WILLAMETTE VALLEY VINEYARDS INC
Form 10QSB
August 12, 2005

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 June 30, 2005

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 June 30, 2005
4,486,278 shares, no par value

Transitional Small Business Disclosure
[ ] YES [X] NO

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

PART 1 FINANCIAL INFORMATION

ITEM 1 Financial Statements

WILLAMETTE VALLEY VINEYARDS, INC.
Balance Sheet

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS.		
Current Assets:		
Cash and cash equivalents	$ 89,812	$ 851,492
Accounts receivable trade, net	1,045,352	908,510
Inventories	7,217,914	7,827,982
Prepaid expenses and other current assets	99,212	53,059
Deferred income taxes	109,401	109,401
Total current assets	8,561,691	9,750,444
Vineyard development cost, net	1,614,292	1,482,348
Inventories	571,355	571,355
Property and equipment, net	4,102,628	4,254,526
Note receivable	-	5,000
Debt issuance costs, net	38,985	42,561
Other assets	81,021	82,315
Total assets	$14,969,972	$16,188,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Line of credit	$ 134,479	$ 1,232,251
Current portion of long term debt	257,957	257,957
Accounts payable	588,300	510,803
Accrued expenses	479,647	526,860
Income taxes payable	84,924	278,970
Grapes payable	428,886	592,390
Total current liabilities	1,974,193	3,399,231
Long-term debt	2,150,564	2,331,987

Distributor obligation	1,500,000	1,500,000
Deferred rent liability	148,278	131,785
Deferred gain	458,261	474,309
Deferred income taxes	212,975	212,975
Total liabilities	6,444,271	8,050,287
Shareholders' equity		
Common stock, no par value - 10,000,000 shares authorized, 4,501,228 and 4,486,278 shares issued and outstanding at June 30, 2005 and December 31, 2004	7,205,489	7,182,329
Retained earnings	1,320,212	955,933
Total shareholders' equity	8,525,701	8,138,262
Total liabilities and shareholders' equity	$14,969,972	$16,188,549

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

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

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Net revenues				
Case revenue	$ 3,500,676	$ 2,096,773	$ 5,785,314	$ 3,931,383
Custom crush-facility lease-bulk revenue	11,823	7,041	102,263	16,057
Total net revenues	3,512,499	2,103,814	5,887,577	3,947,440
Cost of sales				
Case	1,931,401	1,061,808	3,161,917	1,945,827
Bulk	-	-	55,926	-
Total cost of sales	1,931,401	1,061,808	3,217,843	1,945,827
Gross profit	1,581,098	1,042,006	2,669,734	2,001,613
Selling, general and administrative expenses	1,069,561	842,970	1,961,984	1,532,733
Net operating income	511,537	199,036	707,750	468,880
Other income (expense)				
Interest income	260	1,346	426	2,548
Interest expense	(52,597)	(75,440)	(118,380)	(151,822)
Other income (expense)	-	-	17,336	14,538
Net income before income taxes	459,200	124,942	607,132	334,144
Income tax	183,680	49,977	242,853	133,658
Net income	275,520	74,965	364,279	200,486
Retained earnings beginning of period	1,044,692	617,772	955,933	492,251

Retained earnings end of period	$ 1,320,212	$ 692,737	$ 1,320,212	$ 692,737
Basic earnings per common share	$ .06	$ .02	$ .08	$ .04
Diluted earnings per common share	$ .06	$ .02	$ .08	$ .04
Weighted average number of basic common shares outstanding	4,492,602	4,485,780	4,489,573	4,484,030
Weighted average number of diluted common shares outstanding	4,598,281	4,567,637	4,595,252	4,565,887

