SECURITIES & EXCHANGE COMMISSION EDGAR FILING

WILLAMETTE VALLEY VINEYARDS INC

Form: 10-Q

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Corporate Issuer CIK: 838875

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2020

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

Commission File Number 000-21522

WILLAMETTE VALLEY VINEYARDS, INC.

(Exact name of registrant as specified in charter)

Oregon	93-0981021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8800 Enchanted Way, S.E., Turner, Oregon	97392
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: x YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): x YES o NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

o Large accelerated filer	o Accelerated filer
x Non-accelerated filer	x Smaller reporting company
	o Emerging growth company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): o YES x NO

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock,	WVVI	NASDAQ Capital Market
Series A Redeemable Preferred Stock	WVVIP	NASDAQ Capital Market

Number of shares of common stock outstanding as of August 12, 2020: 4,964,529

WILLAMETTE VALLEY VINEYARDS, INC.
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PART I: FINANCIAL INFORMATION

Item 1 – Financial Statements

WILLAMETTE VALLEY VINEYARDS, INC.
BALANCE SHEETS
(Unaudited)

	June 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,903,587	$ 7,050,176
Accounts receivable, net	2,209,471	1,814,004
Inventories (Note 2)	16,712,387	17,075,080
Prepaid expenses and other current assets	162,729	202,981
Income tax receivable	97,802	623,568
Total current assets	25,085,976	26,765,809
Other assets	13,824	13,824
Vineyard development costs, net	7,856,193	7,624,646
Property and equipment, net (Note 3)	30,936,114	28,648,301
Operating lease right of use assets	5,090,781	4,862,907
TOTAL ASSETS	$ 68,982,888	$ 67,915,487
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,111,492	$ 859,215
Accrued expenses	954,569	1,004,281
Investor deposits for prefered stock	390,248	-
Current portion of notes payable	1,427,151	1,468,473
Current portion of long-term debt	444,547	438,378
Current portion of lease liabilities	279,768	203,482
Unearned revenue	492,475	604,777
Grapes payable	-	792,595
Total current liabilities	5,100,250	5,371,201
Long-term debt, net of current portion and debt issuance costs	5,610,213	5,826,161
Lease liabilities, net of current portion	4,861,210	4,714,413
Deferred income taxes	2,958,606	2,958,606
Total liabilities	18,530,279	18,870,381
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
SHAREHOLDERS' EQUITY		
Redeemable preferred stock, no par value, 10,000,000 shares authorized, 4,662,768 shares issued and outstanding, liquidation preference $19,606,939, and $19,350,487, at June 30, 2020 and December 31, 2019, respectively.	18,832,006	18,319,102
Common stock, no par value, 10,000,000 shares authorized, 4,964,529 shares issued and outstanding at June 30, 2020 and December 31, 2019.	8,512,489	8,512,489
Retained earnings	23,108,114	22,213,515
Total shareholders' equity	50,452,609	49,045,106
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 68,982,888	$ 67,915,487

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
SALES, NET	$ 5,568,654	$ 5,790,837	$ 12,090,549	$ 10,789,623
COST OF SALES	2,067,122	2,292,479	4,676,975	4,010,629
GROSS PROFIT	3,501,532	3,498,358	7,413,574	6,778,994
OPERATING EXPENSES				
Sales and marketing	1,613,998	1,906,586	3,362,038	3,681,586
General and administrative	941,960	995,341	2,023,424	1,936,539
Total operating expenses	2,555,958	2,901,927	5,385,462	5,618,125
INCOME FROM OPERATIONS	945,574	596,431	2,028,112	1,160,869
OTHER INCOME (EXPENSE)				
Interest income	5,713	840	15,230	10,286
Interest expense	(105,133)	(111,088)	(210,875)	(221,502)
Other income, net	5,800	8,091	100,802	121,100
INCOME BEFORE INCOME TAXES	851,954	494,274	1,933,269	1,070,753
INCOME TAX PROVISION	(231,533)	(134,363)	(525,766)	(284,366)
NET INCOME	620,421	359,911	1,407,503	786,387
Accrued preferred stock dividends	(256,452)	(256,452)	(512,904)	(512,904)
INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 363,969	$ 103,459	$ 894,599	$ 273,483
Earnings per common share after preferred dividends, basic and diluted	$ 0.07	$ 0.02	$ 0.18	$ 0.06
Weighted-average number of common shares outstanding	4,964,529	4,964,529	4,964,529	4,964,529

