and Wine Magazine in their 2007 Food and Wine Guide rating it as "excellent".

The April 2007 issue of Wine Enthusiast magazine recommends the '05 Pinot Noir 88 points and '05 Estate Pinot Noir 89 points. In her newest book "The Simple and Savvy Wine Guide" wine expert, Leslie Sbrocco, recommends the winery's Whole Cluster Pinot Noir as a great wine for Thanksgiving and the 2005 Whole Cluster Pinot Noir is recommended in the December '06 issue of "Everyday with Rachael Ray" by acclaimed author Mark Oldman.

The winery's style of Pinot Gris continues to receive rave reviews. The 2005 Pinot Gris won the Pacific Coast Oyster Wine competition, 5 gold medals and a platinum award from other key national competitions. The October '06 issue of Wine Spectator named it as one of world's top "100 Great Value Wines" and Wine & Spirits magazine gave it a score of 91 pts in its August '06 issue. Wine writer Paul Lukacs named it "wine of the week" in his August 16th Washington Times column and "the best white" of the Seattle Enological Society Wine Competition. The Oregonian called attention to the wine's success with a photograph of the wine bottle draped in medals on its front page under the newspaper's banner on March 7, 2007.

The winery's 2006 national wine dinner campaign with McCormick & Schmick's restaurants was highly successful resulting in many local stories including a podcast with Tim Elliott of winecast.net and a radio show with Laurie Forster, "The Wine Coach." The 2nd annual "Why I Love Oregon Pinot Noir" essay contest ran in conjunction with these dinners and received 643 written entries. Together, these campaigns identified a large number of passionate Pinot Noir enthusiasts.

The winery continues to receive attention from their appearance on Food Network's "$40 a Day" with Rachael Ray. The episode featuring the winery aired throughout 2006 and continues in 2007. PBS Chef's Caprial and John matched Willamette Valley Vineyards wines with food on their shows including in the episode "Lessons from the Wine Cave" taped in the winery's cellar.

The winery's founder and CEO, Jim Bernau presented Oregon Pinot Noirs to the Smithsonian Institution's wine program in Washington DC.

The winery's sustainable initiatives have garnered much media attention throughout 2006. In the December/January 2006 issue of Wine Spectator the winery's biofuel policy was featured in the article "Want Fries with that Pinot?" and on February 12th, the Associated Press carried a story that highlighted the winery's biofuel use. In September, the winery was featured on the front page of the Oregonian's business section in the article "Perks take Greener Shade." A similar story appeared in the Portland Tribune, Capital Press and Wines & Vines magazine. Sierra magazine highlighted WVV's biofuel policy in their Sept/Oct issue in the section called "Grape Vine."

The company business successes were highlighted by The Oregonian as one of Oregon's top 50 public companies on the front page of the Oregonian's Business section July 2nd and featured the Company's stock as the state's highest performing for the first six months of 2006. The company was also listed as one of Forbes' magazines "Top 200 Small Businesses in America" in their November issue. The winery received the "Agri-Business of the Year Award" for 2006 from the Salem Chamber of Commerce and was also voted as the best place to hold a wedding in Oregon Bride Magazine.

In 2006, Gerry Frank presented CEO Jim Bernau with the Crystal Stem Award at the Private Bite of Oregon Ceremony for Special Olympics citing the winery's excellence in wine and public service. Mr. Bernau was selected as a finalist for Ernst and Young's "Entrepreneur of the Year" awards program in 2006.

The winery received much attention from local news stations throughout the year. In May, both KATU and KGW news teams ran stories on WVV's first quarter report. The annual Oregon Grape Stomp Competition was featured on KATU news and KGW and the 2007 Mo's Crab and Chowder festival was featured on KGW.com with Drew Carney.

Seasonal and Quarterly Results

The Company has historically experienced and expects to continue experiencing seasonal fluctuations in its revenues and net income. In the past, the Company has reported a net loss during its first quarter and expects the first quarter to be the weakest of the year, including the first quarter of 2007. Sales volumes increase progressively beginning in the second quarter through the fourth quarter because of consumer buying habits.

The following table sets forth certain information regarding the Company's revenues, excluding excise taxes, from Winery operations for each of the last eight fiscal quarters:

	Fiscal 2006 Quarter Ended (in thousands)				Fiscal 2005 Quarter Ended (in thousands)			
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31
Tasting room and retail sales	$ 379	$ 429	$ 560	$ 607	$ 334	$ 460	$ 514	$ 535
On-site and off-site festivals	36	14	38	17	46	2	18	8
In-state sales	1,548	1,719	1,835	2,367	1,237	1,789	1,751	2,298
Bulk/Grape sales	9	9	15	8	90	12	9	10
Out-of-state sales	1,824	1,352	942	1,569	722	1,311	1,458	1,446
Total winery								

revenues	$3,796	$3,523	$3,390	$4,568	$2,429	$3,574	$3,750	$4,297

Period-to-Period Comparisons

Revenue. The following table sets forth, for the periods indicated, select revenue data from Company operations:

Year Ended December 31
(in thousands)

	2006	2005
Tasting room and retail sales	$ 1,975	$ 1,843
On-site and off-site festivals	105	74
In-state sales	7,469	7,075
Bulk /Grape Sales	41	121
Out-of-state sales	5,687	4,937
Revenues from winery operations	$15,277	$14,050
Less Excise Taxes	361	382
Net Revenue	$14,916	$13,668

2006 Compared to 2005

Tasting room and retail sales for the year ended December 31, 2006 increased $132,498, or 7%, as compared to the corresponding prior year period. Tasting room sales increased during the year ended December 31, 2006, due primarily to increased customer traffic flows at the Company's winery tasting room, and a 12% increase in purchases in the tasting room. The focus on customers for life through telephone, mail order and retail sales will continue with the goal of expanding the customer base and continuing the trend of increasing revenue generation by the retail department. The Company experienced an increase in revenue during 2006 in on-site and off-site festivals revenue of 42%, or $30,902 as compared to the same period in 2005. This increase is due primarily to the improved attendance of on-site and off-site events.

Sales in the state of Oregon, through the Company's independent sales force and through direct sales from the winery increased $393,386, or 6%, in the year ended December 31, 2006, as compared to the corresponding prior year period. Sales through the Company's independent sales force alone for the year ended December 31, 2006 increased $379,511, or 6%, as compared to the prior year period. The Company's direct instate sales to its largest customer increased $13,875, or 1%, in the year ended December 31, 2006, as compared to the prior year period. These increases are largely the result of the broader product lines presented and increased product placements through the development of Bacchus Fine Wines.

