WILLAMETTE VALLEY VINEYARDS INC
Form 10QSB
November 14, 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 September 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

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

[ ] YES [X] NO

Number of shares of common stock outstanding as of September 30, 2005
4,539,202 shares, no par value

Transitional Small Business Disclosure

[ ] YES [X] NO

WILLAMETTE VALLEY VINEYARDS, INC.

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PART 1 FINANCIAL INFORMATION

ITEM 1 Financial Statements

WILLAMETTE VALLEY VINEYARDS, INC.
Balance Sheet

	September 30, 2005 (unaudited)	December 31, 2004
ASSETS.		
Current Assets:		
Cash and cash equivalents	$ 500,812	$ 851,492
Accounts receivable trade, net	1,054,236	908,510
Inventories	7,229,781	7,827,982
Prepaid expenses and other current assets	65,395	53,059
Deferred income taxes	109,401	109,401
Total current assets	8,959,625	9,750,444
Vineyard development cost, net	1,593,132	1,482,348
Inventories	-	571,355
Property and equipment, net	4,095,568	4,254,526
Note receivable	-	5,000
Debt issuance costs, net	37,198	42,561
Other assets	80,509	82,315
Total assets	$14,766,032	$16,188,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Line of credit	$ -	$ 1,232,251
Current portion of long term debt	507,957	257,957

Accounts payable	791,554	510,803
Accrued expenses	275,508	526,860
Income taxes payable	255,170	278,970
Grapes payable	351,824	592,390
Total current liabilities	2,182,013	3,399,231
Long-term debt	2,833,636	2,331,987
Distributor obligation	-	1,500,000
Deferred rent liability	156,524	131,785
Deferred gain	450,238	474,309
Deferred income taxes	212,975	212,975
Total liabilities	5,835,386	8,050,287
Shareholders' equity		
Common stock, no par value - 10,000,000 shares authorized, 4,539,202 and 4,486,278 shares issued and outstanding at September 30, 2005 and December 31, 2004	7,292,188	7,182,329
Retained earnings	1,638,458	955,933
Total shareholders' equity	8,930,646	8,138,262
Total liabilities and shareholders' equity	$14,766,032	$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 September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Net revenues				
Case revenue	$ 3,609,228	$ 2,302,461	$ 9,394,542	$ 6,233,268
Custom crush-facility lease-bulk revenue	8,828	10,146	111,090	26,203
Total net revenues	3,618,056	2,312,607	9,505,632	6,259,471
Cost of sales				
Case	1,944,787	1,166,551	5,106,703	3,112,378
Bulk	-	-	55,926	-
Total cost of sales	1,944,787	1,166,551	5,162,629	3,112,378
Gross profit	1,673,269	1,146,056	4,343,003	3,147,093
Selling, general and administrative expenses	1,085,852	871,511	3,047,836	2,403,668
Net operating income	587,417	274,545	1,295,167	743,425
Other income (expense)				
Interest income	349	1,216	775	3,764
Interest expense	(57,355)	(81,285)	(175,735)	(233,107)
Other income				

(expense)	-	10	17,336	14,548
Net income before income taxes	530,411	194,486	1,137,543	528,630
Income tax	212,165	77,794	455,018	211,452
Net income	318,246	116,692	682,525	317,178
Retained earnings beginning of period	1,320,212	692,737	955,933	492,251
Retained earnings end of period	$ 1,638,458	$ 809,429	$ 1,638,458	$ 809,429
Basic earnings per common share	$ .07	$ .03	$ .15	$ .07
Diluted earnings per common share	$ .07	$ .03	$ .15	$ .07
Weighted average number of basic common shares outstanding	4,514,635	4,486,180	4,498,019	4,484,752
Weighted average number of diluted common shares outstanding	4,621,115	4,560,959	4,604,499	4,563,863