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Six-Month Period Ended June 30, 2020					
	Redeemable Preferred Stock		Common Stock		Retained	
	Shares	Dollars	Shares	Dollars	Earnings	Total
Balance at December 31, 2019	4,662,768	$ 18,319,102	4,964,529	$ 8,512,489	$ 22,213,515	$ 49,045,106
Preferred stock dividends accrued	-	256,452	-	-	(256,452)	-
Net income	-	-	-	-	787,082	787,082
Balance at March 31, 2020	4,662,768	$ 18,575,554	4,964,529	$ 8,512,489	$ 22,744,145	$ 49,832,188
Preferred stock dividends accrued	-	256,452	-	-	(256,452)	-
Net income	-	-	-	-	620,421	620,421
Balance at June 30, 2020	4,662,768	$ 18,832,006	4,964,529	$ 8,512,489	$ 23,108,114	$ 50,452,609

	Six-Month Period Ended June 30, 2019					
	Redeemable Preferred Stock		Common Stock		Retained	
	Shares	Dollars	Shares	Dollars	Earnings	Total
Balance at December 31, 2018	4,662,768	$ 18,319,102	4,964,529	$ 8,512,489	$ 20,728,677	$ 47,560,268
Preferred stock dividends accrued	-	256,452	-	-	(256,452)	-
Net income	-	-	-	-	426,476	426,476
Balance at March 31, 2019	4,662,768	$ 18,575,554	4,964,529	$ 8,512,489	$ 20,898,701	$ 47,986,744
Preferred stock dividends accrued	-	256,452	-	-	(256,452)	-
Net income	-	-	-	-	359,911	359,911
Balance at June 30, 2019	4,662,768	$ 18,832,006	4,964,529	$ 8,512,489	$ 21,002,160	$ 48,346,655

The accompanying notes are an integral part of this financial statement

WILLAMETTE VALLEY VINEYARDS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2020	Six months ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,407,503	$ 786,387
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	879,906	899,429
Loss on disposition of property and equipment	-	487
Loan fee amortization	3,252	6,563
Deferred rent liability	-	(50,480)
Deferred gain	-	(16,049)
Change in operating assets and liabilities:		
Accounts receivable	(395,467)	599,341
Inventories	362,693	(165,982)
Prepaid expenses and other current assets	40,252	44,838
Unearned revenue	(112,302)	(56,272)
Grapes payable	(792,595)	(1,019,129)
Accounts payable	(93,173)	(195,828)
Accrued expenses	(49,712)	(225,208)
Income taxes payable	-	(94,884)
Income taxes receivable	525,766	-
Net cash from operating activities	1,776,123	513,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to vineyard development costs	(320,816)	(349,362)
Additions to property and equipment	(2,737,791)	(1,271,522)
Net cash from investing activities	(3,058,607)	(1,620,884)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program	1,655,200	-
Payments on Paycheck Protection Program	(1,655,200)	-
Proceeds from investor deposits held as liability	390,248	-
Payment on installment note for property purchase	(41,322)	(176,599)
Payments on long-term debt	(213,031)	(206,555)
Net cash from financing activities	135,895	(383,154)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,146,589)	(1,490,825)
CASH AND CASH EQUIVALENTS, beginning of period	7,050,176	9,737,467
CASH AND CASH EQUIVALENTS, end of period	$ 5,903,587	$ 8,246,642
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property and equipment and vineyard development costs included in accounts payable	$ 399,821	$ 136,778
Accrued preferred stock dividends	$ 512,904	$ 512,904

The accompanying notes are an integral part of this financial statement

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited interim financial statements as of June 30, 2020 and for the three and six months ended June 30, 2020 and 2019 have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial statements. The financial information as of December 31, 2019 is derived from the audited financial statements presented in the Willamette Valley Vineyards, Inc. (the "Company") Annual Report on Form 10-K for the year ended December 31, 2019. Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2019, as presented in the Company's Annual Report on Form 10-K.

Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2020, or any portion thereof. The COVID-19 pandemic and restrictions imposed by federal, state and local governments in response to the outbreak have disrupted and will continue to disrupt the Company's business. In the State of Oregon where the Company operates the Winery and most of the vineyards, individuals are being encouraged to practice social distancing, are restricted from gathering in groups and, in some areas, are mandated to stay home except for essential activities. The Company expects the restrictive orders and the sudden increase in unemployment caused by the closure of businesses in response to the COVID-19 pandemic to adversely affect sales revenues, which adversely impacts liquidity, financial condition and results of operations. Even after orders are loosened or lifted, the impact of lost wages due to COVID-19 related unemployment may dampen consumer spending for some time in the future.

The Company's operations could be further disrupted if a significant number of employees are unable or unwilling to work, whether because of illness, quarantine, restrictions on travel or fear of contracting COVID-19, which could further materially adversely affect liquidity, financial position and results of operations. To support employees and protect the health and safety of employees and customers, the Company may offer enhanced health and welfare benefits, provide bonuses to employees, and purchase additional sanitation supplies and personal protective materials. These measures will increase operating costs and adversely affect liquidity.

The COVID-19 pandemic may also adversely affect the ability of grape suppliers to fulfill their obligations, which may negatively affect operations. If suppliers are unable to fulfill their obligation, the Company could face shortages of grapes, and operations and sales could be adversely impacted.

The Company's revenues include direct to consumer sales and national sales to distributors. These sales channels utilize shared resources for production, selling, and distribution.

Basic earnings per share after preferred stock dividends are computed based on the weighted-average number of common shares outstanding each period.

The following table presents the earnings per share after preferred stock dividends calculation for the periods shown:

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Numerator				
Net income	$ 620,421	$ 359,911	$ 1,407,503	$ 786,387
Accrued preferred stock dividends	(256,452)	(256,452)	(512,904)	(512,904)
Net income applicable to common shares	$ 363,969	$ 103,459	$ 894,599	$ 273,483
Denominator				
Weighted-average common shares outstanding	4,964,529	4,964,529	4,964,529	4,964,529
Earnings per common share after preferred dividends	**$ 0.07**	**$ 0.02**	**$ 0.18**	**$ 0.06**

Subsequent to the filing of the 2019 Report there were no accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") that would have a material effect on the Company's unaudited interim condensed financial statements. The following provides an update of accounting pronouncements applicable to the Company that are not yet adopted as of June 30, 2020. No new accounting pronouncements were adopted during the quarter ended June 30, 2020.

Accounting Standard Update ("ASU") 2019-12, Income Taxes (Topic 740), Update ("ASU") 2019-12, Income Taxes (Topic 740). This standard simplifies the accounting for income taxes by removing certain Codification exceptions and others to be discussed. Date of adoption is January 1, 2021, early adoption is permitted for the Company. Management is currently evaluating the potential impact of this guidance on the Company's unaudited interim condensed financial statements and does not predict there to be a material impact.

2) INVENTORIES

The Company's inventories, by major classification, are summarized as follows, as of the dates shown:

	June 30, 2020	December 31, 2019
Winemaking and packaging materials	$ 998,756	$ 704,736
Work-in-process (costs relating to unprocessed and/or unbottled wine products)	6,401,646	8,313,313
Finished goods (bottled wine and related products)	9,311,985	8,057,031
Total inventories	$ 16,712,387	$ 17,075,080

3) PROPERTY AND EQUIPMENT NET

The Company's property and equipment consists of the following, as of the dates shown:

	June 30, 2020	December 31, 2019
Construction in progress	$ 5,776,777	$ 4,193,467
Land, improvements, and other buildings	11,759,811	11,764,811
Winery, tasting room buildings and hospitality center	17,661,347	16,319,704
Equipment	13,914,613	13,751,324
	49,112,548	46,029,306
Accumulated depreciation	(18,176,434)	(17,381,005)
Property and equipment, net	$ 30,936,114	$ 28,648,301

4) DEBT

Line of Credit Facility – In December of 2005, the Company entered into a revolving line of credit agreement with Umpqua Bank that allows borrowings of up to $2,000,000 against eligible accounts receivable and inventories, as defined in the agreement. The revolving line bears interest at prime less 0.5%, with a floor of 3.25%, is payable monthly, and is subject to renewal. In July 2019, the Company renewed the credit agreement until July 31, 2021. At June 30, 2020 and December 31, 2019, there was no outstanding balance on this revolving line of credit.

The line of credit agreement includes various covenants, which among other things; require the Company to maintain minimum amounts of tangible net worth, debt/worth ratio, and debt service coverage, as defined. As of June 30, 2020, the Company was in compliance with these financial covenants.

