

WILLAMETTE VALLEY VINEYARDS INC
Form 10-Q
November 16, 2009

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009

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

Commission File Number 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in charter)

Oregon
(State or other jurisdiction of
incorporation or organization)

93-0981021
(I.R.S. Employer
Identification No.)

8800 Enchanted Way, S.E., Turner, Oregon
(Address of principal executive offices)

97392
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES NO

Number of shares of common stock outstanding as of October 31, 2009:

4,888,977 shares, no par value

WILLAMETTE VALLEY VINEYARDS, INC.
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Part 1 FINANCIAL INFORMATION

Item 1 FINANCIAL STATEMENTS

WILLAMETTE VALLEY VINEYARDS, INC.

Balance Sheet

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,515	\$ 350,361
Accounts receivable trade, net	1,420,600	1,204,881
Inventories	11,640,737	10,604,204
Prepaid expenses and other current assets	142,706	68,834
Current portion of notes receivable	62,415	62,415
Deferred income taxes	81,700	81,700
Total current assets	13,355,673	12,372,395
Vineyard development cost, net	1,676,197	1,693,769
Property and equipment, net	6,138,380	6,069,408
Note receivable	134,284	165,491
Debt issuance costs, net	23,370	29,581
Other assets	4,456	4,456
Total assets	\$ 21,332,360	\$ 20,335,100
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long term debt	362,779	354,536
Revolving credit line	1,753,251	-
Accounts payable	601,147	1,111,499
Accrued expenses	508,323	510,768
Income taxes payable	100,520	350,870
Grapes payable	85,245	594,734
Total current liabilities	3,411,265	2,922,407
Long-term debt, less current portion	1,954,834	2,178,246
Deferred rent liability	218,169	217,742
Deferred gain	321,859	345,930
Deferred income taxes	355,207	355,207
Total liabilities	6,261,334	6,019,532
Shareholders' equity	8,604,164	8,515,667

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Common stock, no par value - 10,000,000 shares authorized, 4,888,977 and 4,851,327 shares issued and outstanding at September 30, 2009 and December 31, 2008

Retained earnings	6,466,862	5,799,901
Total shareholders' equity	15,071,026	14,315,568
Total liabilities and shareholders' equity	\$ 21,332,360	\$ 20,335,100

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

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

	Three months ended September 30, 2009		September 30, 2008	
Net revenues				
Case revenue	\$ 4,360,206	\$ 4,056,522	\$ 12,052,828	\$ 11,344,179
Total net revenues	4,360,206	4,056,522	12,052,828	11,344,179
Cost of sales				
Case	2,231,411	2,075,400	6,051,242	5,803,078
Total cost of sales	2,231,411	2,075,400	6,051,242	5,803,078
Gross profit	2,128,795	1,981,122	6,001,586	5,541,101
Selling, general and administrative expenses	1,668,935	1,519,417	4,768,443	4,693,892
Net operating income	459,860	461,705	1,233,143	847,209
Other income (expense)				
Interest income	-	-	-	17,193
Interest expense	(42,135)	(34,906)	(111,013)	(74,949)
Other income(expense)	895	-	2,818	56
Net income before income taxes	418,620	426,799	1,124,948	789,509
Income tax expense	170,599	183,170	457,987	328,255
Net income	248,021	243,629	666,961	461,254
Retained earnings beginning of period	6,218,841	5,308,932	5,799,901	5,091,307
Retained earnings end of period	\$ 6,466,862	\$ 5,552,561	\$ 6,466,862	\$ 5,552,561
Basic earnings per common share	\$.05	\$.05	\$.14	\$.10
Diluted earnings per common share	\$.05	\$.05	\$.14	\$.09
Weighted average number of basic common shares outstanding	4,877,020	4,850,327	4,862,667	4,844,053
Weighted average number of diluted common shares outstanding	4,888,667	4,948,301	4,845,304	4,970,900

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

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

	Nine Months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 666,961	\$ 461,254
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	485,011	473,613
Bad Debt Expense		20,483
Deferred rent liability	426	(6,879)
Deferred gain	(24,071)	(24,071)
Stock based compensation expense	13,482	28,877
Changes in operating assets and liabilities:		
Accounts receivable trade	(215,719)	731,996
Inventories	(1,036,530)	(1,953,562)
Prepaid expenses and other current assets	(73,873)	(20,550)
Other assets	-	8,712
Accounts payable	(510,352)	211,570
Accrued expenses	(2,446)	(105,232)
Income taxes payable	(270,736)	(5,293)
Grape payables	(509,488)	(454,569)
Net cash used in operating activities	(1,477,335)	(633,651)
Cash flows from investing activities:		
Additions to property and equipment	(495,018)	(2,233,472)
Vineyard development expenditures	(35,183)	-
Payment received on note receivable	31,207	-
Net cash used in investing activities	(498,994)	(2,233,472)
Cash flows from financing activities:		
Proceeds from stock options exercised	75,015	27,250
Borrowing from revolving line of credit	1,753,251	403,485
Proceeds from long-term debt	28,380	1,584,374
Payments on long-term debt	(243,549)	(219,413)
Excess tax benefit on stock option exercises	20,386	6,798
Net cash provided by financing activities	1,633,483	1,802,494
Net decrease in cash and cash equivalents	(342,846)	(1,064,629)
Cash and cash equivalents:		
Beginning of period	350,361	1,083,405

End of period	\$	7,515	\$	18,776
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The accompanying notes are an integral part of this financial statement.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements for the three and nine months ended September 30, 2009 and 2008, have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The financial information as of December 31, 2008 is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2008. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2008, as presented in the Company’s Annual Report on Form 10-K.

Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009, or any portion thereof.

The Company consists of the retail, in-state self-distribution and out-of-state sales departments. These departments have mostly similar economic characteristics, offer comparable products to customers, and utilize similar processes for production and distribution. The in-state self-distribution business known as Bacchus Fine Wines has the unique characteristic of selling wholesale purchased wines and glassware in addition to Company produced wines. The Company reports limited financial information for two operating segments as follows: Bacchus Distribution and Produced Wines.

Basic earnings per share are computed based on the weighted-average number of common shares outstanding each period. Diluted earnings per share are computed using the weighted average number of shares of common stock and potentially dilutive common shares outstanding during the year. Potentially dilutive shares from stock options and other potentially dilutive shares are excluded from the computation when their effect is anti-dilutive. There were no potentially dilutive shares excluded from the computation for the three and nine months ended September 30, 2009. 11,647 potentially dilutive shares are included in the computation of dilutive earnings per share for the three months ended September 30, 2009, respectively. 97,974 and 126,847 potentially dilutive shares are included in the computation of dilutive earnings per share for the three and nine months ended September 30, 2008, respectively.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162. The FASB Accounting Standards Codification™ (the “Codification”), which was launched on July 1, 2009, became the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”), superseding various existing authoritative accounting pronouncements. The Codification effectively eliminates the GAAP hierarchy contained in SFAS No. 162 and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company’s adoption of SFAS No. 168 had no effect on its consolidated financial statements, other than changes to references to GAAP Statements within the consolidated financial statements.

2) STOCK BASED COMPENSATION

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

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

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	380,700	\$ 4.01		