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, 2005	2004
Cash flows from operating activities:		
Net income	$ 682,525	$ 317,178
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	422,355	484,303
Loss on disposal of fixed assets	-	1,898
Stock issued for compensation	9,610	13,110
Changes in assets and liabilities:		
Accounts receivable trade	(145,726)	36,891
Inventories	1,169,556	(702,731)
Prepaid expenses and other current assets	(12,336)	16,508
Note receivable	5,000	(3,373)
Other assets	1,806	(26,364)
Accounts payable	280,751	(30,432)
Accrued expenses	(251,352)	93,307
Income taxes payable	(23,800)	211,452
Grape payables	(240,566)	(186,644)
Deferred rent liability	24,739	17,092
Deferred gain	(24,071)	(18,738)

Net cash provided by operating activities	1,898,491	223,457
Cash flows from investing activities;		
Additions to property and equipment	(193,101)	(226,010)
Vineyard development expenditures	(171,095)	(40,462)
Net cash used in investing activities	(364,196)	(266,472)
Cash flows from financing activities:		
Debt issuance costs	(4,622)	(9,088)
Net (decrease) increase in line of credit balance	(1,232,251)	125,844
Proceeds from stock options exercised	100,249	2,550
Repayments of distributor obligation	(1,500,000)	-
Issuance of long-term debt	1,500,000	28,923
Repayments of long-term debt	(748,351)	(202,455)
Net cash used in financing activities	(1,884,975)	(54,226)
Net increase (decrease) in cash and cash equivalents	(350,680)	(97,241)
Cash and cash equivalents:		
Beginning of period	851,492	213,681
End of period	$ 500,812	$ 116,440

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

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2005 and 2004, have been prepared in conformity with accounting principles generally accepted in the United States. he 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 accounting principles generally accepted in the United States 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 nine months ended September 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 106,480 shares are included in the computation of dilutive earnings per share for the three and nine months ended September 30, 2005. Total 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.

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 nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2005 (unaudited)	2004 (unaudited)	2005 (unaudited)	2004 (unaudited)
Net income, as reported	$ 318,246	$ 116,692	$ 682,525	$ 317,178
Add stock-based employee compensation expense included in reported net income, net of related tax effects	-	1,610	-	13,110
Deduct total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(64,199)	(10,946)	(192,597)	(28,980)
Pro forma net income	$ 254,047	$ 107,356	$ 489,928	$ 301,308
Earnings per share:				
Basic - as reported	$ 0.07	$ 0.03	$ 0.15	$ 0.07

Basic – pro forma	$	0.06	$	0.02	$	0.11	$	0.07
Diluted – as reported	$	0.07	$	0.03	$	0.15	$	0.07
Diluted – pro forma	$	0.05	$	0.02	$	0.11	$	0.07

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, 2005, the following transactions related to stock option exercise occurred:

	Shares	Exercise price
Stock Options Exercised	6,000	$ 3.62
	6,714	3.00
	23,485	1.50

3) INVENTORIES BY MAJOR CLASSIFICATION ARE SUMMARIZED AS FOLLOW:

	September 30, 2005 (unaudited)	December 31, 2004
Winemaking and packaging materials	$ 31,907	$ 134,059
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	1,383,045	1,891,681
Finished goods (bottled wines and related products)	5,814,829	6,373,597
	7,229,781	8,399,337
Less: amounts designated for distributor	-	(571,355)
Current inventories	$ 7,229,781	$ 7,827,982

In August 2005, the Company entered into a new business loan agreement with Umpqua Bank to borrow $1,500,000 to pay-off the distributor obligation. With the distributor obligation pay-off, the distributor released their lien against the inventory and the inventory amount designated for distributor was
reclassified to current inventory.