In February 2017, the Company purchased property, including vineyard land, bare land and structures in the Dundee Hills American Viticultural Area (AVA) under terms that included a 15 year note payable with quarterly payments of $42,534 being interest at 6%. The note may be called by the owner, up to the outstanding balance, with 180 days written notice. As of June 30, 2020, the Company had a balance of $1,427,151 due on this note. As of December 31, 2019 the Company had a balance of $1,468,473 due on this note.

Long-Term Debt – The Company has two long-term debt agreements with Farm Credit Services (FCS) with an aggregate outstanding balance of $6,200,420 and $6,411,086 as of June 30, 2020 and December 31, 2019, respectively. The outstanding loans require monthly principal and interest payments of $62,067 for the life of the loans, at annual fixed interest rates of 4.75% and 5.21%, and with maturity dates of 2028 and 2032. The general purposes of these loans were to make capital improvements to the winery and vineyard facilities.

The loan agreements contain covenants, which require the Company to maintain certain financial ratios and balances. At June 30, 2020, the Company was in compliance with these covenants. In the event of future noncompliance with the Company's debt covenants, FCS would have the right to declare the Company in default, and at FCS' option without notice or demand, the unpaid principal balance of the loan, plus all accrued unpaid interest thereon and all other amounts due would immediately become due and payable.

The Company has an outstanding loan with Toyota Credit Corporation maturing in February 2021, at zero interest, with an outstanding balance of $6,694 and $12,431 as of June 30, 2020 and December 31, 2019, respectively. The purpose of this loan was to purchase a vehicle.

As of June 30, 2020, the Company had unamortized debt issuance costs of $152,354. As of December 31, 2019 the Company had unamortized debt issuance costs of $158,978.

The Company qualified and obtained a PPP loan for $1.655 million, but quickly returned the funds after obtaining a $5 million commercial loan commitment from Farm Credit Services, which is intended to provide the Company with additional liquidity in the event the Company was to experience operating losses from sales disruptions due to the COVID-19 pandemic. This Commitment came into effect in July 2020 and as of the filing date the Company has not drawn down any funds on this commitment.

5) INTEREST AND TAXES PAID

Income taxes – The Company paid no tax and $379,250 in income taxes for the three months ended June 30, 2020 and 2019, respectively. The Company paid no tax and $379,250 in income taxes for the six months ended June 30, 2020 and 2019, respectively.

Interest – The Company paid $101,288 and $109,009 for the three months ended June 30, 2020 and 2019, respectively, in interest on long-term debt. The Company paid $204,455 and $217,719 for the six months ended June 30, 2020 and 2019, respectively, in interest on long-term debt.

6) SEGMENT REPORTING

The Company has identified two operating segments, Direct Sales and Distributor Sales, based upon their different distribution channels, margins and selling strategies. Direct Sales includes retail sales in the tasting room and remote sites, wine club sales, on-site events, kitchen and catering sales and other sales made directly to the consumer without the use of an intermediary, including sales of bulk wine or grapes. Distributor Sales include all sales through a third party where prices are given at a wholesale rate.

The two segments reflect how the Company's operations are evaluated by senior management and the structure of its internal financial reporting. The Company evaluates performance based on the gross profit of the respective business segments. Selling expenses that can be directly attributable to the segment, including depreciation of segment specific assets, are included, however, centralized selling expenses and general and administrative expenses are not allocated between operating segments. Therefore, net income information for the respective segments is not available. Discrete financial information related to segment assets, other than segment specific depreciation associated with selling, is not available and that information continues to be aggregated.

The following table outlines the sales, cost of sales, gross margin, directly attributable selling expenses, and contribution margin of the segments for the three and six month periods ending June 30, 2020 and 2019. Sales figures are net of related excise taxes.

