WILLAMETTE VALLEY VINEYARDS INC
Form 10QSB
December 07, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the Quarter Ended September 30, 2004

Commission File Number 0-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed, all
reports required to be filed by Section 13 or 15(d) of the Securities
Exchange Act of 1934 during the preceding 12 months (or for such shorter
period that the registrant was required to file such reports) and (2)
has been subject to such filing requirements for the past 90 days.

[X] YES [ ] NO

Number of shares of common stock outstanding as of September 30, 2004
4,486,278 shares, no par value

Transitional Small Business Disclosure
[ ] YES [X] NO

Explanatory Note

As previously reported, in February and March 2004 the Alcohol and Tobacco
Tax and Trade Bureau of the U.S. Treasury Department audited the Company's
excise tax liability and payments for 2003, 2002 and 2001. This audit
resulted in additional excise taxes owing for those periods due principally
to the Company's incorrect application of the federal small winery tax credit.

The Company originally recorded a liability as of December 31, 2003 and a related expense in the year then ended of the estimated excise taxes owing of $80,000. The Company has restated its financial statements for the years ended December 31, 2003, 2002, and 2001 and the quarterly periods within each of those years to reflect the correct excise tax for each of the periods and to record the estimated interest and penalties with respect to the related estimated excise tax liability. Additional excise tax of $6,284 and $18,852 and related interest and penalties of $1,854 and $5,562 have been recorded for the three and nine months ended September 30, 2003, respectively.

In addition, the Company previously capitalized certain label and package design costs totaling $71,528 and was amortizing them over a five year period through 2004. Amortization expense of $7,200 through June 30, 2004 and $3,600 and $10,800 for the three and nine months ended September 30, 2003 was included in selling, general, and administrative expenses. It has been determined that such costs should be expensed as incurred. Accordingly, the Company has restated its financial statements for the first six months of 2004 and for the three and nine months ended September 30, 2003 to adjust for the previously capitalized costs and related amortization.

In addition, the Company has restated its financial statements for the three and nine months ended September 30, 2003 to reflect the reclassification of amortization of deferred gain arising from a sales-leaseback transaction from other income to offset the related lease expense included in selling, general and administrative expenses. The Company has also restated the nine months ended September 30, 2003 to reflect the reclassification of an expense from other expense to cost of goods sold.

Additional detail regarding the restatement is included in Note 2 of the Notes to Financial Statements included in Part I, Item 1 and in Management's Discussion and Analysis of Financial Condition and Results of Operations under Restatement of Financial Information in Part I, Item 2, of this Form 10-QSB.

WILLAMETTE VALLEY VINEYARDS, INC.
INDEX TO FORM 10-QSB

Part I - Financial Information

Item 1--Financial Statements

Balance Sheet

Statement of Operations

Statement of Cash Flows

Notes to Consolidated Financial Statements

Item 2--Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3--Controls and Procedures

Part II - Other Information

Item 5--Other Information

Item 6--Exhibits

Signatures

PART 1 FINANCIAL INFORMATION
ITEM 1

Financial Statements

WILLAMETTE VALLEY VINEYARDS, INC.
Balance Sheet

	September 30, 2004 (unaudited)	December 31, 2003 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	$ 116,440	$ 213,681
Accounts receivable trade, net	759,945	796,836
Inventories	8,038,109	7,335,378
Prepaid expenses and other current assets	30,057	46,565
Income taxes receivable	-	83,911
Deferred income taxes	174,323	174,323
Total current assets	9,118,874	8,650,694
Vineyard development cost, net	1,681,477	1,698,970
Inventories	552,414	552,414
Property and equipment, net	4,514,302	4,698,915
Notes receivable from officer and other	69,507	66,134
Debt issuance costs, net	54,270	62,805
Other assets	227,584	201,220
Total assets	$16,218,428	$15,931,152
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Line of credit	$ 1,256,360	$ 1,130,516
Current portion of long-term debt	250,291	250,291
Accounts payable	721,787	752,219
Accrued expenses	564,730	471,441
Income taxes payable	127,559	-
Grapes payable	483,070	669,714
Total current liabilities	3,403,797	3,274,181
Long-term debt	2,519,576	2,693,108
Distributor obligation	1,500,000	1,500,000
Deferred rent liability	126,087	108,995
Deferred gain	381,005	399,743
Deferred income taxes	295,285	295,285
Total liabilities	8,225,750	8,271,312
Shareholders' equity		
Common stock, no par value - 10,000,000 shares authorized, 4,486,278 and 4,479,478 shares issued and outstanding at September 2004 and December 31, 2003	7,228,329	7,167,589
Unearned employee compensation	(45,080)	-
Retained earnings	809,429	492,251
Total shareholders' equity	7,992,678	7,659,840
Total liabilities and shareholders' equity	$16,218,428	$15,931,152