4) PROPERTY AND EQUIPMENT CONSIST OF THE FOLLOWING:

	September 30, 2005 (unaudited)	December 31, 2004
Land and improvements	$ 769,644	$ 769,644
Winery building and hospitality center	4,696,058	4,647,272
Equipment	3,949,390	3,805,075

	9,415,092	9,221,991
Less accumulated depreciation	(5,319,524)	(4,967,465)
	$ 4,095,568	$ 4,254,526

5) DEBT

In August of 2005, the Company signed a new business loan agreement with Umpqua Bank to borrow $1,500,000 to pay-off the distributor obligation. The Umpqua Bank 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. As of September 30, 2005, the Company was in compliance with all of the financial covenants. The borrowings are collateralized by the case goods inventory. As of September 30, 2005, the Company had paid $500,000 towards the principal balance of the Umpqua agreement leaving an outstanding balance of $1,000,000 included in the long-term debt balance.

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 set a record with its Third Quarter earnings achieving its highest earnings since its inception - besting the Company's Second Quarter of 2005 reported three months ago which was, at that time, the winery's highest earning Quarter. Sales Revenue increased 56% and Net Income before taxes increased 173% for the three months ended September 30, 2005, as compared to the prior year period, and increased 52% and 115%, respectively, for the nine months ended September 30, 2005, as compared to the prior year period.

Management believes the strong sales are in part due to the Company's wine quality which Management believes is at its highest since beginning operations and the national exposure on the Food Network in Rachael Ray's "$40 a Day" and on PBS Chefs Caprial and John Pence in "Caprial and John's Kitchen". Articles and wine recommendations in national publications like the Wine Spectator, Wine Enthusiast, Food and Wine, People Magazine, Your Diet and Sunset magazine have also contributed. Management also believes the "Sideways" movie has been a significant factor. There have been follow-on effects. For example, the winery's '04 Pinot Gris was featured in the Wine Enthusiast Magazine cover story, "Best Wines for Summer Sippin", with Virginia Madsen, co-star of "Sideways". The winery ran a very successful consumer essay contest called "Why I Love Oregon Pinot Noir" where the winning entrant won their own "Sideways" trip to Oregon wine country.

The Wine Spectator magazine coverage of the Willamette Valley Vineyards achieving the first federal approval of a wine label listing the antioxidant resveratrol content may also be a factor contributing to sales growth. The powerful antioxidant resveratrol is found in high amounts in Pinot Noir grapes grown in moist, cool climates according to Dr. Leroy Creasy of Cornell University.

In August 2005, the Company entered into a new business loan agreement with Umpqua Bank to borrow $1,500,000 to pay-off the Company's distributor obligation. The distributor obligation was 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 Umpqua Bank 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. During September 2005, the Company used excess cash generated through sales to pay $500,000 towards the principle balance of the Umpqua agreement, leaving an outstanding balance of $1,000,000.

The Company used $1,942,963 of cash generated from net earnings and the reduction in wine inventories resulting from record sales to pay down the bank credit line and other financing in the first nine months of 2005. As a result, interest costs have dropped significantly compared to comparable prior year periods. Management plans to continue to use cash generated from operations to reduce short term financing balances to zero and maintain that posture into the future, to the extent possible.

Sales to out-of-state distributors continued to be the primary reason for the increases in sales revenue and profitability during the three and nine months ended September 30, 2005. Sales to out-of-state distributors increased 130% and 85%, respectively, for the three and nine months ended September 30, 2005 as compared to the respective prior year periods. The demand for certain varieties of wine has reduced inventories of those varieties, and the Company has placed those varieties on allocation with its distributors in order to address inventory constraints. The winery's flagship, Vintage Pinot Noir, has experienced the highest increase in orders, but there are no foreseen limitations on its availability at the present time.

Management is continuing to focus its efforts on making the brand Willamette Valley Vineyards the brand of choice for Pinot Noir under $20 a bottle retail or under $50 on a restaurant wine list. Management is strongly committed to the Pinot Noir grape variety and believes the Willamette Valley is one of the best places in the world to grow this variety.

Management believes Willamette Valley Vineyards is positioned to develop wine consumer support for its brand in this market segment. Management has made and will make some additional price increases to it offerings due in part to the higher costs of applying more hand labor in caring for the wine grapes at lower crop levels. Management believes this is necessary to maintain and continue to improve wine quality but also believes these price increases will not take its offerings out of its target market.