Out-of-state sales in the year ended December 31, 2006 increased $750,316, or 15%, as compared to the prior year period. The higher sales are primarily a result of strong demand for the Company's varietals, significant sales efforts undertaken by the Company's out-of-state sales force and depletion allowances on particular products, resulting in significant by-the-glass restaurant placements. The Pinot Noir variety led sales in 2006.

The Company pays alcohol excise taxes to both the Oregon Liquor Control Commission and to the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau. 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 year ended December 31, 2006 decreased 6% as compared to the prior year period. This was due primarily to the decreased sales, by volume, in the year ended December 31, 2006 as compared to the prior year period, thereby decreasing overall sales volumes and taxes calculated based on volume. Sales data in the discussion above is quoted before the exclusion of excise taxes.

As a percentage of net revenue, gross profit remained 47% in the year ended December 31, 2006, the same as in the prior year period. While the Company is continuing its focus on improved distribution of higher margin products as well as continuing to reduce grape and production costs, we anticipate that our increased representation of brands other than our own through our Oregon sales force will further erode the gross margins due to the lower margins associated with selling those brands. While the gross margin may erode due to such representation, the Company does not anticipate that net income will follow that trend.

Amortization of vineyard development costs is included in capitalized crop costs that, in turn, are included in inventory costs and ultimately become a component of cost of goods sold. For the years ending December 31, 2006 and 2005, approximately $83,000 and $79,000, respectively, were amortized into inventory costs.

Selling, general and administrative expenses for the year ended December 31, 2006 increased 7% compared to the prior year period. This increase is due primarily to increased staffing and employee benefit expenses. As a percentage of net revenue from winery operations, however, selling, general and administrative expenses decreased to 31% for the year ended December 31, 2006, as compared to 32% for the prior year period, primarily as a result of increased revenues.

The Company's other income (expense) is summarized as follows:

	Year Ended December 31 2006	2005
Farm Credit interest rebate	16,895	17,336
Other income (expense)	$ 16,895	$ 17,336

Interest expense decreased 27% or $64,093 in the year ended December 31, 2006 as compared to the prior year period. Interest costs were lower primarily due to less debt outstanding during the period.

The provision for income taxes and the Company's effective tax rate were $889,621 and 41% of pre-tax income in the year ended December 31, 2006 with $628,261 or 35% of pre-tax income recorded for the prior year period.

As a result of the above factors, net income increased to $1,291,774 in the year ended December 31, 2006 from $1,156,939 for the prior year period. Earnings per share were $0.27 and $0.26, in the years ended December 31, 2006 and 2005, respectively.

Liquidity and Capital Resources

At December 31, 2006, the Company had a working capital balance of $7.8 million and a current ratio of 4.28:1. At December 31, 2005, the Company had a working capital balance of $6.8 million and a current ratio of 4.00:1. The Company had a cash balance of $1,612,470 at December 31, 2006 compared to a cash balance of $415,591 at December 31, 2005. The increase in cash was primarily due to the decreased use of cash for debt reduction.

Total cash provided by operating activities in the year ended December 31, 2006 was $2,192,986, compared to $2,570,841 for the prior year period, primarily as a result of the change in the conversion of inventory to cash through sales in the year ended December 31, 2006 compared to the prior year period.

Total cash used in investing activities in the year ended December 31, 2006 was $495,145, compared to $371,073 in the prior year period. Cash used in investing activities consisted of property and equipment additions and vineyard development costs.

Total cash used in financing activities in the year ended December 31, 2006 was $500,962, compared to $2,635,669 in the prior year period. Cash used in financing activities primarily consisted of payments on the long-term debt, offset by the proceeds of stock option exercises.

At December 31, 2006, 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, 2006, the Company was in compliance with all of the financial covenants.

As of December 31, 2006, the Company had a total long-term debt balance of $1,489,008 owed to Farm Credit Services. The debt with Farm Credit Services was used to finance the Hospitality Center, invest in winery equipment to increase the Company's winemaking capacity, and complete the storage facility.

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 needs.

The Company's contractual obligations as of December 31, 2006 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	4-5 years	After 5 years
Long-term debt and capital lease obligations	$ 1,489,008	$ 251,437	$ 565,929	$ 661,817	$ 9,825
Grape Payables	481,590	445,706	35,884	-	-
Operating Leases	2,526,412	158,083	360,547	375,203	1,632,579
Total Contractual Obligations	$ 4,497,010	$ 855,226	$ 962,360	$ 1,037,020	$ 1,642,404

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 Our Business

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.

We May Not Be Able to Grow or Acquire Enough Quality Fruit for Our Wines

The adequacy of our grape supply is influenced by consumer demand for wine in relation to industry-wide production levels. While we believe that we can secure sufficient supplies of grapes from a combination of our own production and from grape supply contracts with independent growers, we 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 our wine production costs.

Loss of Key Employees Could Harm Our Reputation and Business

Our 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 our key employees, including the President, Winemaker, Controller and the Bacchus General Manager, could harm our business and our reputation and negatively impact our profitability.

Adverse Public Opinion Regarding Our Bacchus Portfolio May Harm Our Business

The Company has invested heavily in products for resale through our Bacchus Fine Wines department. The Company believes that having these products for sale will make it easier to sell additional Company product to the same buyers. If this strategy proves to be unsuccessful, the Company will have substantial inventory of non-Company products to sell at prices that may not cover our costs of such inventory and may result in our selling less Company product than anticipated. Either or both effects could adversely affect our profitability and shareholder value.

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 a term loan arrangement, the proceeds of which were used to acquire the Tualatin operations and to construct the Hospitality Center. 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.

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

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

ITEM 7. FINANCIAL STATEMENTS.

Willamette Valley Vineyards, Inc.
Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Willamette Valley Vineyards, Inc.

We have audited the accompanying balance sheet of Willamette Valley Vineyards, Inc., as of December 31, 2006, and the related statements of operations, shareholders' equity, and cash flows for the two 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2006, and the results of its operations and cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, effective January 1, 2006, the Company changed the manner in which it accounts for share-based compensation.