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

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

	Three months ended September 30, 2004	Three months ended September 30, 2003 (restated)	Nine months ended September 30, 2004	Nine months ended September 30, 2003 (restated)
Net revenues				
Case revenue	$ 2,302,461	$ 1,847,133	$ 6,233,268	$ 4,718,457
Custom crush-facility lease-bulk revenue	10,146	69,906	26,203	233,721
Total net revenues	2,312,607	1,917,039	6,259,471	4,952,178
Cost of sales				
Case	1,166,551	884,890	3,112,378	2,260,229
Bulk	-	57,833	-	179,444
Total cost of sales	1,166,551	942,723	3,112,378	2,439,673
Gross margin	1,146,056	974,316	3,147,093	2,512,505
Selling, general and administrative expenses	871,511	742,367	2,403,668	2,031,530
Net operating income	274,545	231,949	743,425	480,975
Other income (expense)				
Interest income	1,216	1,160	3,764	3,787
Interest expense	(81,285)	(84,500)	(233,107)	(259,718)
Other income	10	95,444	14,548	122,443
Net income before income taxes	194,486	244,053	528,630	347,487
Income tax	77,794	98,026	211,452	140,242
Net income	116,692	146,027	317,178	207,245
Retained earnings beginning of period	692,737	379,741	492,251	318,523
Retained earnings end of period	$ 809,429	$ 525,768	$ 809,429	$ 525,768
Basic earnings per common share	$ 0.03	$ 0.03	$ 0.07	$ 0.05
Diluted earnings per common share	$ 0.03	$ 0.03	$ 0.07	$ 0.05
Weighted average number of basic common shares outstanding	4,486,180	4,474,854	4,484,752	4,474,064
Weighted average number of diluted common shares outstanding	4,560,959	4,483,157	4,563,863	4,474,171

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

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

	Nine months ended September 30, 2004	2003 (restated)
Cash flows from operating activities:		
Net income	$ 317,178	$ 207,245
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	484,303	543,303
Loss (gain) on disposal of fixed assets	1,898	(3,004)
Stock issued for compensation	13,110	8,819
Changes in assets and liabilities:		
Accounts receivable trade	36,891	(209,641)
Inventories	(702,731)	(53,657)
Prepaid expenses and other current assets	16,508	2,489
Note receivable	(3,373)	(3,131)
Other assets	(26,364)	2,213
Accounts payable	(30,432)	268,820
Accrued expenses	93,307	89,092
Income taxes payable	211,452	71,120
Grape payables	(186,644)	(331,287)
Deferred rent liability	17,092	17,094
Deferred gain	(18,738)	(18,738)
Net cash provided by operating activities	223,457	590,737
Cash flows from investing activities;		
Additions to property and equipment	(226,010)	(143,749)
Vineyard development expenditures	(40,462)	(6,057)
Proceeds from the sale of property and equipment	-	15,128
Investments	-	1,000
Net cash used in investing activities	(266,472)	(133,678)
Cash flows from financing activities:		
Debt issuance costs	(9,088)	(16,565)
Net increase (decrease) in line of credit balance	125,844	(386,036)
Proceeds from stocks options exercised	2,550	-
Issuance of long-term debt	28,923	-
Repayments of long-term debt	(202,455)	(172,724)
Net cash used in financing activities	(54,226)	(575,325)
Net decrease in cash and cash equivalents	(97,241)	(118,266)
Cash and cash equivalents:		
Beginning of period	213,681	632,183
End of period	$ 116,440	$ 513,917

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2004 and 2003, have been prepared in conformity with accounting principles generally accepted in the United States. The financial information as of December 31, 2003, is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the "Company") Annual Report on Form 10-KSB/A for the year ended December 31, 2003. Certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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, 2003, as presented in the Company's Annual Report on Form 10-KSB/A.

Operating results for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2004, or any portion thereof.

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 comparable products to customers, and utilize similar processes for production and distribution.

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. Potentially dilutive shares of 74,779 and 79,111 shares are included in the computation of dilutive earnings per share for the three and nine months ended September 30, 2004, respectively. Total potentially dilutive shares of 8,303 and 107 shares are included in the computation of dilutive earnings per share for the three and nine months ended September 30, 2003, respectively.

2) RESTATEMENT OF FINANCIAL INFORMATION

As previously reported, in February and March 2004 the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department audited the Company's excise tax liability and payments for 2003, 2002 and 2001. This audit resulted in an additional amount of excise tax owing for those periods due principally to the Company's incorrect application of the federal small winery tax credit. The Company originally recorded a liability as of December 31, 2003 and a related expense in the year then ended of the estimated excise taxes owing of $80,000. The Company has restated its financial statements for the three and nine month periods ended September 30, 2003 to reflect the correct excise tax for the periods and to record the estimated interest and penalties with respect to the estimated excise tax owing. Additional excise tax of $6,284 and $18,852 and related interest and penalties of $1,854 and $5,562 have been recorded for the three and nine months ended September 30, 2003, respectively.

In addition, the Company previously capitalized certain label and package

design costs totaling $71,528 and was amortizing them over a five year period through 2004. Amortization expense of $7,200 through June 30, 2004 and $3,600 and $10,800 for the three and nine months ended September 30, 2003 was included in selling, general, and administrative expenses. It has been determined that such costs should be expensed as incurred. Accordingly, the Company has restated its financial statements for the first six months of 2004 and for the three and nine months ended September 30, 2003 to adjust for the previously capitalized costs and related amortization.