Revenues from the winery's Oregon Wholesale Department called Bacchus Fine Wines increased 37% in the three months and 42% in the nine months ended September 30, 2005 compared to the respective prior year periods. Sales of Company produced products through Bacchus Fine Wines increased 31% and sales of products produced by other wineries increased 53% in the three months ended September 30, 2005 compared to the prior year period. For the nine months ended September 30, 2005, such sales increased 21% and 85%, respectively, compared to the prior year period.

Increased sales of Company produced products have reduced excess inventories and the Company is reviewing sales projections in order to plan appropriate future inventory production levels. In the past year, the Company has planted 25 acres of vines at its Forest Grove site and contracted on a long term basis for 90 acres of wine grapes. Management expects the Company's lack of inventory of certain varieties is likely to negatively impact the Company's operating performance for the Fourth Quarter of 2005.

RESULTS OF OPERATIONS

Revenue

Winery Operations

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

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Tasting Room Sales and Rental Income	$ 514,424	$ 458,208	$ 1,308,431	$ 1,117,331
On-site and off-site festivals	17,504	15,702	65,617	76,861
In-state sales	1,751,116	1,282,737	4,777,055	3,355,725
Out-of-state sales	1,458,141	635,298	3,490,478	1,881,946
Bulk wine/				

Misc. sales	8,828	10,146	111,090	26,203
Total Revenue	3,750,013	2,402,091	9,752,671	6,458,066
Less Excise Taxes	131,957	89,484	247,039	198,595
Net Revenue	$ 3,618,056	$ 2,312,607	$ 9,505,632	$ 6,259,471

Net revenues for the three months ended September 30, 2005 increased $1,305,449, or 56%, over the corresponding period in the preceding year. This increase is due almost entirely to the increases in out-of-state sales, in-state sales, and tasting room sales and rental income.

Net revenues for the nine months ended September 30, 2005 increased $3,246,161, or 52% over the corresponding period in the preceding year. This increase is due almost entirely to the increases in out-of-state sales and in-state sales.

Tasting room sales and rental income for the three months ended September 30, 2005 increased $56,216, or 12%, compared to the corresponding prior year period. For the nine months ended September 30, 2005, tasting room sales increased $191,100, or 17%, compared to the prior year period. Tasting room sales increased during the three and nine months ended September 30, 2005 due primarily to increased customer traffic flows, increased purchases in the tasting room and increased key customer phone sales.

Sales in the state of Oregon, through the Company's independent sales force and through direct sales from the winery increased $468,379, or 37%, in the three months ended September 30, 2005, compared to the corresponding prior year period. Sales through the Company's independent sales force alone for the three months ended September 30, 2005 increased $212,914, or 17%, over the comparable prior year period. The Company's direct instate sales to its largest customer increased $74,118, or 41%, in the three months ended September 30, 2005, over the comparable prior year period. These increases are largely the result of the broader product lines presented and increased product placements through the development of Bacchus Fine Wines.

Out-of-state sales in the three months ended September 30, 2005 increased $822,843, or 130%, over the comparable prior year period. During the nine months ended September 30, 2005, these sales increased $1,608,532, or 85%, over the comparable prior year period. The higher sales are primarily a result of 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 for the three and nine months ended September 30, 2005 increased 47% and 24%, respectively, as compared to the corresponding periods in the preceding year. This was due primarily to the increased sales in the three and nine months ended September 30, 2005 compared to the prior year periods, thereby increasing overall sales volumes and taxes calculated based on volume.