/s/ Moss Adams LLP

Santa Rosa, California
April 2, 2007

Willamette Valley Vineyards, Inc.
Balance Sheet

	December 31, 2006
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,612,470
Accounts receivable, net (Note 2)	1,609,697
Inventories (Note 3)	6,751,927
Prepaid expenses and other current assets	107,743
Deferred income taxes (Note 9)	107,000
Total current assets	10,188,837
Vineyard development costs, net	1,538,002
Property and equipment, net (Note 4)	3,985,680
Debt issuance costs	28,258
Other assets	57,667
	$ 15,798,444
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Line of credit (Note 5)	$ -
Current portion of long-term debt (Note 6)	251,437
Accounts payable	945,741
Accrued expenses	392,952
Income taxes payable	305,608
Grape payables	481,590
Total current liabilities	2,377,328
Long-term debt (Note 6)	1,237,571
Deferred rent liability	190,951
Deferred gain (Note 11)	410,119
Deferred income taxes (Note 9)	242,000
Total liabilities	4,457,969
Commitments and contingencies (Note 11)	
Shareholders' equity (Notes 7 and 8):	
Common stock, no par value - 10,000,000 shares authorized, 4,793,027 issued and outstanding at December 31, 2006	7,935,829
Retained earnings	3,404,646
Total shareholders' equity	11,340,475
	$ 15,798,444

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

Willamette Valley Vineyards, Inc.
Statements of Operations
For the Years Ended December 31, 2006 and 2005

	2006	2005
Net revenues	$14,916,072	$13,667,869
Cost of goods sold	7,963,437	7,282,112
Gross margin	6,952,635	6,385,757
Selling, general and administrative expenses	4,678,228	4,385,354
Income from operations	2,274,407	2,000,403
Other income (expenses):		
Interest income	59,736	1,197
Interest expense	(169,643)	(233,736)
Other income	16,895	17,336
	(93,012)	(215,203)
Income before income taxes	2,181,395	1,785,200
Income tax provision (Note 9)	889,621	628,261
Net income	$ 1,291,774	$ 1,156,939
Basic net income per common share	$ 0.27	$ 0.26
Diluted net income per common share	$ 0.26	$ 0.25

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

Willamette Valley Vineyards, Inc.
Statements of Shareholders' Equity
For the Years Ended December 31, 2006 and 2005

	Common stock Shares	Dollars	Retained earnings	Total
Balances at December 31, 2004	4,486,278	$ 7,182,329	$ 955,933	$ 8,138,262
Stock issuance for compensation	2,725	9,610	-	9,610
Common stock issued and options exercised	171,199	421,283	-	421,283
Net income	-	-	1,156,939	1,156,939
Balances at December 31, 2005	4,660,202	$ 7,613,222	$2,112,872	$ 9,726,094

Stock based compensation expense	3,325	42,712	-	42,712
Common stock issued and Options and warrants exercised	129,500	279,895	-	279,895
Net income	-	-	1,291,774	1,291,774
Balances at December 31, 2006	4,793,027	$ 7,935,829	$3,404,646	$11,340,475

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

Willamette Valley Vineyards, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Net income	$1,291,774	$1,156,939
Reconciliation of net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	541,848	556,487
Stock based compensation expense	42,712	9,610
Deferred income taxes	78,000	(46,574)
Bad debt expense	5,562	16,066
Changes in assets and liabilities:		
Accounts receivable	(47,004)	(675,811)
Inventories	199,066	1,448,344
Prepaid expenses and other current assets	(85,182)	30,498
Note receivable	-	5,000
Other assets	22,404	2,244
Accounts payable	134,600	300,338
Accrued expenses	44,783	(178,691)
Income taxes receivable/payable	(39,379)	66,017
Grape payables	9,717	(120,517)
Deferred rent liability	26,180	32,986
Deferred gain	(32,095)	(32,095)
Net cash provided by operating activities	2,192,986	2,570,841
Cash flows from investing activities:		
Additions to property and equipment	(400,537)	(248,030)
Vineyard development expenditures	(94,608)	(123,043)
Net cash provided by (used for) investing activities	(495,145)	(371,073)
Cash flows from financing activities:		
Debt issuance costs	-	(4,622)
Net increase (decrease) in line of credit balance	-	(1,232,251)
Proceeds from and stock options exercised	279,895	421,283
Repayments of distributor obligation	-	(1,500,000)
Issuance of long-term debt	-	1,500,000
Repayments of long-term debt	(780,857)	(1,820,079)

Net cash used for financing activities	(500,962)	(2,635,669)
Net (decrease) increase in cash and cash equivalents	1,196,879	(435,901)
Cash and cash equivalents:		
Beginning of year	415,591	851,492
End of year	$ 1,612,470	$ 415,591

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

Willamette Valley Vineyards, Inc.
Notes to Financial Statements

1. Summary of Operations, Basis of Presentation and Significant Accounting Policies

Organization and Operations
Willamette Valley Vineyards, Inc. (the "Company") owns and operates vineyards and a winery located in the state of Oregon, and produces and distributes premium, super premium, and ultra premium wines, primarily Pinot Noir, Pinot Gris, Chardonnay, and Riesling. In 2006 and 2005 no one customer represented more than 10% of revenues. Sales in Oregon through the Company's independent sales force and through direct sales from the winery represented approximately 49% and 50% respectively, of revenues for 2006 and 2005. Out-of-state sales represented approximately 37% and 35% respectively, of revenues for 2006 and 2005. Foreign sales represent less than 1% of total sales. The Company also sells its wine through the tasting room at its winery.

Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at the time. Actual results could differ from those estimates under different assumptions or conditions.

Segment Reporting
The Company has a single operating segment consisting of the retail, instate self-distribution and out of state sales departments. These departments have similar economic characteristics, offer the same products to customers, utilize the same production facilities and processes and have similar customer types and distribution methods.

Fair Value of Financial Instruments
The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents, Accounts Receivables, Prepaid Expenses and Other Current Assets, Accounts Payable, Accrued Expenses and Other Current Liabilities
The carrying amounts of these items are a reasonable estimate of their fair values.

Line of Credit
Borrowings under the line of credit arrangement have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.

Long-Term Debt
The fair value of the Company's long-term debt, including the current portion thereof, is estimated based on the present value method using AA rates provided by Farm Credit Services for the Northwest Farm Credit Services debt and estimated current rates for similar borrowing arrangements for all other long term debt. The carrying value and estimated fair value of long term debt, including current portion is as follows:

	Carrying Value	Fair Value
Northwest Farm Credit Services	$ 1,489,008	$ 1,495,128

Concentration of risk
Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

Financial instruments that potentially subject the Company to credit risk are accounts receivable. The Company performs ongoing credit evaluations of its customers and does not require collateral. A reserve is maintained for potential credit losses. The allowance for doubtful accounts is based on an assessment of the collectibility of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Other Comprehensive Income
The nature of the Company's business and related transactions do not give rise to other comprehensive income.

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid short-term investments with an original maturity of less than 90 days.

