WILLAMETTE VALLEY VINEYARDS INC
Form 10QSB/A
December 07, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A

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

For the Quarter Ended March 31, 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 March 31, 2004
4,484,478 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 related interest and penalties of $1,854 has been recorded for the three months ended March 31, 2003.

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 of $3,600 for each of the three month periods ended March 31, 2004 and 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 three months ended March 31, 2004 and 2003 to adjust for the previously capitalized costs and related amortization.

In addition, the Company has restated its financial statements for the three months ended March 31, 2003 to reflect the reclassification of amortization of deferred gain arising from a sales-leaseback transaction from other income to an offset of the related lease expense included in selling, general and administrative expenses.

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/A.

WILLAMETTE VALLEY VINEYARDS, INC.
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PART 1 FINANCIAL INFORMATION

ITEM 1 Financial Statements

WILLAMETTE VALLEY VINEYARDS, INC.
Balance Sheet

	March 31, 2004 (unaudited) (restated)	December 31, 2003 (restated)
ASSETS.		
Current Assets:		
Cash and cash equivalents	$ 180,736	$ 213,681
Accounts receivable trade, net	732,805	796,836
Inventories	7,448,518	7,335,378
Prepaid expenses and other current assets	47,558	46,565
Income taxes receivable	230	83,911
Deferred income taxes	174,323	174,323
Total current assets	8,584,170	8,650,694
Vineyard development cost, net	1,717,120	1,698,970
Inventories	552,414	552,414
Property and equipment, net	4,638,724	4,698,915
Notes receivable from officer and other	67,254	66,134
Debt issuance costs, net	56,386	62,805
Other assets	200,442	201,220
Total assets	$15,816,510	$15,931,152
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Line of credit	$ 1,141,336	$ 1,130,516
Current portion of long term debt	250,291	250,291
Accounts payable	664,876	752,219
Accrued expenses	420,779	471,441
Income taxes payable	-	-
Grapes payable	614,529	669,714
Total current liabilities	3,091,811	3,274,181
Long-term debt	2,624,364	2,693,108
Distributor obligation	1,500,000	1,500,000
Deferred rent liability	114,692	108,995
Deferred gain	393,497	399,743
Deferred income taxes	295,285	295,285
Total liabilities	8,019,649	8,271,312
Shareholders' equity		
Common stock, no par value - 10,000,000 shares authorized, 4,484,478 and 4,479,478 shares issued and outstanding at March 31, 2004 and December 31, 2003	7,179,089	7,167,589
Retained earnings	617,772	492,251
Total shareholders' equity	7,796,861	7,659,840
Total liabilities and shareholders' equity	$15,816,510	$15,931,152

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

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

	Three months ended March 31, 2004 (restated)	2003 (restated)
Net Revenues		
Case Revenue	$ 1,834,611	$ 1,331,902
Facility Lease - Custom Crush	9,015	155,175
Total Revenue	1,843,626	1,487,077
Cost of Sales		
Case	884,019	630,457
Bulk	-	115,287
Total Cost of Sales	884,019	745,744
Gross Margin	959,607	741,333
Selling, general and administrative expense	689,764	621,575
Net operating income	269,843	119,758
Other income (expense)		
Interest income	1,203	1,313
Interest expense	(76,382)	(87,964)
Other income	14,538	25,923
Net income before income taxes	209,202	59,030
Income tax	(83,681)	(24,016)
Net income	125,521	35,014
Retained earnings beginning of period	492,251	318,523
Retained earnings end of period	$ 617,772	$ 353,537
Basic income per common share	$ .03	$ .01
Diluted income per common share	$ .03	$ .01
Weighted average number of basic common shares outstanding	4,482,280	4,472,459
Weighted average number of diluted common shares outstanding	4,662,087	4,472,459