	Three Months Ended June 30,					
	Direct Sales		Distributor Sales		Total	
	2020	2019	2020	2019	2020	2019
Sales, net	$ 2,202,642	$ 2,359,444	$ 3,366,012	$ 3,431,393	$ 5,568,654	$ 5,790,837
Cost of Sales	489,596	689,204	1,577,526	1,603,275	2,067,122	2,292,479
Gross Margin	1,713,046	1,670,240	1,788,486	1,828,118	3,501,532	3,498,358
Selling Expenses	1,166,551	1,156,397	333,850	578,391	1,500,401	1,734,788
Contribution Margin	$ 546,495	$ 513,843	$ 1,454,636	$ 1,249,727	$ 2,001,131	$ 1,763,570
Percent of Sales	39.6%	40.7%	60.4%	59.3%	100.0%	100.0%

	Six Months Ended June 30,					
	Direct Sales		Distributor Sales		Total	
	2020	2019	2020	2019	2020	2019
Sales, net	$ 4,154,953	$ 4,079,621	$ 7,935,596	$ 6,710,002	$ 12,090,549	$ 10,789,623
Cost of Sales	967,228	1,032,643	3,709,747	2,977,986	4,676,975	4,010,629
Gross Margin	3,187,725	3,046,978	4,225,849	3,732,016	7,413,574	6,778,994
Selling Expenses	2,297,098	2,230,768	820,246	1,131,059	3,117,344	3,361,827
Contribution Margin	$ 890,627	$ 816,210	$ 3,405,603	$ 2,600,957	$ 4,296,230	$ 3,417,167
Percent of Sales	34.4%	37.8%	65.6%	62.2%	100.0%	100.0%

Direct sales include zero and $2,800 of bulk wine sales in the three months ended June 30, 2020 and 2019, respectively. Direct sales include $28,734 and $45,563 of bulk wine sales in the six months ended June 30, 2020 and 2019, respectively.

7) SALE OF PREFERRED STOCK

In August 2015, the Company commenced a public offering of our Series A Redeemable Preferred Stock pursuant to a registration statement filed with the Securities and Exchange Commission. The preferred stock under this issue is non-voting and ranks senior in rights and preferences to the Company's common stock. Shareholders of this issue are entitled to receive dividends, when and as declared by the Company's Board of Directors, at a rate of $0.22 per share. The Company registered this transaction with the securities authorities of the States of Oregon and Washington and subsequently obtained a listing on the NASDAQ under the trading symbol WVVIP. This issue had an aggregate initial offering price not to exceed $6,000,000 and was fully subscribed as of December 31, 2015.

On December 23, 2015, the Company filed a Registration Statement on Form S-3 with the SEC pertaining to the potential future issuance of one or more classes or series of debt, equity or derivative securities. On February 28, 2016, shareholders of the Series A Redeemable Preferred Stock approved an increase in shares designated as Series A Redeemable Preferred Stock, from 1,445,783 to 2,857,548 shares, and amended the certificate of designation for those shares to allow the Company's Board of Directors to make future increases.

On March 10, 2016, the Company filed with the SEC a Prospectus Supplement to the December 2015 Form S-3, pursuant to which the Company proposed to offer and sell, on a delayed or continuous basis, up to 970,588 additional shares of Series A Redeemable Preferred stock having proceeds not to exceed $4,125,000. This stock was established to be sold in four offering periods beginning with an offering price of $4.25 per share and concluding at $4.55 per share. The Company sold all preferred stock available under this offering.

On May 3, 2017, the Company filed with the SEC a Prospectus Supplement to the December 2015 Form S-3, pursuant to which the Company proposed to offer and sell, on a delayed or continuous basis, up to 2,298,851 additional shares of Series A Redeemable Preferred stock having proceeds not to exceed $10,000,000. This stock was established to be sold in four offering periods beginning with an offering price of $4.35 per share and concluding at $4.65 per share. The Company sold all preferred stock available under this offering.

On January 24, 2020, the Company filed a Registration Statement on Form S-3 with the SEC pertaining to the potential future issuance of one or more classes or series of debt, equity or derivative securities. The aggregate initial offering price is not to exceed $20,000,000. This stock was established to be sold in four offering periods beginning with an offering price of $4.85 per share and concluding at $5.15 per share. Proceeds from the sale of preferred stock for the three and six months ended June 30, 2020, were received by the Company and included as unrestricted cash. As of June 30, 2020, the Company concluded $390,248 in stock sales, net of acquisition costs, under this agreement and recorded it as a current liability, “Investor deposits for preferred stock”. Proceeds received will convert from a liability to equity when preferred stock is issued to investors.

Dividends accrued but not paid will be added to the liquidation preference of the stock until the dividend is declared and paid. At any time after June 1, 2021, the Company has the option, but not the obligation, to redeem all of the outstanding preferred stock in an amount equal to the original issue price plus accrued but unpaid dividends and a redemption premium equal to 3% of the original issue price.