Inventories
After a portion of the vineyard becomes commercially productive, the annual crop and production costs relating to such portion are recognized as work-in-process inventories. Such costs are accumulated with related direct and indirect harvest, wine processing and production costs, and are transferred to finished goods inventories when the wine is produced, bottled, and ready for sale. The cost of finished goods is recognized as cost of sales when the wine product is sold. Inventories are stated at the lower of first-in, first-out ("FIFO") cost or market by variety. In accordance with general practices in the wine industry, wine inventories are generally included in current assets in the accompanying balance sheet, although a portion of such inventories may be aged for more than one year (Note 3).

Vineyard Development Costs
Vineyard development costs consist primarily of the costs of the vines and expenditures related to labor and materials to prepare the land and construct vine trellises. The costs are capitalized until the vineyard becomes commercially productive, at which time annual amortization is recognized

using the straight-line method over the estimated economic useful life of the vineyard, which is estimated to be 30 years. Accumulated amortization of vineyard development costs aggregated $649,270 and $566,591 at December 31, 2006 and 2005, respectively.

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. For the year ending December 31, 2006 approximately $83,000 was amortized into inventory costs.

Property and Equipment

Property and equipment are stated at cost or the historical cost basis of the contributing shareholders, as applicable, and are depreciated on the straight-line basis over their estimated useful lives as follows:

Land improvements	15 years
Winery building	30 years
Equipment	5-7 years

Expenditures for repairs and maintenance are charged to operating expense as incurred. Expenditures for additions and betterments are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations. The Company reviews the carrying value of investments for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable.

Debt Issuance Costs

Debt issuance costs are amortized on the straight-line basis, which approximates the effective interest method, over the life of the debt. For the years ended December 31, 2006 and 2005, amortization of debt issuance costs was approximately $7,000 and $12,000 respectively.

Income Taxes

Income taxes are recognized using enacted tax rates, and are composed of taxes on financial accounting income that is adjusted for requirements of current tax law, and deferred taxes. Deferred taxes are estimated using the asset and liability approach whereby deferred income taxes are calculated for the expected future tax consequences of temporary differences between the book basis and tax basis of the Company's assets and liabilities.

Deferred Rent Liability

The Company leases land under a sale-leaseback agreement. The long-term operating lease has minimum lease payments that escalate every year. For accounting purposes, rent expense is recognized on the straight-line basis by dividing the total minimum rents due during the lease by the number of months in the lease. In the early years of a lease with escalation clauses, this treatment results in rental expense recognition in excess of rents paid, and the creation of a long-term deferred rent liability. As the lease matures, the deferred rent liability will decrease and the rental expense recognized will be less than the rents actually paid. For the period ended December 31, 2006 and 2005, rent costs recognized in excess of amounts paid totaled $26,180 and $32,986, respectively.

Revenue Recognition

The Company recognizes revenue when the product is shipped and title passes to the customer. The Company's standard terms are 'FOB' shipping point, with no customer acceptance provisions. The cost of price promotions and rebates are treated as reductions of revenues. No products are sold on consignment. Credit sales are recorded as trade accounts receivable and no collateral is required. Revenue from items sold through the Company's retail locations is recognized at the time of sale. The Company has established an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible.

Cost of Goods Sold

Costs of goods sold include costs associated with grape growing, external grape costs, packaging materials, winemaking and production costs, vineyard and production administrative support and overhead costs, purchasing and receiving costs and warehousing costs.

Administrative support, purchasing, receiving and most other fixed overhead costs are expensed as Selling, General and Administrative expenses without regard to inventory units. Warehouse and production facilities costs, which make up less than 10 percent of total costs, are allocated to inventory units on a per gallon basis during the production of wine, prior to bottling the final product. No further costs are allocated to inventory units after bottling.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of non-manufacturing administrative and overhead costs, advertising and other marketing promotions. Advertising costs are expensed as incurred or the first time the advertising takes place. For the years ended December 31, 2006 and 2005, advertising costs incurred were approximately $29,000 and $23,000 respectively.

The Company provides an allowance to distributors for providing sample of products to potential customers. For the years ended December 31, 2006 and 2005, these costs, which are included in selling, general and administrative expenses, totaled approximately $76,000 and $64,000 respectively.

Shipping and Handling Costs

Amounts paid by customers to the Company for shipping and handling costs are included in the net revenue. Costs incurred for shipping and handling charges are included in selling, general and administrative expense. For the years ended December 31, 2006 and 2005, such costs totaled approximately $324,000 and $416,000 respectively. The Company's gross margins may not be comparable to other companies in the same industry as other companies may include shipping and handling costs as a cost of goods sold.

Excise Taxes

The Company pays alcohol excise taxes based on product sales to both the Oregon Liquor Control Commission and to the U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau. The Company is liable for the taxes upon the removal of product from the Company's warehouse on a per gallon basis. The federal tax rate is affected by a small winery tax credit provision which declines based upon the number of gallons of wine production in a year rather than the quantity sold. The Company also pays taxes on the grape harvest on a per ton basis to the Oregon Liquor Control Commission for the Oregon Wine Advisory. For the years ended December 31, 2006 and 2005, excise taxes incurred were approximately $361,000 and $382,000 respectively.

Stock Based Compensation

The Company expenses stock options on a straight line basis over the options' related vesting term. For the year ended December 31, 2006, the Company recognized pretax compensation expense related to stock options of $33,560. The following table, presented to aid the reader's ability to compare the relevant period from 2005 if the Company had applied FASB123R to such period in the same manner as the Company applied FASB123R in the current period, illustrates the effect on net income and earnings per share if the fair value method established in SFAS 123R had been applied to all outstanding and unvested awards in the prior period.

	Year Ended December 31, 2005
Net income, as reported	$ 1,156,939
Add Stock-based employee compensation expense included in reported net income, net of related tax effects	-
Deduct total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(675,854)
Pro forma net income	$ 481,085
Earnings per share:	
Basic - as reported	$ 0.26
Basic - pro forma	$ 0.11
Diluted - as reported	$ 0.25
Diluted - pro forma	$ 0.10

Basic and Diluted Net Income per Share
Basic earnings per share are computed based on the weighted-average number of common shares outstanding each year. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the year. Potentially dilutive shares from stock options and other common stock equivalents are excluded from the computation when their effect is antidilutive.

Options to purchase 495,000 shares of common stock were outstanding at December 31, 2006 and diluted weighted-average shares outstanding at December 31, 2006 include the effect of 210,003 stock options. Options to purchase 609,500 shares of common stock were outstanding at December 31, 2005 and diluted weighted-average shares outstanding at December 31, 2005 include the effect of 116,150 stock options. In addition, the warrant outstanding since 1992 was included in the computation of diluted earnings per share in 2005.