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

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

	Three months ended March 31, 2004 (restated)	2003 (restated)
Cash flows from operating activities:		
Net income	$ 125,521	$ 35,014
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	166,667	183,765
Gain on disposal of fixed assets	-	(3,004)
Stock issued for compensation	11,500	8,819
Changes in assets and liabilities:		
Accounts receivable trade	64,031	76,984
Inventories	(113,140)	155,342
Prepaid expenses and other current assets	(993)	(5,918)
Note receivable	(1,120)	(1,032)
Other assets	778	723
Accounts payable	(87,343)	57,419
Accrued expenses	(50,662)	23,988
Income taxes payable	83,681	(45,106)
Grape payables	(55,185)	(282,922)
Deferred rent liability	5,697	5,698
Deferred gain	(6,246)	(6,246)
Net cash provided by operating activities	143,186	203,524
Cash flows from investing activities;		
Additions to property and equipment	(80,208)	(49,401)
Vineyard development expenditures	(37,999)	-
Proceeds from the sale of property and equipment	-	15,128
Net cash used in investing activities	(118,207)	(34,273)
Cash flows from financing activities:		
Debt issuance costs	-	(5,960)
Net (decrease) increase in line of credit balance	10,820	(523,514)
Repayments of long-term debt	(68,744)	(66,383)
Net cash (used in) provided by financing activities	(57,924)	(595,857)
Net decrease in cash and cash equivalents	(32,945)	(426,606)
Cash and cash equivalents:		
Beginning of period	213,681	632,183
End of period	$ 180,736	$ 205,577

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 month period ended March 31, 2004 and 2003, have been prepared in conformity with generally accepted accounting principles. 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 months ended March 31, 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 and diluted net income per share and Basic earnings per share are computed based on the weighted-average number of common shares outstanding each year. Diluted earnings per share are computed using the weighted average number of shares of common stock and dilutive common equivalent shares outstanding during the year. Common equivalent shares from stock options and other common stock equivalents are excluded from the computation when their effect is anti-dilutive. There were total common stock equivalent shares of 179,807 shares included in the computation of dilutive earnings per share for the three months ended March 31, 2004. Options to purchase shares of common stock outstanding at March 31, 2003 were not included in the computation of dilutive earnings per share because the exercise prices were greater than the average market of the common shares; therefore, the effect would be anti-dilutive.

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 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 related interest and penalties of $1,854 has been recorded for the three months ended March 31, 2003.

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 of $3,600 for each of the three month periods ended March 31, 2004 and 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 three months ended March 31, 2004 and 2003 to adjust for the previously capitalized costs and related amortization.

The effect of these restatements was to increase net income by $2,160 ($- per share) for the three months ended March 31, 2004, and decrease net income by $3,127 ($- per share) for the three months ended March 31, 2003.

In addition, the Company has restated its financial statements for the three months ended March 31, 2003 to reflect the reclassification of amortization of deferred gain arising from a sales-leaseback transaction of $6,246 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 this reclassification.

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 March 31, 2004 and December 31, 2003, and Statements of Operations for the three months ended March 31, 2004 and 2003.

March 31, 2004

	As Reported	Adjustments	Restated
Current assets	$ 8,583,940	$ 230	$ 8,584,170
Other assets	$ 210,770	$ (10,328)	$ 200,442
Total assets	$ 15,826,608	$ (10,098)	$ 15,816,510
Current liabilities	$ 3,080,160	$ 11,651	$ 3,091,811
Deferred income taxes	$ 300,856	$ (5,571)	$ 295,285
Total liabilities	$ 8,013,569	$ 6,080	$ 8,019,649
Shareholders' equity	7,813,039	(16,178)	7,796,861
Total liabilities and Shareholders' equity	$ 15,826,608	$ (10,098)	$ 15,816,510

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 March 31, 2004(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,843,626	$ -	$ 1,843,626
Cost of sales	884,019	-	884,019
Gross margin	959,607	-	959,607
Selling general and administrative expenses	693,364	(3,600)	689,764
Net operating income	266,243	3,600	269,843
Other income (expense), net	(60,641)	-	(60,641)
Income before income taxes	205,602	3,600	209,202
Income tax	82,241	1,440	83,681
Net income	$ 123,361	$ 2,160	$ 125,521