Gross Profit

Winery Operations

As a percentage of net revenue, gross profit decreased to 46% in the three months ended September 30, 2005, as compared to 50% in the comparable prior year period. As a percentage of net revenue, gross profit for the nine months ended September 30, 2005 decreased to 46% as compared to 50% in the comparable prior year period. While the Company is continuing its focus on improved distribution of higher margin products as well as continuing to reduce grape and production costs, we anticipate that our increased representation of brands other than our own through our Oregon sales force will further erode the gross margins due to the lower margins associated with selling those brands. While the gross margin may erode due to such representation, the Company does not anticipate that net income will follow that trend.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the three and nine months ended September 30, 2005 increased 25% and 27%, respectively, compared to the corresponding prior year periods. 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 September 30, 2005, as compared to 38% for the comparable prior year period, and to 32% for the nine months ended September 30, 2005, as compared to 38% for the comparable prior year period, primarily as a result of increased revenues.

Interest Income, Other Income and Expense

Interest income decreased to $349 and $775 for the three and nine months, respectively, ended September 30, 2005, compared to $1,216 and $3,764, respectively, for the comparable prior year periods. Interest expense for the three and nine months ended September 30, 2005 decreased 29% and 25%, respectively, compared to the corresponding prior year periods. 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 September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Farm Credit interest rebate	-	-	17,336	14,504
Miscellaneous rebates	-	10	-	44
Other income (expense)	$ -	$ 10	$ 17,336	$ 14,548

Income Taxes

Income tax expense was $212,165 and $455,018, respectively, for the three and nine months ended September 30, 2005, compared to $77,794 and $211,452, respectively, for the prior year periods due to the Company's net profit for the first three and nine months in 2005. The Company's estimated tax rate for the three and nine months ended September 30, 2005 and 2004 was 40 percent.

Net Income and Earnings per Share

As a result of the factors listed above, the Company's reported net income for the nine months ended September 30, 2005 was $682,525, or $0.15 per diluted share, compared to net income of $317,178, or $0.07 per diluted share, in the comparable prior year period.

Liquidity and Capital Resources

At September 30, 2005, the Company had a working capital balance of $6.8 million and a current ratio of 4.11:1. 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 $500,812 at September 30, 2005 compared to a cash balance of $851,492 at December 31, 2004. The decrease in cash was primarily due to the pay down in the Company's line of credit and distributor obligation.

Total cash provided by operating activities in the nine months ended September 30, 2005 was $1,898,491, compared to $223,457 for the prior year period, primarily as an increase in net income, conversion of inventory to cash through sales, and lower depreciation in the nine months ended September 30, 2005 compared to the prior year period. Cash provided by operating activities in the nine months ended September 30, 2005 consisted of net income of $682,525, plus depreciation of $422,355, plus changes in assets and liabilities and other non-cash charges of $793,611. Cash provided by operating activities in the nine months ended September 30, 2004 consisted 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.

Total cash used in investing activities in the nine months ended September 30, 2005 was $364,196, compared to $266,472 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 nine months ended September 30, 2005 was $1,884,975, compared to $54,226 in the prior year period. Cash used in financing activities primarily consisted of payments on the long term debt, the line of credit, and the distributor obligation.

At September 30, 2005, the line of credit balance was $0, on a maximum borrowing amount of $2,000,000. The Company has a loan agreement with Umpqua Bank that contains, among other things, certain restrictive financial covenants with respect to total equity, debt-to-equity and debt coverage, that must be maintained by the Company on a quarterly basis. As of September 30, 2005, the Company was in compliance with all of the financial covenants.

As of September 30, 2005, the Company had a total long-term debt balance of $3,341,593 owed primarily to Farm Credit Services and Umpqua Bank. The debt with Farm Credit Services 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. In August of 2005, the Company signed a new business loan agreement with Umpqua Bank to borrow $1,500,000 to pay-off the distributor obligation. The Umpqua Bank 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. As of September 30, 2005, the Company was in compliance with all of the financial covenants. The borrowings are collateralized by the case goods inventory. As of September 30, 2005, the Company had paid $500,000 towards the principle balance of the Umpqua agreement leaving an outstanding balance of $1,000,000 included in the long-term debt balance.

At September 30, 2005, the Company owed $351,824 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 September 30, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 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 September 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: November 14, 2005 By /s/ James W. Bernau
James W. Bernau
President

Date: November 14, 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.