	2006			2005		
	Income	Weighted average shares outstanding	Earnings per share	Income	Weighted average shares outstanding	Earnings per share
Basic	$1,291,774	4,739,897	0.27	$1,156,939	4,518,827	0.26
Options	-	210,003	-	-	116,150	-
Warrant	-	-	-	-	15,000	-
Diluted	$1,291,774	4,949,900	$0.26	$1,156,939	4,649,977	$0.25

Statement of cash flows
Supplemental disclosure of cash flow information:

	2006	2005
Interest paid	$ 170,000	$ 234,000
Supplemental schedule of noncash investing and financing activities:		
Issuance of common stock(Note 7)	9,152	9,610

Liquidity
The Company's ability to fund operations requires utilization of amounts available pursuant to a line of credit agreement as further discussed in Note 5. There was $0 outstanding on the line of credit with Umpqua Bank as of December 31, 2006. Management believes existing cash and cash flow from operations, combined with the amounts available under the line of credit facility will be sufficient to satisfy all debt service obligations and fund the Company's operating needs and capital expenditures for the foreseeable future.

Recently issued accounting pronouncements and proposed accounting changes
In February 2007, the FASB issued FAS 159, The Fair Value Option for financial assets and financial liabilities - including an amendment of FASB statement No. 115 ("FAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. FAS 159 is expected to expand the use of fair value measurement, which is consistent with the long-term measurement objectives for accounting for financial instruments. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 with early adoption permitted. No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The Company has not yet determined the effect, if any, that the implementation of FAS 159 will have on our results of operations or financial condition.

In September 2006, the FASB issued Staff Position (FSP) AIG AIR-1, "Accounting for Planned Major Maintenance Activities" ("FSP AUG AIR-1"). FSP AUG AIR-1 addresses the accounting for planned major maintenance activities. Specifically, the FSP prohibits the practice of the accrue-in-advance method of accounting for planned major maintenance activities. FSP AUG AIR-1 is effective for the first fiscal year beginning after December 15, 2006. Retrospective application is required unless impracticable. We do not believe the adoption of FSP AUG AIR-1 will have a material impact on our financial statements.

In September 2006, the FASB issued FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158"). FAS 158 requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the funded status of the benefit in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs on credits, and transition asset or obligations. We do not expect FAS 158 to have a material impact on our financial statements.

In September 2006, the FASB issued FAS 157, Fair Value Measurements

("FAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. We have not yet determined the effect, if any, that the implementation of FAS 157 will have on our results of operations or financial condition.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the fiscal years beginning after November 15, 2006. We do not expect SAB 108 to have a material impact on our financial statements.

In July 2006, the FASB issued FASB interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements to include an annual tabular rollforward of unrecognized tax benefits. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of adopting FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of adopting FIN 48 and its impact on our financial statements. We do not expect FIN 48 to have a material impact on our financial statements.

In March 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (that is, Gross versus Net Presentation)." Taxes within the cope of EITF Issue No. 06-3 include any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales taxes, use taxes, value-added taxes, and some excise taxes. The EITF concluded that the presentation of these taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. For any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements. Our policy is to exclude all such taxes, if any, from revenue. The provisions of EITF 06-3 are effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 will not have any effect on our financial statements.

2. Accounts Receivable

Oregon law prohibits the sale of wine in Oregon on credit; therefore, the Company's accounts receivable balances are primarily the result of sales to out-of-state and foreign distributors. At December 31, 2006 the Company's accounts receivable balance is net of an allowance for doubtful accounts of $63,513.

Changes in the allowance for doubtful accounts are as follows:

	Balance at Beginning Of period	Charged to costs and expenses	Charged to other accounts	Write-offs net of recoveries	Balance at end of period
Fiscal year ended December 31, 2005:					
Allowance for Doubtful accounts	$ 41,885	$ 16,066	$ -	$ -	$ 57,951
Fiscal year ended December 31, 2006:					
Allowance for Doubtful accounts	$ 57,951	$ 5,562	$ -	$ -	$ 63,513

3. Inventories

Inventories consist of:

Winemaking and packaging materials	$ 142,737
Work-in-process (costs relating to unprocessed and/or unbottled wine products)	2,697,354
Finished goods (bottled wine and related products)	3,911,836
Current inventories	$ 6,751,927

4. Property and Equipment

Land and improvements	$ 769,644
Winery building and hospitality center	4,782,064
Equipment	4,009,023
	9,560,731
Less accumulated depreciation	(5,575,051)
	$ 3,985,680

5. Line of Credit Facility

In December of 2005 the Company entered into a revolving line of credit agreement with Umpqua Bank that allows borrowings of up to $2,000,000 against eligible accounts receivables and inventories as defined in the agreement. The revolving line bears interest at prime and is payable monthly. The interest rate was 8.25% at December 31, 2006. At December 31, 2006 there were borrowings of $0 on the revolving line of credit.

The weighted-average interest rate on the aforementioned borrowings for the fiscal years ended December 31, are as follows:

2006	7.75%
2005	5.75%

The line of credit agreement includes various covenants, which among other things, requires the Company to maintain minimum amounts of tangible net worth, debt-to-equity, and debt service coverage as defined, and limits the level of acquisitions of property and equipment. As of December 31, 2006, the Company was in compliance with these covenants.

Umpqua Bank Capital borrowings are collateralized by the bulk and case goods inventory and the proceeds from the sales thereof.

6. Long-Term Debt

Long-term debt consists of:

	2006
Northwest Farm Credit Services Loan	$ 1,489,008
	1,489,008
Less current portion	(251,437)
	$ 1,237,571

The Company has an agreement with Northwest Farm Credit Services containing a note bearing interest at a rate of 7.85%, which are collateralized by real estate and equipment. This note requires monthly payments of $30,102 until the notes are fully repaid in 2012. The loan agreement contains covenants, which require the Company to maintain certain financial ratios and balances. At December 31, 2006, the Company was in compliance with these covenants. In the event of future noncompliance with the Company's debt covenants, Northwest Farm Credit Services ("FCS") would have the right to declare the Company in default, and at FCS' option without notice or demand, the unpaid principal balance of the loan, plus all accrued unpaid interest thereon and all other amounts due shall immediately become due and payable.

Future minimum principal payments of long-term debt mature as follows:

Year ending December 31,	
2007	$ 251,437
2008	271,900
2009	294,029
2010	317,960
2011	343,857
Thereafter	9,825
	$ 1,489,008

7. Shareholders' Equity

The Company is authorized to issue 10,000,000 shares of its common stock. Each share of common stock is entitled to one vote. At its discretion, the Board of Directors may declare dividends on shares of common stock, although the Board does not anticipate paying dividends in the foreseeable future.