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

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

	Six months ended June 30, 2005	2004
Cash flows from operating activities:		
Net income	$ 364,279	$ 200,486
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	276,843	325,541
Loss on disposal of fixed assets	-	1,898
Stock issued for compensation	-	11,500
Changes in assets and liabilities:		
Accounts receivable trade	(136,842)	180,630
Inventories	610,068	(450,401)
Prepaid expenses and other current assets	(46,153)	(14,344)
Note receivable	5,000	(2,240)
Other assets	1,294	532
Accounts payable	77,497	44,762
Accrued expenses	(47,213)	(13,708)
Income taxes payable	(194,046)	133,658
Grape payables	(163,504)	(155,421)
Deferred rent liability	16,493	11,395
Deferred gain	(16,048)	(12,492)
Net cash provided by operating activities	747,668	261,796
Cash flows from investing activities;		
Additions to property and equipment	(77,596)	(130,518)
Vineyard development expenditures	(171,095)	(40,462)
Net cash used in investing activities	(248,691)	(170,980)
Cash flows from financing activities:		

Debt issuance costs	(4,622)	(9,088)
Net (decrease) increase in line of credit balance	(1,097,772)	(96 109)
Proceeds from stock options exercised	23,160	2,550
Repayments of long-term debt	(181,423)	(133,974)
Net cash used in financing activities	(1,260,657)	(236,621)
Net increase (decrease) in cash and cash equivalents	(761,680)	(145,805)
Cash and cash equivalents:		
Beginning of period	851,492	213,681
End of period	$ 89,812	$ 67,876

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements as of and for the three and six months ended June 30, 2005 and 2004, have been prepared in conformity with accounting principles generally accepted in the United States. The financial information as of December 31, 2004, is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the "Company") Annual Report on Form 10-KSB for the year ended December 31, 2004. 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, 2004, as presented in the Company's Annual Report on Form 10-KSB.

Operating results for the three and six months ended June 30, 2005, are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005, 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 105,679 shares are included in the computation of dilutive earnings per share for the three and six months ended June 30, 2005. Total potentially dilutive shares of 81,857 shares are included in the computation of dilutive earnings per share for the three and six months ended June 30, 2004.

2) 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 cost 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 earnings would have been reduced to the pro forma amounts indicated as follows for the three and six months ended June 30:

	Three months ended June 30, 2005 (unaudited)	Three months ended June 30, 2004 (unaudited)	Six months ended June 30, 2005 (unaudited)	Six months ended June 30, 2004 (unaudited)
Net income, as reported	$ 275,520	$ 74,965	$ 364,279	$ 200,486
Add stock-based employee compensation expense included in reported net income, net of related tax effects	-	-	-	11,500
Deduct total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(44,918)	(5,124)	(89,835)	(18,033)
Pro forma net income	$ 230,602	$ 69,841	$ 274,444	$ 193,953
Earnings per share:				
Basic - as reported	$ 0.06	$ 0.02	$ 0.08	$ 0.04
Basic - pro forma	$ 0.06	$ 0.02	$ 0.08	$ 0.04
Diluted - as reported	$ 0.06	$ 0.02	$ 0.08	$ 0.04
Diluted - pro forma	$ 0.05	$ 0.02	$ 0.06	$ 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 June 30, 2005, the following transactions related to stock option exercise occurred:

	Shares	Exercise price
Stock Options Exercised	1,000	$ 2.75
	4,000	1.7188
	5,000	1.507

4,000 1.50

3) INVENTORIES BY MAJOR CLASSIFICATION ARE SUMMARIZED AS FOLLOW:

	June 30, 2005 (unaudited)	December 31, 2004
Winemaking and packaging materials	$ 32,092	$ 134,059
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	1,709,824	1,891,681
Finished goods (bottled wines and related products)	6,047,353	6,373,597
	7,789,269	8,399,337
Less: amounts designated for distributor	(571,355)	(571,355)
Current inventories	$ 7,217,914	$ 7,827,982

4) PROPERTY AND EQUIPMENT CONSIST OF THE FOLLOWING:

	June 30, 2005 (unaudited)	December 31, 2004
Land and improvements	$ 769,644	$ 769,644
Winery building and hospitality center	4,694,551	4,647,272
Equipment	3,835,392	3,805,075
	9,299,587	9,221,991
Less accumulated depreciation	(5,196,959)	(4,967,465)
	$ 4,102,628	$ 4,254,526

5) SUBSEQUENT EVENTS:

In August 2005, the Company completed negotiations to immediately repay the distributor obligation incurred during 2001 when the Company entered into a distribution agreement with a national wine distributor group (the "distributor"), whereby the distributor paid the Company $1,500,000 for a base amount of bottled wine. The Company will refinance the distributor obligation with a new business loan agreement with Umpqua Bank which provides for borrowings of $1,500,000. The agreement calls for an interest rate of 6.01 percent, and 8 quarterly payments of $200,593 including principal and interest beginning in November of 2005. The agreement also contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage. The borrowings are collateralized by the case goods inventory.

ITEM 2

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

Forward Looking Statements

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

Critical Accounting Policies:

The foregoing discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in our Annual Report on Form 10-KSB for the year ended December 31, 2004.

Overview

The Company achieved its highest performing Quarterly results in its history. Sales Revenue increased 67% and Net Income before taxes increased 268% for the three months ended June 30, 2005 as compared to the prior year period, and increased 49% and 82%, respectively, for the six months ended June 30, 2005 as compared to the prior year period. These increased sales allowed the Company to pay down its line of credit with Umpqua Bank by $1,130,580 resulting in reduced interest costs for the three and six months ended June 30, 2005 which are expected to continue in future periods. Earnings per share increased $0.04 for the three and six months ended June 30, 2005 to $0.06 and $0.08, respectively, compared to $0.02 and $0.04 for the comparable periods in 2004.

The primary reason for the increases in sales revenue and profitability during the three and six months ended June 30, 2005 was sales to out-of-state distributors, which increased 102% and 63% for the three and six months ended June 30, 2005 as compared to the respective prior year periods. We believe that a generally favorable business climate, heightened consumer awareness about Pinot Noir (the Company's flagship varietal) generated by the movie "Sideways," and the Company's sales programs are influencing these record sales. Depletions of the Company's wines from these distributors to their retail customers increased 62% and 52% during the three and six months ended June 30, 2005 as compared to the respective prior year periods - the highest percentage increase in terms of case volume ever experienced.

The Company continues to benefit from the national exposure provided by the airing of Rachael Ray's $40 a Day on the Food Network and PBS's Caprial and John's Kitchen, where the Company has been featured. The Company's wines continued to receive strong reviews. The '04 Pinot Gris received four gold medals in 2005 from the Long Beach Grand Cru Wine Awards, San Francisco International Wine Awards, L.A. County World of Wine Awards, and the Taster's Guild International Wine Awards. It received 89 points and is featured as one of the "Best Wines for Summer Sippin" in the August issue of Wine Enthusiast.

Our 2004 Whole Cluster Pinot Noir was described in the July 5, 2005 issue of The Oregonian, by writer Katherine Cole, as "lip-smacking strawberry, cranberry, raspberry preserves". Our Griffin Creek line continues to receive accolades as well with the 2002 Viognier winning a Best of Show at the Pacific Rim International Wine Competition, and Best of Class at L.A. County Fair World of Wines. The 2002 Lakeside Syrah received 91 points from Wine and Spirits magazine.

Revenues from Bacchus Fine Wines, the Company's wholesale wine distribution department, increased 53% in the three months ended June 30, 2005 compared to the same period in 2004 and 46% in the six months compared to the same period in 2004. Sales of Company produced products through Bacchus Fine Wines increased 25% and sales of products produced by other wineries increased 92% in the three months ended June 30, 2005 compared to the prior year period. For the six months ended June 30, 2005, such sales increased 16% and 106%, respectively, compared to the prior year period.