The effect of these restatements was to decrease net income by $3,127, or $- per share, for the three months ended September 30, 2003 and by $9,381, or $- per share, for the nine months ended September 30, 2003.

In addition, the Company has restated its financial statements for the nine months ended September 30, 2003 to reflect the reclassification of an expense of $29,423 from other expense to cost of goods sold and for the three and nine months ended September 30, 2003 for the reclassification of amortization of deferred gain arising from a sales-leaseback transaction of $6,246 and $18,738, respectively, from other income to an offset of the related lease expense included in selling, general and administrative expenses. There was no change to previously reported net income as a result of these reclassifications.

There was no change to previously reported cash provided by operating activities, cash used by investing activities or cash used by financing activities.

The following sets forth the effects of the aforementioned restatements to the Company's Balance Sheet at December 31, 2003, and Statements of Operations for the three and nine months ended September 30, 2003.

December 31, 2003

	As Reported	Adjustments	Restated
Current assets	$ 8,648,453	$ 2,241	$ 8,650,694
Other assets	$ 215,148	$ (13,928)	$ 201,220
Total assets	$ 15,942,839	$ (11,687)	$ 15,931,152
Current liabilities	$ 3,261,959	$ 12,222	$ 3,274,181
Deferred income taxes	$ 300,856	$ (5,571)	$ 295,285
Total liabilities	$ 8,264,661	$ 6,651	$ 8,271,312
Shareholders' equity	7,678,178	(18,338)	7,659,840
Total liabilities and Shareholders' equity	$ 15,942,839	$ (11,687)	$ 15,931,152

Three months ended September 30, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,923,323	$ (6,284)	$ 1,917,039
Cost of sales	942,723	-	942,723
Gross margin	980,600	(6,284)	974,316
Selling general and administrative expenses	751,202	(8,835)	742,367
Net operating income	229,398	2,551	231,949
Other income (expense),			

net	19,193	(7,089)	12,104
Income before income taxes	248,591	(4,538)	244,053
Income tax	99,437	(1,411)	98,026
Net income	$ 149,154	$ (3,127)	$ 146,027

Nine months ended September 30, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 4,971,030	$ (18,852)	$ 4,952,178
Cost of sales	2,410,250	29,423	2,439,673
Gross margin	2,560,780	(48,275)	2,512,505
Selling general and administrative expenses	2,058,035	(26,505)	2,031,530
Net operating income	502,745	(21,770)	480,975
Other income (expense), net	(141,644)	8,156	(133,488)
Income before income taxes	361,101	(13,614)	347,487
Income tax	144,475	(4,233)	140,242
Net income	$ 216,626	$ (9,381)	$ 207,245

3) STOCK BASED COMPENSATION

The Company accounts for the employee and director stock options in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Pro forma disclosures as required under SFAS No. 123, Accounting for Stock Based Compensation, and as amended by SFAS No. 148, Accounting for Stock Based Compensation - Transition and Disclosure, are presented below.

Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated as follows for the three and nine months ended September 30(unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (restated)	2004	2003 (restated)
Net income, as reported	$ 116,692	$ 146,027	$ 317,178	$ 207,245
Add stock-based employee compensation expense included in reported net income, net of related tax effects	1,610	-	13,110	8,819
Deduct total stock based employee compensation expense determined				

under fair value based method for all awards, net of related tax effects	(10,946)	(5,948)	(28,980)	(26,663)
Pro forma net income	$ 107,356	$ 140,079	$ 301,308	$ 189,401
Earnings per share:				
Basic - as reported	$ 0.03	$ 0.03	$ 0.07	$ 0.05
Basic - pro forma	$ 0.02	$ 0.03	$ 0.07	$ 0.04
Diluted - as reported	$ 0.03	$ 0.03	$ 0.07	$ 0.05
Diluted - pro forma	$ 0.02	$ 0.03	$ 0.07	$ 0.04

For purposes of disclosure, the Black-Scholes option pricing model was used to calculate fair values for stock options granted. The estimated fair value of the options is amortized to expense over the options' vesting period.

During the three months ended September 30, 2004 the Company reserved 20,000 shares of restricted stock for employee incentive compensation. Restricted stock awards are recorded as compensation expense over the requisite vesting period based on the market value at the date of reservation. Unearned compensation in connection with the restricted stock is presented within the shareholders' equity.