On June 1, 1992, the Company granted its president a warrant to purchase 15,000 shares of common stock as consideration for his personal guarantee of the real estate loans and the line of credit with Northwest Farm Credit Services (Notes 6 and 8). The warrant was exercisable through June 1, 2012 at an exercise price of $3.42 per share. The warrant was exercised in February of 2006.

In each of the years ended December 31, 2006 and 2005, the Company granted 3,325 and 2,725 shares of stock valued at $9,152 and $9,610, respectively, as compensation to employees and agents. The cost of these grants was capitalized as inventory or included in selling, general and administrative expenses in the statement of operations. The effects of these noncash transactions have been excluded from the cash flow statements in each period.

8. Stock Incentive Plan

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 is shareholder approved, 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 on stock options outstanding for the periods shown:

	2006		2005	
	Shares	Weighted Average Exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	609,500	$ 3.57	284,200	$ 1.90
Granted	-	-	496,500	4.15
Exercised	(114,500)	$ 2.00	(171,199)	2.46
Forfeited	-	-	(1)	3.00
Outstanding at end of period	495,000	$ 3.94	609,500	$ 3.57

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

	2006	2005
Intrinsic value of options exercised in the period	$ 643,734	$ 453,303

Stock options fully vested and expected to vest		
Number	495,000	609,500
Weighted average exercise Price	$ 3.94	$ 3.57
Aggregate intrinsic value	$1,427,656	$ 862,711
Weighted average contractual term of options	6.90 years	7.01 years
Stock options vested and Currently exercisable		
Number	448,434	
Weighted average exercise Price	$ 3.98	
Aggregate intrinsic value	$1,274,401	
Weighted average contractual term of options	6.77 years	

Weighted-average options outstanding and exercisable at December 31, 2006 are as follows:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding at December 31, 2006	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2006	Weighted average exercise price
$ 1.50	1,500	1.03	1.50	1,500	1.50
1.56	4,000	3.58	1.56	4,000	1.56
1.75	3,000	1.17	1.75	3,000	1.75
1.81	1,500	2.24	1.81	1,500	1.81
2.30	60,000	7.58	2.30	37,600	2.30
2.31	20,000	8.40	2.31	20,000	2.31
2.99	24,000	8.12	2.99	24,000	2.99
3.29	75,000	3.12	3.29	75,000	3.29
3.76	104,000	8.58	3.76	97,800	3.76
4.14	4,000	3.58	4.14	4,000	4.14
4.98	25,000	8.76	4.98	7,034	4.98
5.00	109,000	8.99	5.00	109,000	5.00
5.50	64,000	3.99	5.50	64,000	5.50
$ 1.50-$5.50	495,000	6.90	$ 3.94	448,434	$ 3.98

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 based 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.

	2006	2005
Risk-free interest rate	4.26 %	4.26 %
Expected lives	10 years	10 years

Expected volatility	47 %	45 %

Adjustments are made for options forfeited prior to vesting. For the year ended December 31, 2005, the total value of the options granted was computed to be approximately $1,356,068, which would be amortized on the straight-line basis over the vesting period of the options.

For the year ended December 31, 2005, the weighted average fair value of options granted was computed to be $2.73.

9. Income Taxes

The provision for income taxes consists of:

	2006	2005
Current tax expense:		
Federal	$660,888	$591,247
State	150,733	83,588
	811,621	674,835
Deferred tax expense (benefit):		
Federal	69,142	(43,041)
State	8,858	(3,533)
	78,000	(46,574)
Total	$889,621	$628,261

The effective income tax rate differs from the federal statutory rate as follows:

	Year ended December 31, 2006	2005
Federal statutory rate	34.0 %	34.0 %
State taxes, net of federal benefit	4.4	2.6
Permanent differences	0.6	(0.5)
Other, primarily prior year taxes	1.8	(0.9)
	40.8 %	35.2 %

Permanent differences consist primarily of nondeductible meals and entertainment and life insurance premiums.

Deferred tax assets and (liabilities) at December 31 consist of:

	2006
Accounts receivable	$ 24,000
Inventories	75,000
Other	8,000
Net current deferred tax asset	107,000
Depreciation	(374,000)
Deferred gain on sale-leaseback	157,000
Deferred liabilities	(25,000)
Net noncurrent deferred tax liability	(242,000)

Net deferred tax liability	$ (135,000)

10. Related Parties

During 2006, the Company purchased grapes from certain director/shareholders for an aggregate price of $17,630. At December 31, 2006 grape payables included no amounts owed to these shareholders.

The Company provides living accommodations in a manufactured home on the Company's premises for the president and his family as additional compensation for security and lock-up services the president provides. During the years ended December 31, 2006 and 2005, the Company recorded $10,595 and $6,985, respectively, in expenses related to the housing provided for its president.

11. Commitments and Contingencies

Litigation
From time to time, in the normal course of business, the Company is a party to legal proceedings. Management believes that these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows, but due to the nature of the litigation, the ultimate outcome cannot presently be determined.

Operating Leases
The Company entered into a lease agreement for approximately 45 acres of vineyards and related equipment in 1997. In December 1999, under a sale-leaseback agreement, the Company sold a portion of the Tualatin Vineyards property with a net book value of approximately $1,000,000 for approximately $1,500,000 cash and entered into a 20-year operating lease agreement. The gain of approximately $500,000 is being amortized over the 20-year term of the lease. In December 2004, under a new sale-leaseback agreement, the Company sold a 75.3 acres portion of the Tualatin Vineyards property with a net book value of approximately $551,000 for approximately $727,000 cash and entered into a 14-year operating lease agreement for 42.7 acres of the subject sale agreement. Approximately $99,000, relating to the 42.7 acres leased back, of the total gain of $176,000 realized from this 75.3 acre sale/leaseback transaction has been deferred and will be amortized over the life of the lease agreement.

The amortization of the deferred gain totals approximately $25,000 per year for the 1999 sale-leaseback agreement and $7,000 for the 2004 sale-leaseback agreement, and is recorded as an offset to the related lease expense in selling, general and administrative expenses.

As of December 31, 2006, future minimum lease payments are as follows:

Year ending December 31,	
2007	$ 158,083
2008	178,486
2009	182,061
2010	185,724
2011	189,479
Thereafter	1,632,579
Total	$ 2,526,412

The Company is also committed to lease payments for various office equipment. Total rental expense for all operating leases excluding the vineyards, amounted to $13,175 and $15,638 in 2006 and 2005, respectively. In addition, payments for the leased vineyards have been included in inventory or vineyard developments costs and aggregate approximately $200,765 and $215,436 for the years ended December 31, 2006 and 2005, respectively.