Retail revenues increased 39% and 20% in the three and six months, respectively, ended June 30, 2005 compared to the respective prior year periods due primarily to increased sales through the tasting room and higher direct sales made by the Company's key customer sales representatives.

Increased sales of Company produced products have reduced excess inventories and the Company is reviewing sales projections in order to plan appropriate inventory production. While there remains some inventory imbalances, management may increase wine production of Pinot noir in 2005 over the prior year, which may spread fixed production costs and improve the margins on future sales. The Company will purchase additional grapes and may need to make minimal investments in its production equipment to achieve the possible increase in wine production.

Despite the 80% increase in production of the 2004 Whole Cluster Pinot Noir over the prior vintage, management expects distributor orders to exceed the remaining supply before the '05 vintage is ready. Sales of Riesling are presently exceeding long term availability of Riesling wine grapes grown in the Willamette Valley Appellation, which will reduce revenues for this variety until new contracted plantings mature.

In August 2005, the Company completed negotiations to immediately repay the distributor obligation incurred during 2001 when the Company entered into a distribution agreement with a national wine distributor group (the "distributor"), whereby the distributor paid the Company $1,500,000 for a base amount of bottled. The Company will refinance the distributor obligation with a new business loan agreement with Umpqua Bank reducing financing costs by nearly 2 percent.

RESULTS OF OPERATIONS

Revenue

Winery Operations
The Company's revenues from winery operations are summarized as follows:

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Tasting Room Sales and Rental Income	$ 460,109	$ 331,363	$ 794,007	$ 659,122
On-site and off-site festivals	2,112	11,766	48,113	61,735
In-state sales	1,789,147	1,171,162	3,025,939	2,072,989
Out-of-state sales	1,310,633	649,470	2,032,337	1,246,648
Bulk wine/ Misc. sales	11,823	7,041	102,263	16,057
Total Revenue	3,573,824	2,170,802	6,002,659	4,056,551
Less Excise Taxes	61,325	66,988	115,082	109,111
Net Revenue	$ 3,512,499	$ 2,103,814	$ 5,887,577	$ 3,947,440

Tasting room and retail sales, and rental income for the three months ended June 30, 2005 increased 39% to $460,109 in 2005 compared to $331,363 for the comparable prior year period. For the six months ended June 30, 2005, tasting room and retail sales increased 20% to $794,007 compared to the prior year period. Tasting room and retail sales increased during the three and six months ended June 30, 2005 due primarily to increased customer traffic flows and higher purchases in the tasting room and increased key customer phone sales.

On-site and off-site festival sales for the three months ended June 30, 2005 decreased 81% to $2,112 compared to $11,766 for the comparable prior year period, and decreased 21% for the six months ended June 30, 2005 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 53% to $1,789,147 in the three months ended June 30, 2005 compared to $1,171,162 for the comparable prior year period. Sales through the Company's independent sales force alone for the three months ended June 30, 2005 increased 48% to $1,402,955 compared to $949,675 for the comparable prior year period. The Company's direct instate sales to our largest customer increased 75% in the three months ended June 30, 2005 to $337,406 compared to $193,067 for the comparable prior year period. These increases are largely the result of the broader product lines presented through the development of Bacchus Fine Wines.

Out-of-state sales in the three months ended June 30, 2005 increased 102% to $1,310,633 compared to $649,470 for the comparable prior year period. During the six months ended June 30, 2005, sales increased 63% 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 decreased in the three months ended June 30, 2005 to $61,625 compared to $66,988 for the comparable prior year period, and increased to $115,082 for the six months ended June 30, 2005 compared to $109,111 for the comparable prior year period. This was due primarily to the Company's efforts to manage production levels to receive the full benefit of the federal small winery tax credit.