4) INVENTORIES BY MAJOR CLASSIFICATION ARE SUMMARIZED AS FOLLOWS:

	September 30, 2004 (unaudited)	December 31, 2003
Winemaking and packaging materials	$ 21,681	$ 80,886
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	1,441,697	1,982,469
Finished goods (bottled wines and related products)	7,127,145	5,824,437
	8,590,523	7,887,792
Less: amounts designated for distributor	(552,414)	(552,414)
Current inventories	$ 8,038,109	$ 7,335,378

5) PROPERTY AND EQUIPMENT CONSIST OF THE FOLLOWING:

	September 30, 2004 (unaudited)	December 31, 2003
Land and improvements	$ 984,256	$ 976,838
Winery building and hospitality center	4,647,272	4,577,467

Equipment	5,074,786	4,933,329
	10,706,314	10,487,634
Less accumulated depreciation	(6,192,012)	(5,788,719)
	$ 4,514,302	$ 4,698,915

6) SUBSEQUENT EVENTS:

During the three months ended September 30, 2004, management initiated the sale and lease back of the 75.3 acre Meadowview parcel at the Tualatin Estate Vineyard for $726,675, which closed on October 22, 2004. The net proceeds of the sale will be recorded in the fourth quarter of 2004 as revenue for the non-vineyard acres of the parcel not being leased back, and as deferred gain for the leased back vineyard acres. The deferred gain will then be amortized over the life of the lease. Pursuant to the sale leaseback agreement, the Company will continue to farm and develop the vineyard acres of this parcel. This parcel includes 15.7 acres of established vineyard that the Company has agreed to lease for up to 14 years. The parcel also includes 7 acres of vineyard planted in 2004 and trellised with French Dijon clone 777 Pinot noir on disease resistant rootstock at the purchaser's expense, and 23 additional acres of vineyard land. The purchaser has agreed to fund the vineyard development of the 23 acres of vineyard land. The Company will begin paying rent on the 7 acres and any plantings on the 23 acres starting when the vines become commercially productive in 2008 for up to 24 years. The net cash proceeds of the sale were principally applied to reduce amounts owing under the Company's credit line.

On November 24, 2004, the Company received a Staff Determination from The Nasdaq Stock Market indicating that because the Company's Form 10-QSB for the period ended September 30, 2004 had not been filed, the Company's securities were subject to delisting from The Nasdaq Stock Market SmallCap Market at the opening of Business on December 3, 2004, unless the Company requested a hearing in accordance with The Nasdaq Stock Market's marketplace rules. Additionally, as a result of the Company's filing delinquency, at the opening of business on November 29, 2004, the fifth character "E" was appended to the Company's trading symbol, changing the trading symbol to WVVIE from WVVI. The Company's filing delinquency was a result of the outstanding accounting issues relating to the accounting for label and package design costs, and the filing of restated financial statements for the years ended December 31, 2003, 2002 and 2001, the quarterly periods within each of those years, the three month period ended March 31, 2004 and the three and six month periods ended June 30, 2004. The Company has requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination. There can be no assurance the Panel will grant the Company's request for continued listing. The Company believes that as a result of the filing of this Form 10QSB, all issues raised by The Nasdaq Stock Market will be resolved, and its securities will continue to be listed on The Nasdaq Stock Market and its trading symbol will be changed back to WVVI, pending the results of the Nasdaq Listing Qualifications Panel review.

ITEM 2
Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statement:

This Management's Discussion and Analysis of Financial Condition and Results of Operation and other sections of this Form 10-QSB contain forward-looking

statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that are based on current expectations, estimates and projections about the Company's business, and beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to: availability of financing for growth, availability of adequate supply of high quality grapes, successful performance of internal operations, impact of competition, changes in wine broker or distributor relations or performance, impact of possible adverse weather conditions, impact of reduction in grape quality or supply due to disease, impact of governmental regulatory decisions, and other risks detailed below as well as those discussed elsewhere in this Form 10-QSB and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

The Management's Discussion and Analysis of Financial Condition and Results of Operations presented below reflect the effects of the restatement of our financial statements for the first six months of 2004, for the three and nine months ended September 30, 2003, and as of December 31, 2003 as discussed in Note 2 to the financial statements.

Overview

Operating performance in the three and nine months ended September 30, 2004 increased primarily due to strong sales to out-of-state distributors and Oregon restaurant and retail outlets. Total net sales revenue grew by 21% in the three months ended September 30, 2004 and 26% for the nine months ended September 30, 2004, compared to the respective prior year periods. Operating income increased 18% for the three months ended September 30, 2004 and 55% for the nine months ended September 30, 2004, compared to the respective prior year periods. Reductions in tasting room expenses in the three months ended September 30, 2004 and additional rent income from the Tualatin winery also contributed to these positive results.

The increase in out-of-state sales is due to the growth in depletions (sales from distributors to their customers) of the Company's core product offerings, Vintage Pinot noir, Whole Cluster Pinot noir, Pinot gris and Riesling. As a group, the depletions of these products from distributors to their customers increased 14% and 19%, respectively, for the three and nine months ended September 30, 2004, compared to the respective prior year periods, driving the 19% and 26% growth in sales from the winery to out-of-state distributors during the three and nine months ended September 30, 2004, respectively, compared to the respective prior year periods.