8) LEASES

We determine if an arrangement is a lease at inception. On our balance sheet, our operating leases are included in Operating lease Right-of-use assets (ROU), Current portion of lease liabilities, and Lease liabilities, net of current portion. The Company does not currently have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For leases that do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Significant judgment may be required when determining whether a contract contains a lease, the length of the lease term, the allocation of the consideration in a contract between lease and non-lease components, and the determination of the discount rate included in our leases. We review the underlying objective of each contract, the terms of the contract, and consider our current and future business conditions when making these judgments.

Operating Leases – Vineyard - In December 1999, under a sale-leaseback agreement, the Company sold approximately 79 acres of the Tualatin Vineyards property with a net book value of approximately $1,000,000 for approximately $1,500,000 cash and entered into a 20-year operating lease agreement, with three five-year extension options, and contains an escalation provision of 2.5% per year. The Company extended the lease in January 2019 until January 2025.

In December 2004, under a sale-leaseback agreement, the Company sold approximately 75 acres of the Tualatin Vineyards property with a net book value of approximately $551,000 for approximately $727,000 cash and entered into a 15-year operating lease agreement, with three five-year extension options, for the vineyard portion of the property. The first five year extension has been exercised. The lease contains a formula-based escalation provision with a maximum increase of 4% every three years.

In February 2007, the Company entered into a lease agreement for 59 acres of vineyard land at Elton Vineyards. This lease is for a 10-year term with four five-year renewals at the Company’s option. The lease contains an escalation provision tied to the CPI not to exceed 2% per annum. In 2017, the Company exercised its option to renew the lease until December 31, 2022.

In July 2008, the Company entered into a 34-year lease agreement with a property owner in the Eola Hills for approximately 110 acres adjacent to the existing Elton Vineyards site. These 110 acres are being developed into vineyards. Terms of this agreement contain rent increases, that rises as the vineyard is developed, and contains an escalation provision of CPI plus 0.5% per year capped at 4%.

In March 2017, the Company entered into a 25-year lease for approximately 18 acres of agricultural land in Dundee, Oregon. These acres are being developed into vineyards. This lease contains an annual payment that remains constant throughout the term of the lease.

Operating Leases – Non-Vineyard - In September 2018, the Company renewed an existing lease for three years, with two one-year renewal options, for its McMinnville tasting room. The lease contains an escalation provision with a cap at 3% per year.

In January 2018, the Company assumed a lease, with four remaining years, for its Maison Bleue tasting room in Walla Walla, Washington. The lease contains fixed payments that increase over the term of the agreement.

In February 2020, the Company entered into a lease for 5 years, with three five-year renewal options for a retail wine facility in Folsom, California, referred to as Willamette Wineworks. The lease contains an escalation provision tied to the CPI not to exceed 3% per annum with increases not allowed in any year being carried forward to following years.

The following tables provide lease cost and other lease information:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Lease Cost		
Operating Lease cost - Vineyards	$ 113,685	$ 213,685
Operating Lease cost - Other	38,224	76,448
Short-term lease cost	7,756	16,383
Total Lease Cost	$ 159,665	$ 306,516
Other Information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases - Vineyard	108,023	215,655
Operating cash flows from operating leases - Other	38,118	63,419
Weighted-average remaining lease term - operating leases in years	16.84	16.84
Weighted-average discount rate - operating leases	6.21%	6.21%

As of June 30, 2020, maturities of lease liabilities were as follows:

Years Ended December 31,	Operating Leases
2020	$ 295,549
2021	578,438
2022	553,777
2023	534,954
2024	540,365
Thereafter	5,962,188
Total minimal lease payments	8,465,270
Less present value adjustment	(3,324,292)
Operating lease liabilities	5,140,978
Less current lease liabilities	(279,768)
Lease liabilities net of current portion	$ 4,861,210

9) COMMITMENTS AND CONTINGENCIES

Litigation – From time to time, in the normal course of business, the Company is a party to legal proceedings. Management believes that these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows, but, due to the nature of litigation, the ultimate outcome of any potential actions cannot presently be determined.

Grape Purchases – The Company has entered into a long-term grape purchase agreement with one of its Willamette Valley wine grape growers. This contract amended and extended three separate contracts and purchases fruit through the 2023 harvest year. With this agreement the Company purchases an annually agreed upon quantity of fruit, at pre-determined prices, within strict quality standards and crop loads. The Company cannot calculate the minimum or maximum payment as such a calculation is dependent in large part on unknowns such as the quantity of fruit needed by the Company and the availability of grapes produced that meet the strict quality standards in any given year. If no grapes are produced that meet the contractual quality levels, the grapes may be refused, and no payment would be due.