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 our 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.

12. Employee Benefit Plan

During February 2006, the Company instituted a 401(k) profit sharing plan covering all eligible employees. Employees who participate may elect to make salary deferral contributions to the Plan up to 100% of the employees' eligible payroll subject to annual Internal Revenue Code maximum limitations. We make a matching contribution of $1 for every $1 contributed by the participant up to 4% of the participant's eligible payroll. In addition, we may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan.

For the year ended December 31, 2006, total amounts expensed under this plan was approximately $61,282

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

a) We carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer, Controller and other management personnel, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 as of December 31, 2006. Based on that evaluation, the Chief Executive Officer and Controller concluded that our disclosure controls and procedures as of December 31, 2006 were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Controller, to allow timely decisions regarding required disclosure.

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

b) There were no changes in the Company's internal control procedures over financial reporting that occurred during the period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except as noted above.

ITEM 8B. OTHER INFORMATION.

None.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Directors, nominees for election as a director, and each such person's age at March 31, 2007 and position with the Company.

Name	Position(s) with the Company	Age
James W. Bernau ***	Chairperson of the Board, President and Director	53
James L. Ellis * ***	Secretary and Director	62
Sean M. Cary	Controller	33
Thomas M. Brian**	Director	58
Delna L. Jones***	Director	66
Lisa M. Matich**	Director	44
Betty M. O'Brien*	Director	63
Stan G. Turel * ** ***	Director	59

*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.

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 1990 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.

Lisa M. Matich. Ms. Matich was appointed to the Board of Directors in April of 2004. She is the former Director of Financial Analysis of PacifiCorp, a multi-state electric utility with over 1.5 million customers. Previously she was a Financial Consultant with SAIC 1996 to 2002, a Fortune 500 company and the nation's largest employee-owned research and engineering company. She was Chief Financial Officer of Egmont Electricity 1991-1996, a New Zealand electricity provider and public company. Ms. Matich also has a background in public accounting with both Price Waterhouse and Coopers & Lybrand. She is a CPA in the state of California and a member of the American Institute of Certified Public Accountants. Ms. Matich has a degree in Business Administration from the University of California, Berkeley.

Betty M. O'Brien. Ms. O'Brien has served as a Director since July 1991. Ms. O'Brien is a partner in Elton Vineyards, 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 heads a wine industry task force developing a new wine marketing program and curriculum leading to a two-year degree at CCC. She is teaching the first class in the program, Introduction to Wine Marketing.

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.

Board of Directors Committees. The Board of Directors acts as a nominating committee for selecting nominees for election as directors. The Board of Directors has appointed a standing Audit Committee that, during the year ended December 31, 2006, conducted four meetings. The elected members of the Audit Committee are Delna L. Jones, Lisa Matich, and Stan G. Turel. Ms. Matich is designated by the Board of Directors as the "audit committee financial expert" under SEC rules. The Audit Committee is responsible for engaging the Company's Independent Registered Public Accounting Firm, and reviews the scope of the independent annual audit, the independent accountants' letter to the Board of Directors concerning the effectiveness of the Company's internal financial and accounting controls and the Board of Directors' response to that letter, if deemed necessary. The Board of Directors also has appointed a Compensation Committee, which reviews executive compensation and makes recommendations to the full Board regarding changes in compensation, and also administers the Company's 1992 Stock Incentive Plan. During the fiscal year ended December 31, 2006, the Compensation Committee held two meetings. The members of the Compensation Committee currently are Betty M. O'Brien, Chair, Stan Turel, and James Ellis. In 1997 the Board appointed an Executive Committee, members are: James Bernau, James Ellis, and Stan Turel. The Executive Committee held two meetings during 2006.

Code of Ethics. The Company adopted a code of ethics applicable to its Chief Executive Officer, Controller and other finance leaders, which is a "code of ethics" as defined by applicable rules of the Securities and Exchange Commission. Amendments to the code of ethics or any grant of a waiver from a provision of the code of ethics requiring disclosure under applicable SEC rules, if any, will be disclosed on our website at www.WillametteValleyVineyards.com. Any person may request a copy of the code of ethics, at no cost, by writing to us at the following address:
Willamette Valley Vineyards, Inc.
8800 Enchanted Way SE
Turner, OR 97392
Attention: Corporate Secretary

ITEM 10. EXECUTIVE COMPENSATION.

Summary of Cash and Certain Other Compensation

The following table sets forth certain information concerning compensation paid or accrued by the Company, to or on behalf of the Company's Primary Executive Officer, James W. Bernau (the "named executive officer") for the years ending December 31, 2006 and 2005. Except for Mr. Bernau, no officer, director or other employee of the Company received total compensation in excess of $100,000, as calculated pursuant to Instruction 1 to Item 402(a)(2) of Regulation S-B.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)
Bernau, James W.,	2006	162,511	39,475	-	-	-	-
President, Chief Executive Officer and Chairman	2005	158,658	37,500	-	235,784	-	-

Bernau Employment Agreement

The Company and Mr. Bernau are parties to an employment agreement dated August 3, 1988 and amended in February 1997 and again amended in January of 1998. Under the amended agreement, Mr. Bernau is paid an annual salary of $162,511 with annual increases tied to increases in the consumer price index. Pursuant to the terms of the employment agreement, the Company must use its best efforts to provide Mr. Bernau with housing on the Company's property. Mr. Bernau and his family live in the mobile home free of rent and must continue to reside there for the duration of his employment in order to provide additional security and lock-up services for late evening events at the Winery and Vineyard. The employment agreement provides that Mr. Bernau's employment may be terminated only for cause, which is defined as non-performance of his duties or conviction of a crime.

Stock Options

In order to reward performance and retain high-quality employees, the Company often grants stock options to its employees. The Company does not ordinarily directly issue shares of stock to its employees. Options are typically issued at a per share exercise price equal to the closing price as reported by the Capital Market at the time the option is granted. The options vest to the employee over time. Three months following termination of the employee's employment with the Company, any and all unexercised options terminate.

Option Exercises and Holdings
The following table provides information, with respect to the named executive officer, concerning exercised options during the last fiscal year and unexercised options held as of December 31, 2006.