Sales in the state of Oregon through the Company's independent sales force and through direct sales from the winery to retail licensees increased 40% and 50%, respectively, for the three and nine months ended September 30, 2004 compared to the respective prior year periods, primarily due to the growth of distributed wine brands in the three and nine months ended September 30, 2004. Expenses increased significantly in the three and nine months ended September 30, 2004 compared to the prior year periods as delivery support was built up in anticipation of additional brands to be rolled out in the fourth quarter of 2004. Management considers the Wholesale Department called Bacchus Fine Wines to be in a building stage where an intense focus is being applied to the

placement of purchased wine in restaurant and retail accounts. The Company has purchased a significant inventory of wines for resale totaling approximately $800,000, placing an additional demand on cash and the Company's credit line. Management has taken these steps as it believes they will improve the sales opportunities for the Company's own wines with retail and restaurant customers and increase net income in the future.

Retail revenues were relatively flat during the three and nine months ended September 30, 2004 compared to the prior year periods but retail operating expenses were reduced over those same comparable periods. Although Tasting Room sales increased during the three and nine months ended September 30, 2004 compared to the same prior year periods, the winery experienced reductions in Key Customer sales due to staffing vacancies during the same comparable periods. In the third and fourth quarter, management added a Customer Service Coordinator and Key Customer Service personnel to increase direct sales to wine consumers.

During the three months ended September 30, 2004, management initiated the sale and lease back of the 75.3 acre Meadowview parcel at the Tualatin Estate Vineyard for $726,675, which closed on October 22, 2004. The net proceeds of the sale will be recorded in the fourth quarter of 2004 as revenue for the non-vineyard acres of the parcel not being leased back, and as deferred gain for the leased back vineyard acres. The deferred gain will then be amortized over the life of the lease. Pursuant to the sale leaseback agreement, the Company will continue to farm and develop the vineyard acres of this parcel. This parcel includes 15.7 acres of established vineyard that the Company has agreed to lease for up to 14 years. The parcel also includes 7 acres of vineyard planted in 2004 and trellised with French Dijon clone 777 Pinot noir on disease resistant rootstock at the purchaser's expense, and 23 additional acres of vineyard land. The purchaser has agreed to fund the vineyard development of the 23 acres of vineyard land. The Company will begin paying rent on the 7 acres and any plantings on the 23 acres starting when the vines become commercially productive in 2008 for up to 24 years. The net cash proceeds of the sale were principally applied to reduce amounts owing under the Company's credit line.

Revenue from the remaining owned parcel at Tualatin Estate improved in the three and nine months ended September 30, 2004 due to the renting of the winery facility to the Company's former winemaker.

Harvest began at the end of the three months ended September 30, 2004 with variable results based upon vineyard location. Rain during bloom and the warm summer reduced yield. Rains in mid-September, just prior to harvest, caused some small berries to split, reducing yields. This variable vintage breaks a string of six remarkable vintages beginning in 1998. Early fermentations indicate some lots of Pinot noir will be lighter in color, less concentrated yet fragrant. White wines such as Pinot gris and Riesling are showing bright, powerful fruit flavor.

The Company capitalized $71,528 of label and package design costs in 1998 and 1999, and was amortizing them over a five year period through 2004. It has been determined that such costs should be expensed when incurred. Accordingly, the Company has restated its financial statements for the years ended December 31, 2003, 2002, and 2001, and the quarterly periods within each of those years, and the six month period ended June 30, 2004 to remove the amortization expense. The impact of this restatement is to reduce earnings in 1999 and increase earnings in subsequent periods through June 30, 2004. The Company delayed its filing of this Form 10-QSB pending the determination of the accounting for these label and package design costs. As a result of this filing delinquency, on November 24, 2004, the Company received a Staff Determination from The NASDAQ Stock Market indicating that because the Company's Form 10-QSB for the period ended September 30, 2004 had not been filed, the Company's securities were subject to delisting from The NASDAQ Stock Market SmallCap Market at the

opening of Business on December 3, 2004, unless the Company requested a hearing in accordance with The Nasdaq Stock Market's marketplace rules. Additionally, as a result of the Company's filing delinquency, at the opening of business on November 29, 2004, the fifth character "E" was appended to the Company's trading symbol, changing the trading symbol to WVVIE from WVVI. The Company has requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination. There can be no assurance the Panel will grant the Company's request for continued listing. The Company believes that as a result of the filing of this Form 10-QSB, all issues raised by The Nasdaq Stock Market will be resolved, and its securities will continue to be listed on The Nasdaq Stock Market and its trading symbol will be changed back to WVVI, pending the results of the Nasdaq Listing Qualifications Panel review.

RESULTS OF OPERATIONS

Revenue

The Company's revenues are summarized as follows (unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (restated)	2004	2003 (restated)
Tasting Room Sales and Rental Income	$ 458,208	$ 445,993	$ 1,117,331	$ 1,093,073
On-site and off-site festivals	15,702	20,817	76,861	85,814
In state sales	1,282,737	915,025	3,355,725	2,235,829
Out of state sales	635,298	534,532	1,881,946	1,489,532
Bulk wine/ Misc. sales	10,146	69,906	26,203	233,721
Total Revenue	2,402,091	1,986,273	6,458,066	5,137,969
Less Excise Taxes	89,484	69,234	198,595	185,791
Net Revenue	$ 2,312,607	$ 1,917,039	$ 6,259,471	$ 4,952,178

Tasting room sales and rental income for the three months ended September 30, 2004 increased 3% to $458,208 in 2004 from $445,993 compared to the prior year period. For the nine months ended September 30, 2004 tasting room sales and rental income increased 2% over the comparable prior year period. Tasting room sales and rental income increased during the three months ended September 30, 2004 due in part to higher customer traffic flows and increased tasting room sales.