Gross Profit

Winery Operations

As a percentage of net revenue, gross profit decreased to 45% in the three months ended June 30, 2005 as compared to 50% in the comparable prior year period. As a percentage of net revenue, gross profit for the six months ended June 30, 2005 decreased to 45% as 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 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 anticipates that net income will not follow that trend.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased to $1,069,561 in the three months ended June 30, 2005 compared to $842,970 for the comparable prior year period. Selling, general and administrative expenses increased to $1,961,984 for the six months ended June 30, 2005 compared to $1,532,733 for the comparable prior year period. These increases are due primarily to higher fixed Oregon wholesale sales and delivery costs and increased shipping and fuel costs. As a percentage of net revenue from winery operations, selling, general and administrative expenses decreased to 30% for the three months ended June 30, 2005 as compared to 40% for the comparable prior year period, and to 33% for the six months ended June 30, 2005 as compared to 39% for the comparable prior year period, primarily as a result of increased revenues.

Interest Income, Other Income and Expense

Interest income decreased to $260 and $426 for the three and six months, respectively, ended June 30, 2005, compared to $1,346 and $2,548, respectively, for the comparable prior year periods. Interest expense decreased to $52,597 for the three months ended June 30, 2005 compared to $75,440 for the comparable prior year period, and $118,380 for the six months ended June 30, 2005 compared to $151,822 for the comparable prior year period. Interest costs were lower primarily due to less debt outstanding during the period.

The Company's other income is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Farm Credit interest rebate	-	-	17,336	14,504

Miscellaneous rebates	-	-	-	34
Other income (expense)	$ -	$ -	$ 17,336	$ 14,538

Income Taxes

Income tax expense was $183,680 and $242,853, respectively, for the three and six months ended June 30, 2005, compared to $49,977 and $133,658, respectively, for the prior year periods due to the Company's net profit for the first three and six months in 2005. The Company's estimated tax rate for the three and six months ended June 30, 2005 and 2004 was 40 percent.

Liquidity and Capital Resources

At June 30, 2005, the Company had a working capital balance of $6.6 million and a current ratio of 4.34:1. At December 31, 2004, the Company had a working capital balance of $6.4 million and a current ratio of 2.87:1. The Company had a cash balance of $89,812 at June 30, 2005 compared to a cash balance of $851,492 at December 31, 2004. The substantial decrease in cash was primarily due to the pay down in the Company's line of credit.

Total cash provided by operating activities in the six months ended June 30, 2005 was $747,668 compared to $261,796 for the prior year period, primarily as an increase in net income and lower depreciation in the six months ended June 30, 2005 compared to the prior year period. Cash provided by operating activities in the six months ended June 30, 2005 consisted of net income of $364,279 plus depreciation of $276,843 plus changes in assets and liabilities and other non-cash charges of $106,546. Cash provided by operating activities in the six months ended June 30, 2004 consisted of net income of $200,486 plus depreciation of $325,541 less changes in assets and liabilities and other non-cash charges of $264,231.

Total cash used in investing activities in the six months ended June 30, 2005 was $248,691 compared to $170,980 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 six months ended June 30, 2005 was $1,260,657 compared to $236,621 in the prior year period. Cash used in financing activities primarily consisted of payments on the long term debt and the line of credit.

At June 30, 2005, the line of credit balance was $134,479, on maximum borrowing 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 June 30, 2005, the Company was in compliance with all of the financial covenants.

As of June 30, 2005, the Company had a total long-term debt balance of $2,408,521 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 June 30, 2005, the Company owed $428,886 on grape contracts. This amount is primarily owed to a single grape grower, which will be paid as the wine made from those grapes is sold.

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.

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 June 30, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2005 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.

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 June 30, 2005 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 1
Exhibits

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

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 Moss Adams, our independent accountants, during the calendar year ending December 31, 2005:

- Income tax advisory services related to: income tax returns

SIGNATURES

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

WILLAMETTE VALLEY VINEYARDS, INC.

Date: August 12, 2005 By /s/ James W. Bernau
James W. Bernau
President

Date: August 12, 2005 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.