Three months ended March 31, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,493,361	$ (6,284)	$ 1,487,077
Cost of sales	745,744	-	745,744
Gross margin	747,617	(6,284)	741,333
Selling general and administrative expenses	630,410	(8,835)	621,575
Net operating income	117,207	2,551	119,758
Other income (expense), net	(53,639)	(7,089)	(60,728)
Income before income taxes	63,568	(4,538)	59,030
Income tax	25,427	(1,411)	24,016
Net income	$ 38,141	$ (3,127)	$ 35,014

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 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 quarter ended March 31:

	March 31,	March 31,

	2004 (unaudited) (restated)	2003 (unaudited) (restated)
Net income, as reported	$ 125,521	$ 35,014
Add Stock-based employee compensation expense included in reported net income, net of related tax effects	11,500	8,819
Deduct total stock based employee compensation expense determined under fair value based method for all awards, Net of related tax effects	(12,909)	(14,767)
Pro forma net income	$ 124,112	$ 29,066
Earnings per share:		
Basic - as reported	$ 0.03	$ 0.01
Basic - pro forma	$ 0.03	$ 0.01
Diluted - as reported	$ 0.03	$ 0.01
Diluted - pro forma	$ 0.03	$ 0.01

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.

4) INVENTORIES BY MAJOR CLASSIFICATION ARE SUMMARIZED AS FOLLOW:

	March 31, 2004 (unaudited)	December 31, 2003
Winemaking and packaging materials	$ 117,418	$ 80,886
Work-in-progress (costs relating to unprocessed and/or bulk wine products)	2,127,240	1,982,469
Finished goods (bottled wines and related products)	5,756,274	5,824,437
	8,000,932	7,887,792
Less: amounts designated for distributor	(552,414)	(552,414)
Current inventories	$ 7,448,518	$ 7,335,378
	==========	==========

5) PROPERTY AND EQUIPMENT CONSIST OF THE FOLLOWING:

	March 31, 2004 (unaudited)	December 31, 2003

Land and improvements	$ 976,838	$ 976,838
Winery building and hospitality center	4,632,439	4,577,467
Equipment	4,958,565	4,933,329
	10,567,842	10,487,634
Less accumulated depreciation	(5,929,118)	(5,788,719)
	$ 4,638,724	$ 4,698,915

6) SUBSEQUENT EVENTS:

None.

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/A 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/A 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 reflects the effects of the restatement of our financial statements for the three months ended March 31, 2004 and 2003, and as of March 31, 2004 and December 31, 2003 as discussed in Note 2 to the financial statements.

The first quarter, generally the weakest in the industry, has historically been the weakest for the Company generating a net loss in previous first quarters with the exception of the first quarters of 2003 and 2004. This profitable first quarter resulted primarily from the following operational factors:

- Significantly higher sales to out-of-state distributors,
- Significantly higher sales to Oregon restaurant and retail accounts made by the Company's own sales force, and

- Higher margins on the Company's products sold.

Given last year's first quarter was profitable primarily due to a custom crush sale and an interest rebate from one of the Company's lenders, this quarter is unusual in its level of profitability. Management does not expect to enjoy the high margins experienced in this quarter in future quarters this year and those margins may account for approximately a third of the Company's positive results. The balance is due to increased sales, some of which were stronger orders by distributors adding to their inventories due to strong holiday sales. Actual depletions of the Company's core offerings of Vintage Pinot noir, Whole Cluster Pinot noir, Pinot gris and Riesling from the Company's distributors to their retail and restaurant customers increased approximately 25%, a rate lower than the Company's rate of shipments to the distributors in the first quarter.

The Company's wines continued to receive strong reviews from prominent reviewers. The '99 Signature Cuvee Pinot noir earned 91 points and a Cellar Selection designation from Wine Enthusiast Magazine and the '99 Founders' Reserve Pinot noir earned 90 points from the Wine Spectator. Bon Appetit magazine, in their Best of the Year January issue, named the '00 Vintage Selection Pinot noir as among the top 25 wines in the world under $25 - the only Pinot noir listed. USA TODAY named the Vintage Selection Pinot gris among the Top Best White Wines in their article entitled "The Pours of Summer: White wines get a tryout."