On-site and off-site festival sales for the three months ended September 30, 2004 decreased 25% to $15,702 from $20,817 compared to the prior year period, and decreased 10% for the nine months ended September 30, 2004 compared to the prior year period. These decreases are due primarily to the continuing focus away from on-site and off-site events, in favor of telephone, mail order and retail sales.

Sales in the state of Oregon, through the Company's independent sales force and through direct sales from the winery, increased 40% to $1,282,737 in the three months ended September 30, 2004 from $915,025 compared to the prior year period. Sales through the Company's independent sales force for the three months ended September 30, 2004 increased 46% to $1,039,372 from $712,118 for the comparable

prior year period. The Company's direct instate sales to our largest customer increased 127% to $181,347 from $79,988 in the three months ended September 30, 2004 compared to the prior year period. These increases are largely the result of the improved sales management and broader product lines presented through the development of Bacchus Fine Wines.

Out-of-state sales in the three months ended September 30, 2004 increased 19% to $635,298 from $534,532 compared to the prior year period. During the nine months ended September 30, 2004, sales increased 26% compared to the prior year period. The higher sales are a result of increased promotional allowances offered to distributors by the Company that are resulting in higher depletions by the Company's distributors.

Excise taxes

The Company's excise taxes increased in the three months ended September 30, 2004 to $89,484 from $69,234 compared to the prior year period, and increased to $198,595 from $185,791 for the nine months ended September 30, 2004 compared to the prior year period. This was due largely to the increased sales in the three and nine months ended September 30, 2004 compared to the prior year periods, thereby increasing overall sales volumes and taxes calculated based on volume.

Restatement of Financial Information

As previously reported, in February and March 2004 the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department audited the Company's excise tax liability and payments for 2003, 2002 and 2001. This audit resulted in an additional amount of excise tax owing for those periods due principally to the Company's incorrect application of the federal small winery tax credit. The Company originally recorded a liability as of December 31, 2003 and a related expense in the year then ended of the estimated excise taxes owing of $80,000. The Company has restated its financial statements for the three and nine month periods ended September 30, 2003 to reflect the correct excise tax for the periods and to record the estimated interest and penalties with respect to the estimated excise tax liability. Additional excise tax of $6,284 and $18,852 and related interest and penalties of $1,854 and $5,562 have been recorded for the three and nine months ended September 30, 2003, respectively.

In addition, the Company previously capitalized certain label and package design costs totaling $71,528 and was amortizing them over a five year period through 2004. Amortization expense of $7,200 through June 30, 2004 and $3,600 and $10,800 for the three and nine months ended September 30, 2003 was included in selling, general, and administrative expenses. It has been determined that such costs should be expensed as incurred. Accordingly, the Company has restated its financial statements for the six months ended June 30, 2004 and for the three and nine months ended September 30, 2003 to adjust for the previously capitalized costs and related amortization.

The effect of these restatements was to decrease net income by $3,127, or $- per share, for the three months ended September 30, 2003 and by $9,381, or $- per share, for the nine months ended September 30, 2003.

In addition, the Company has restated its financial statements for the nine months ended September 30, 2003 to reflect the reclassification of an expense of $29,423 from other expense to cost of goods sold and for the three and nine months ended September 30, 2003 for the reclassification of amortization of deferred gain arising from a sales-leaseback transaction of $6,246 and $18,738, respectively, from other income to an offset of the related lease expense included in selling, general and administrative expenses. There was no change to previously reported net income as a result of these reclassifications.

There was no change to previously reported cash provided by operating activities, cash used by investing activities or cash used by financing activities.

The following sets forth the effects of the aforementioned restatements to the Company's Balance Sheet at December 31, 2003, and Statements of Operations for the three and nine months ended September 30, 2003.

December 31, 2003

	As Reported	Adjustments	Restated
Current assets	$ 8,648,453	$ 2,241	$ 8,650,694
Other assets	$ 215,148	$ (13,928)	$ 201,220
Total assets	$ 15,942,839	$ (11,687)	$ 15,931,152
Current liabilities	$ 3,261,959	$ 12,222	$ 3,274,181
Deferred income taxes	$ 300,856	$ (5,571)	$ 295,285
Total liabilities	$ 8,264,661	$ 6,651	$ 8,271,312
Shareholders' equity	7,678,178	(18,338)	7,659,840
Total liabilities and Shareholders' equity	$ 15,942,839	$ (11,687)	$ 15,931,152