ITEM 2:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used in this Quarterly Report on Form 10-Q, "we," "us," "our" and "the Company" refer to Willamette Valley Vineyards, Inc.

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q 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" "intends," "plans," "predicts," "potential," "should," or "will" or the negative thereof 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, changes in consumer spending, the reduction in consumer demand for premium wines and the impact of the COVID-19 pandemic and the policies of United States federal, state and local governments in response to such pandemic. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic economic conditions. Many of these risks as well as other risks that may have a material adverse impact on our operations and business, are identified in Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as well as in the Company's other Securities and Exchange Commission filings and reports. The forward-looking statements in this report are made as of the date hereof, and, except as otherwise required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements or to update the reasons why the actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

The foregoing discussion and analysis of the Company's financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires the Company's 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, the Company evaluates its estimates, including those related to revenue recognition, collection of accounts receivable, valuation of inventories, and amortization of vineyard development costs. The Company bases its 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 the Company's critical accounting policies and related judgments and estimates that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Such policies were unchanged during the six months ended June 30, 2020.

Overview

The Company, one of the largest wine producers in Oregon by volume, believes its success is dependent upon its ability to: (1) grow and purchase high quality vinifera wine grapes; (2) vinify the grapes into premium, super premium and ultra-premium wine; (3) achieve significant brand recognition for its wines, first in Oregon and then nationally and internationally; (4) effectively distribute and sell its products nationally; and (5) continue to build on its base of direct to consumer sales.

The Company's goal is to continue to build on a reputation for producing some of Oregon's finest, most sought-after wines. The Company has focused on positioning itself for strategic growth through property purchases, property development and issuance of the Company's Series A Redeemable Preferred Stock (the "Preferred Stock"). Management expects near term financial results to be negatively impacted by these activities as a result of incurring costs of accrued preferred stock dividends, strategic planning and development costs and other growth associated costs.

The Company's wines are made from grapes grown in vineyards owned, leased or contracted by the Company, and from grapes purchased from other nearby vineyards. The grapes are harvested, fermented and made into wine primarily at the Company's winery in Turner Oregon (the "Winery") and the wines are sold principally under the Company's Willamette Valley Vineyards label, but also under the Griffin Creek, Pambrun, Elton, Maison Bleue, Metis, Natoma, Elton and Tualatin Estates labels. The Company also owns the Tualatin Estate Vineyards and Winery, located near Forest Grove, Oregon. The Company generates revenues from the sales of wine to wholesalers and direct to consumers.

Direct to consumer sales primarily include sales through the Company's tasting rooms, telephone, internet and wine club. Direct to consumer sales are at a higher unit price than sales through distributors due to prices received being closer to retail than those prices paid by wholesalers. The Company continues to emphasize growth in direct to consumer sales through the Company's 35,642 square foot hospitality facility at the Winery and expansion and growth in wine club membership. Additionally, the Company's preferred stock sales since August 2015 have resulted in approximately 5,738 new preferred stockholders many of which the Company believes are wine enthusiasts. When considering joint ownership, we believe these new stockholders represent approximately 9,000 potential customers of the Company.

Periodically, the Company will sell grapes or bulk wine, due to them not meeting Company standards or being in excess to production targets, however this is not a significant part of the Company's activities. The Company had no bulk wine sales the three months ended June 30, 2020 and $2,800 in bulk wine sales for the same period of 2019. The Company had bulk wine sales of $28,734 for the six months ended June 30, 2020 and $45,563 in bulk wine sales for the same period of 2019.

The Company sold approximately 83,435 and 70,048 cases of produced wine during the six months ended June 30, 2020 and 2019, respectively, an increase of 13,387 cases, or 19.1% in the current year period over the prior year period. The increase in wine case sales was primarily the result of increased case sales through distributors.

Cost of sales includes grape costs, whether purchased or grown at Company vineyards, winemaking and processing costs, bottling, packaging, warehousing, and shipping and handling costs. For grapes grown at Company vineyards, costs include farming expenditures and amortization of vineyard development costs.