Option Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	V S U H

Bernau, James						
2/11/2005	75,000	-	-	3.289	2/11/2010	-
8/1/2005	4,000	-	-	4.136	8/1/2010	-
12/27/2005	64,000	-	-	5.50	12/27/2010	-

Director Compensation

The members of the Company's Board of Directors do not receive cash compensation for their service on the Board, but are reimbursed for out-of-pocket and travel expenses incurred in attending Board meetings. Under the Company's Stock Incentive Plan adopted by the shareholders in 1992 and further amended by the shareholders in 1996, beginning in 1997 an option to purchase 1,500 shares of Common Stock is granted to each Director for service on the Board during the year. This option was increased to 4,000 per year when the 50-share grant per Director's meeting was discontinued for the year 2000 and beyond. In December 2005, each Director was granted 14,000 options for service during 2005. In the foreseeable future, as a result of the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 123R, Share-Based Payment, requiring all share-based payments to be recognized as expenses in the statement of operations based on their fair values and vesting periods, the Company does not intend to issue stock options to the Directors for their service.

Section 16(a) Beneficial Ownership Reporting Compliance

None

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information with respect to beneficial ownership of the Company's Common Stock as of December 31, 2006, by (i) each person who beneficially owns more than 5% of the Company's Common Stock (ii) each Director of the Company (iii) each of the Company's named executive officers, and (iv) all directors and executive officers as a group.

		Number of Shares Outstanding Stock		Percent of Shares Beneficially Owned
James W. Bernau 2545 Cloverdale Road Turner, OR 97392	President/CEO, Chair of the Board	761,176	(1)	15.9%
James L. Ellis 7850 S.E. King Road Milwaukie, OR 97222	Secretary, Director	81,300	(2)	1.7%
Thomas M. Brian 7630 SW Fir Tigard, OR 97223	Director	22,000	(3)	**
Delna L. Jones 14480 SW Chardonnay Ave Tigard, OR 97224	Director	27,800	(4)	**
Lisa M. Matich 5321 Linda Way	Director	33,700	(5)	**

La Jolla, CA 92037				
Betty M. O'Brien 22500 Ingram Lane NW Salem, OR 97304	Director	38,150	(6)	**
Stan G. Turel 604 SE 121 Street Vancouver, WA 98683	Director	36,517	(7)	**
All Directors, executive officers and persons owning 5% or more as a group (6 persons)		996,643	(8)	20.9%

** Less than one percent.

(1) Includes 143,000 shares issuable upon exercise of options exercisable within 60 days of the date of this report.

(2) Includes 76,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(3) Includes 22,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(4) Includes 26,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(5) Includes 26,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(6) Includes 33,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(7) Includes 14,000 shares issuable upon the exercise of options exercisable within 60 days of the date of this report.

(8) Includes 340,000 shares issuable upon exercise of options exercisable within 60 days of the date of this report.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

During 2006, the Company purchased grapes from Elton Vineyards for $17,630. Betty M. O'Brien, a Director of the Company, is a principal owner of Elton Vineyards. In 2007, the Company entered into a long-term lease for Elton vineyards which consists of 60 acres of mature grapevines, of which approximately 42 acres are Pinot Noir. The agreement was for an initial 10 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.

On June 1, 1992, the Company granted Mr. Bernau a warrant to purchase 15,000 shares of the Company's Common Stock at an exercise price of $3.42 per share as consideration for his personal guarantee of the Real Estate Loan and the Line of Credit from Farm Credit Services pursuant to which the Company borrowed $1.2 million. The warrant was exercised in February 2006.

The Company believes that the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. All future transactions between the Company and its officers, directors, and principal shareholders will be approved by a disinterested majority of the members of the Affiliated Transactions Committee of the Company's Board of Directors, and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

The following directors are independent as the term is defined by NASDAQ rules: Thomas M. Brian, Delna L. Jones, Lisa M. Matich, Berry M. O'Brien, and Stan G. Turel.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

(3) Articles of Incorporation and Bylaws:

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

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

(10) Material Contracts

(a) Employment Agreement between Willamette Valley Vineyards, Inc. and James W. Bernau dated August 3, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(b) Indemnity Agreement between Willamette Valley Vineyards, Inc. and James W. Bernau dated May 2, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(c) Indemnity Agreement between Willamette Valley Vineyards, Inc. and Donald E. Voorhies dated May 2, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(d) Shareholders Agreement among Willamette Valley Vineyards, Inc. and its founders, James Bernau and Donald Voorhies, dated May 2, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(h) Revolving Note and Loan Agreement dated May 28, 1992 by and between Northwest Farm Credit Services, Willamette Valley Vineyards, Inc. and James W. and Cathy Bernau (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(i) Founders' Escrow Agreement among Willamette Valley Vineyards, Inc., James W. Bernau, Donald Voorhies and First Interstate Bank of Oregon, N.A. dated September 20, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(j) Amendment to Founders' Escrow Agreement dated September 20, 1988 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(k) Stock Escrow Agreement among Willamette Valley Vineyards, Inc., Betty M. O'Brien and Charter Investment Group, Inc. dated July 7, 1992 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(l) Stock Escrow Agreement among Willamette Valley Vineyards, Inc., Daniel S. Smith and Piper Jaffray & Hopwood, Inc. dated July 7, 1992 (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A [File No. 24S-2996])

(m) Acquisition of Tualatin Vineyards, Inc. dated April 15, 1997. (File No. 000-21522)

(n) Business Financing Agreement dated July 2, 2002 by and between GE Commercial Distribution Finance and Willamette Valley Vineyards, Inc. (File No. 000-21522)

(o) Business Loan Agreement dated December 29, 2004 by and between Umpqua Bank and Willamette Valley Vineyards, Inc. (File No. 000-21522)

(b) Reports on Form 8-K

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information contained under the caption entitled "Audit and Related Fees" in the Proxy Statement is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLAMETTE VALLEY VINEYARDS, INC.
(Registrant)

Date: April 2, 2007   By:__/s/________________
James W. Bernau,
Chairperson of the Board,
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
__/s/________________ James W. Bernau	Chairperson of the Board, President (Principal Executive Officer)	April 2, 2007
__/s/________________ Sean M. Cary	Controller (Principal Accounting Officer)	April 2, 2007
__/s/________________ James L. Ellis	Director and Vice-President and Secretary	April 2, 2007

__/s/_________________	Director	April 2, 2007
Thomas M. Brian		
__/s/_________________	Director	April 2, 2007
Delna L. Jones		
__/s/_________________	Director	April 2, 2007
Lisa M. Matich		
__/s/_________________	Director	April 2, 2007
Betty M. O'Brien		
__/s/_________________	Director	April 2, 2007
Stan G. Turel		

EXHIBIT INDEX

Exhibit

23.1 Consent of Independent Registered Public Accounting Firm

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

31.2 Certification by Sean M. Cary 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.

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