Three months ended September 30, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,923,323	$ (6,284)	$ 1,917,039
Cost of sales	942,723	-	942,723
Gross margin	980,600	(6,284)	974,316
Selling general and administrative expenses	751,202	(8,835)	742,367
Net operating income	229,398	2,551	231,949
Other income (expense), net	19,193	(7,089)	12,104
Income before income taxes	248,591	(4,538)	244,053
Income tax	99,437	(1,411)	98,026
Net income	$ 149,154	$ (3,127)	$ 146,027

Nine months ended September 30, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 4,971,030	$ (18,852)	$ 4,952,178
Cost of sales	2,410,250	29,423	2,439,673
Gross margin	2,560,780	(48,275)	2,512,505
Selling general and administrative expenses	2,058,035	(26,505)	2,031,530
Net operating income	502,745	(21,770)	480,975
Other income (expense), net	(141,644)	8,156	(133,488)

Income before income taxes	361,101	(13,614)	347,487
Income tax	144,475	(4,233)	140,242
Net income	$ 216,626	$ (9,381)	$ 207,245

Gross Margin

As a percentage of net revenue, gross margin decreased to 50% in the three months ended September 30, 2004 compared to 51% in the comparable prior year period. Gross margin for the nine months ended September 30, 2004 decreased to 50% compared to 51% in the comparable prior year period. While the Company is continuing its focus on and improved distribution of higher margin products as well as continuing to reduce grape and production costs, we anticipate the Company's increased representation of brands other than its own through its Oregon sales force will further erode gross margins due to the lower margins associated with selling those brands.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased to $871,511 in the three months ended September 30, 2004 from $742,367 in the comparable prior year period. Selling, general and administrative expenses increased to $2,403,668 for the nine months ended September 30, 2004 from $2,031,530 for the comparable prior year period. As a percentage of net revenue from winery operations, selling, general and administrative expenses decreased to 38% in the three months ended September 30, 2004 from 39% in the comparable prior year period, and to 38% in the nine months ended September 30, 2004 from 41% in the comparable prior year period, primarily as a result of a higher increase in revenues as compared to the increase in selling, general and administrative expenses.

Interest Income, Other Income and Expense

Interest income increased to $1,216 for the three months ended September 30, 2004 from $1,160 for the comparable prior year period. Interest expense decreased to $81,285 for the three months ended September 30, 2004 compared to $84,500 in the comparable prior year period. Interest income decreased to $3,764 the nine months ended September 30, 2004 compared to $3,787 for the comparable prior year period. Interest expense decreased to $233,107 for the nine months ended September 30, 2004 compared to $259,718 in the comparable prior year period. Interest costs were lower primarily due to less debt outstanding during the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (restated)	2004	2003 (restated)
Gain on Tualatin bare land sale	$ -	$ -	$ -	$ 3,004
Farm Credit interest rebate	-	-	14,504	22,617
Miscellaneous rebates	10	75	44	1,453
Insurance settlement for Inventory loss	-	95,369	-	95,369

Other income	$ 10	$ 95,444	$ 14,548	$ 122,443

Income Taxes

As the Company experienced a net profit for the three and nine months ended September 30, 2004, we accrued $77,794 in income tax expense for the three months ended September 30, 2004, making the total accrued for income taxes $211,452 for the nine months ended September 30, 2004. The Company's estimated tax rate for the three and nine months ended September 30, 2004 was 40 percent.

Liquidity and Capital Resources

At September 30, 2004, the Company had a working capital balance of $5.7 million and a current ratio of 2.68:1. At December 31, 2003, the Company had a working capital balance of $5.4 million and a current ratio of 2.64:1. The Company had a cash balance of $116,440 at September 30, 2004.

Total cash provided by operating activities in the nine months ended September 30, 2004 was $223,457 compared to $590,737 in the prior year period. Cash provided by operating activities in the nine months ended September 30, 2004 was comprised of net income of $317,178 plus depreciation of $484,303 less changes in assets and liabilities and other non-cash charges of $578,024. Cash provided by operating activities in the nine months ended September 30, 2003 was comprised of net income of $207,245 plus depreciation of $543,303 less changes in assets and liabilities and other non-cash charges of $159,811.

Total cash used in investing activities in the nine months ended September 30, 2004 was $266,472 compared to $133,678 in the prior year period. Cash used in investing activities comprised of property and equipment additions and vineyard development costs.

Total cash used in financing activities in the nine months ended September 30, 2004 was $54,226 compared to $575,325 in the prior year period. Cash used in financing activities was primarily comprised of payments on the long term debt (2004 $202,455 and 2003 $172,724) and payments and draws on the line of credit (2004 draws of $125,844 and 2003 payments of $386,036).

At September 30, 2004, the line of credit balance was $1,256,360 compared to $1,130,516 on December 31, 2003. The Company's loan agreement with GE Commercial Distribution Finance Corporation contains certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage, which must be maintained by the Company on a quarterly basis. As of September 30, 2004, the Company was in compliance with all of the financial covenants. During the three months ended September 30, 2004, management initiated the sale and lease back of the 75.3 acre Meadowview parcel at the Tualatin Estate Vineyard for $726,675, which closed on October 22, 2004. The net cash proceeds of the sale were principally applied to reduce amounts owing under the Company's credit line during the fourth quarter of 2004.