RESULTS OF OPERATIONS

Revenue

Winery Operations

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

	Three months ended March 31, 2004	2003 (restated)
Tasting Room sales & Rental Income	$ 327,759	$ 295,667
On-site and off-site festivals	49,969	43,170
In state sales	901,827	590,533
Out of state sales	597,179	448,036
Custom crush /bulk wine /misc sales	9,015	155,175
Gross Revenue	1,885,749	1,532,581
Less Excise Taxes	42,123	45,504
Net Revenues	$ 1,843,626	$ 1,487,077

Tasting room and retail sales, and rental income for the three months ending March 31, increased 11% to $327,759 in 2004 from $295,667 for the same period in 2003. Tasting room and retail sales increased during the first quarter of 2004 due in part to increased traffic flow in the Tasting Room.

On-site and off-site festival sales for the first quarter of 2004 increased 16% to $49,969 from $43,170 over the first quarter of 2003. This increase is due primarily to the success of the Fifth Annual Mo's Crab and Chowder Festival in January, The Pinot and Chocolate Festival in February, and the introduction of the Wine, Cheese, and Pear Jubilee held in March.

Sales in the state of Oregon, through the Company's independent sales force and through direct sales from the winery, increased 53% to $901,827 in the first quarter of 2004 from $590,533 in the first quarter of 2003. Sales through the Company's independent sales force alone for the first quarter of 2004 increased 45% to $774,270 from $532,664 over the first quarter of 2003.

Out-of-state sales in the first quarter of 2004 increased 33% to $597,179 from $448,036 in the first quarter of 2003. The Company's distributors experienced higher depletions during the first quarter of 2004.

Excise taxes

The Company's excise taxes decreased in the first quarter of 2004 to $42,123 from $45,504 the same period in 2003. 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.

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 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 related interest and penalties of $1,854 has been recorded for the three months ended March 31, 2003.

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 of $3,600 for each of the three month periods ended March 31, 2004 and 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 three months ended March 31, 2004 and 2003 to adjust for the previously capitalized costs and related amortization.

The effect of these restatements was to increase net income by $2,160 ($- per share) for the three months ended March 31, 2004, and decrease net income by $3,127 ($- per share) for the three months ended March 31, 2003.

In addition, the Company has restated its financial statements for the three months ended March 31, 2003 to reflect the reclassification of amortization of deferred gain arising from a sales-leaseback transaction of $6,246 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 this reclassification.

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 March 31, 2004 and December 31, 2003, and Statements of Operations for the three months ended March 31, 2004 and 2003.

March 31, 2004

	As Reported	Adjustments	Restated
Current assets	$ 8,583,940	$ 230	$ 8,584,170
Other assets	$ 210,770	$ (10,328)	$ 200,442
Total assets	$ 15,826,608	$ (10,098)	$ 15,816,510
Current liabilities	$ 3,080,160	$ 11,651	$ 3,091,811
Deferred income taxes	$ 300,856	$ (5,571)	$ 295,285
Total liabilities	$ 8,013,569	$ 6,080	$ 8,019,649
Shareholders' equity	7,813,039	(16,178)	7,796,861
Total liabilities and Shareholders' equity	$ 15,826,608	$ (10,098)	$ 15,816,510

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 March 31, 2004(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,843,626	$ -	$ 1,843,626
Cost of sales	884,019	-	884,019
Gross margin	959,607	-	959,607
Selling general and administrative expenses	693,364	(3,600)	689,764
Net operating income	266,243	3,600	269,843
Other income (expense), net	(60,641)	-	(60,641)
Income before income taxes	205,602	3,600	209,202
Income tax	82,241	1,440	83,681
Net income	$ 123,361	$ 2,160	$ 125,521

Three months ended March 31, 2003(unaudited)

	As Reported	Adjustments	Restated
Net revenues	$ 1,493,361	$ (6,284)	$ 1,487,077
Cost of sales	745,744	-	745,744
Gross margin	747,617	(6,284)	741,333
Selling general and administrative expenses	630,410	(8,835)	621,575
Net operating income	117,207	2,551	119,758
Other income (expense), net	(53,639)	(7,089)	(60,728)
Income before income taxes	63,568	(4,538)	59,030
Income tax	25,427	(1,411)	24,016
Net income	$ 38,141	$ (3,127)	$ 35,014

Gross Profit

Winery Operations

As a percentage of revenue, gross profit for the winery operations increased to 52% in the first quarter of 2004 as compared to 50% in the first quarter of 2003. After adjusting for the sale of bulk wines and custom crush fees in the first quarter of 2003, the gross margin would be 53% in the first quarter of 2003. We believe this non-GAAP disclosure provides a useful comparison to the first quarter of 2004. The Company is continuing its focus on, and improved distribution of, higher margin products, as well as continuing to reduce grape and production costs. The Company's increased representation of brands other than its own through its Oregon sales force will further erode the gross margins due to the slimmer margin of selling those brands.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased 11% to $689,764 in the first quarter of 2004 from $621,575 in the first quarter of 2003. As a percentage of revenue from winery operations, selling, general and administrative expenses decreased to 37% in the first quarter of 2004 from 42% in the first quarter of 2003.

Interest Income, Other Income and Expense

Interest income decreased to $1,203 for the first quarter of 2004 from $1,313 for the first quarter of 2003. Interest expense decreased to $76,382 in the first quarter of 2004 from $87,964 in 2003 primarily due to less debt outstanding during the period.

The Company's other income is summarized as follows:

	Three months ended March 31, 2004	2003 (restated)
Gain on Tualatin bare land sale	$ -	$ 3,004
Farm Credit interest rebate	14,504	22,617
Miscellaneous rebates	34	302

Other income	14,538	25,923

Other income decreased to $14,538 for the first quarter 2004 from $25,923 for the first quarter of 2003. During the first quarter of 2004 the Company received an interest rebate from Farm Credit Services for interest paid on the Company's long-term debt in 2003, in the amount of $14,504, compared to $22,617 received during the first quarter of 2003.

Income Taxes

As the Company experienced a net profit for the first three months in 2004 an $83,681 income tax expense was accrued. The Company's estimated tax rate for the first quarter of 2004 and 2003 was 40 percent.

Liquidity and Capital Resources

At March 31, 2004, the Company had a working capital balance of $5.5 million and a current ratio of 2.79:1. At December 31, 2003, the Company had a working capital balance of $5.4 million and a current ratio of 2.65:1. The Company had a cash balance of $180,736 at March 31, 2004.

Total cash provided by operating activities in the first quarter of 2004 was $143,186 compared to $203,254 in the first quarter of 2003. Cash provided by operating activities in the first quarter of 2004 was comprised of net income of $125,521 plus depreciation of $166,667 less changes in assets and liabilities and other non-cash charges of $149,002. Cash provided by operating activities in the first quarter of 2003 was comprised of net income of $35,014 plus depreciation of $183,765 less changes in assets and liabilities and other non-cash charges of $15,255.

Total cash used in investing activities in the first quarter of 2004 was $118,207 compared to $34,273 in the first quarter of 2003. Cash used in investing activities comprised of property and equipment additions and vineyard development costs.

Total cash used in financing activities in the first quarter of 2004 was $57,924 compared to $595,857 in the first quarter of 2003. Cash used in financing activities was primarily comprised of payments on the long term debt (2004 $68,744 and 2003 $66,383) and payments on (additions to) the line of credit (2004 ($10,820) and 2003 $523,514).

At March 31, 2004, the line of credit balance was $1,141,336. The Company has a loan agreement with GE Commercial Distribution Finance Corporation 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 March 31, 2004, the Company was in compliance with all of the financial covenants.

As of March 31, 2004, the Company had a total long-term debt balance of $2,874,655 owed 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 March 31, 2004, the Company owed $614,529 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 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 Annual Report on Form 10-K/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 March 31, 2004. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer initially concluded that our disclosure controls and procedures as of March 31, 2004 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.

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.

In connection with restating the Company's financial statements as provided in this report, the Chief Executive Officer, Chief Financial Officer and other management personnel re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by the report and as of the date of this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level.

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 March 31, 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 1

Exhibits and Reports on Form 8-K.

a) 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 PricewaterhouseCoopers, our independent accountants, during the calendar year ending December 31, 2004:

- Income tax advisory services related to: income tax returns; acquisitions; and formation and liquidation of foreign subsidiaries

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.