The Company's lender, GE Commercial Distribution Finance, announced to its winery clients that it would be exiting the wine industry. It was noted that GE Commercial Distribution Finance was unable to build a client base to justify their costs of servicing the industry.

The Company's ability to fund operations requires utilization of amounts available pursuant to a line of credit agreement as further discussed above. There was $1,256,360 outstanding on the line of credit with GE Commercial Distribution Finance Corporation as of September 30, 2004. The Company has been notified by GE Commercial Distribution Finance Corporation that they do not intend to renew the line of credit agreement when it expires on January 3, 2005

and that it was reducing the amount available under the existing line of credit to $2,000,000. There can be no assurance that the Company will be successful in obtaining replacement financing on favorable terms, or at all. The Company's failure to obtain such financing or to obtain such financing on favorable terms raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company is in discussions with a replacement lender to replace the line of credit facility in amounts that are similar to the existing credit facility but has not obtained a non-cancelable commitment. Management believes that it will be able to complete discussions and satisfy all the required terms and conditions prior to January 3, 2005. In the event that they are not able to finalize a new line of credit facility prior to January 3, 2005, management believes that the existing lender will grant an extension of time on the existing line of credit to enable the Company to finalize a new line of credit facility. Management believes existing cash and cash flow from operations, combined with the amounts that it expects to have available under the new line of credit facility will be sufficient to satisfy all debt service obligations and fund the Company's operating needs and capital expenditures through 2005.

As of September 30, 2004, the Company had a total long-term debt balance of $2,769,867 owed primarily to Farm Credit Services. This debt was used to finance the Hospitality Center, invest in winery equipment to increase the Company's winemaking capacity, complete the storage facility, and purchase Tualatin Vineyards.

At September 30, 2004, the Company owed $483,070 on grape contracts. A large portion is owed to a single grape grower, which will be paid as the wine made from those grapes is sold.

The Company believes that cash flow from operations and funds available under current and pending credit facilities will be sufficient to meet the Company's liquidity requirements for the next 12 months.

Critical Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in our amended Annual Report on Form 10-KSB/A for the year ended December 31, 2003.

ITEM 3
Controls and Procedures

a) We carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer, Chief Financial Officer 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 September 30, 2004. Based on that evaluation, the

Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of September 30, 2004 were not 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.

As described in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations under Restatement of Financial Information and in Note 2 of the Notes to Financial Statements included in Part I, Item 1, subsequent to the issuance of the Company's financial statements for the year ended December 31, 2003, the Company's management determined it was necessary to restate the Company's financial statements as of and for the years ended December 31, 2003, 2002, and 2001 and for each of the quarterly periods within each of those years for the following: a) the Company's incorrect application of the federal small winery tax credit, b) capitalization and subsequent amortization of certain label and package design costs that should have been expensed in the period incurred, c) revision in classification of the amortization of deferred gain from a sales-leaseback from other income to selling, general and administrative expenses, and d) revision in classification of an expense in other expense to cost of goods sold.

Management and the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, identified and communicated to the Audit Committee certain matters relating to the Company's internal controls and procedures over its financial reporting for excise taxes during the periods under review that are considered a material weakness (as defined in Public Company Accounting Oversight Board Standard No. 2). In response thereto, the Company has performed a review of its excise tax calculation and reporting procedures and has put additional controls in place over the calculation and reporting of excise taxes to ensure that they are accurately measured and reported in the appropriate reporting period. We believe these changes to our disclosure controls and procedures will be adequate to provide reasonable assurance that the objectives of our disclosure controls and procedures will be met. The Company has also implemented enhanced supervisory review procedures related to the preparation of our financial statements, including the process used to initially classify transactions, to ensure that amounts are appropriately classified in accordance with generally accepted accounting principles and classified consistently between reporting periods.

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 September 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except as noted above.

PART II. OTHER INFORMATION

ITEM 5
Other Information

Non-Audit Fees:

The Audit Committee of the Board Of Directors has approved the following non-audit services, which are being performed by PricewaterhouseCoopers, our independent accountants, during the calendar year ending December 31, 2004:

- Income tax advisory services related to: income tax returns; acquisitions

ITEM 6
Exhibits

a) The exhibits filed herewith are listed in the Exhibit Index following the signature page of this report.

b)
a. Form 8-K, filed October 7, 2004, Item 4.02 - Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Interim Review
b. Form 8-K, filed November 26, 2004, Item 2.02 - Results of Operations and Financial Condition
c. Form 8-K, filed December 2, 2004, Item 2.02 - Results of Operations and Financial Condition and Item 3.01 - Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard: Transfer of Listing

SIGNATURES

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

WILLAMETTE VALLEY VINEYARDS, INC.

Date: December 6, 2004 By /s/ James W. Bernau
James W. Bernau
President

Date: December 6, 2004 By /s/ Sean M. Cary
Sean M. Cary
Controller

EXHIBIT INDEX

Exhibit

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.