At June 30, 2020, wine inventory included approximately 156,657 cases of bottled wine and 258,299 gallons of bulk wine in various stages of the aging process. Case wine is expected to be sold over the next 12 to 24 months and generally before the release date of the next vintage. The Winery bottled approximately 103,893 cases during the six months ended June 30, 2020.

Willamette Valley Vineyards continues to receive positive recognition through national magazines, regional publications, local newspapers and online bloggers.

Wine Enthusiast awarded the Company's 2018 White Pinot Noir with 92 points and Editors' Choice, 2017 Dijon Clone Chardonnay with 91 points and Editors' Choice, 2019 Whole Cluster Pinot Noir with 91 points and Editors' Choice, 2017 Vintage 44 Pinot Noir with 90 points, 2018 Estate Chardonnay with 90 points, 2019 Estate Rosé of Pinot Noir with 90 points and 2019 Whole Cluster Rosé of Pinot Noir with 90 points and Editors' Choice.

The Company's 2019 Whole Cluster Rosé of Pinot Noir was awarded a Double Gold medal and received a score of 96 points at The Sunset International Wine Competition.

The Company's 2018 Whole Cluster Pinot Noir was awarded 92 points and the 2017 Estate Pinot Noir was awarded 90 points from Wine.com.

Wine Advocate awarded the Company's 2016 Fuller Pinot Noir with 90 points and the Elton Florine Pinot Noir, a boutique wine brand from the Eola-Amity Hills AVA, with 90 points.

Forbes included the Company's Whole Cluster Rosé of Pinot Noir in the article, "Oregon's Willamette Valley Makes Rosé like no Place Else on Earth."

The Wall Street Journal featured the Company's Pinot Gris and quoted its Winemaker Joe Ibrahim in the article, "The Best Wines to Drink with Salmon."

The Company's 2018 Whole Cluster Pinot Noir was included in the *Prevention Magazine* article titled, "10 Best Red Wines Made in the United States to Buy in 2020."

Forbes featured a Question and Answer with the Company's Founder/CEO Jim Bernau about the preferred stock offering and other financial successes in the article entitled, "Willamette Valley Vineyards: How An Innovative Financial Strategy Fuels Dramatic Growth."

The Company's ultraviolet light filtration technology installed in its HVAC system to reduce harmful microorganisms was featured in *The Oregonian*, *Wine Business Monthly*, *Capital Press*, *The Corvallis Advocate*, KPTV Fox Channel 12 (Fox-affiliated television) and KATU Channel 2 (ABC-affiliated television station).

The Company's Tualatin Estate Vineyard founded in 1973 was included in more than 30 articles about the new Tualatin Hills sub-AVA of the Willamette Valley, including *The Hour, The Oregonian, Times Union* and *San Antonio Express-News*, as well as a KOIN Newschannel 6 (Portland CBS-affiliate television station) broadcast.

Bernau Estate, the Company's méthode champenoise sparkling wine facility with a biodynamically-farmed vineyard, planned to open in 2022 in the Dundee Hills, was in a feature article with photographs in *The Oregonian*. The article also touched on the preferred stock offering funding method for the project.

Willamette Wineworks, the Company's first microwinery outpost featuring wine tasting, food pairings and a barrel blending system to create custom wine blends was featured in *Sacramento Business Journal*, *Gold Country Media*, Capital Public Radio News and an on-air interview

Impact of COVID-19 on Operations

The COVID-19 pandemic has been declared a National Public Health Emergency in the United States, and on March 8, 2020, Oregon Governor Kate Brown declared a state of emergency to address the spread of COVID-19 in Oregon. The outbreak in Oregon and other parts of the United States, as well as the response to COVID-19 by federal, state and local governments could have a continued material adverse impact on economic and market conditions in the United States, and likely will negatively affect our business and operations. The COVID-19 pandemic and the government responses to the outbreak presents uncertainty and risk with respect to the Company and its performance and financial results.

With the exception of key operations personnel, we have shifted our office staff to remote workstations, and we expect we will continue to operate remotely until state and local government shelter-in-place orders have been lifted and management determines it is safe for employees to return to offices. Far exceeding the required Oregon Healthy Authority protocols, a new state-of-the-art UV light filtration has been installed in the Company's HVAC system to reduce harmful viruses in the air at its tasting room locations and staff offices.

We have not experienced significant disruptions to our supply chain network, however with orders imposed by the local state government, we expect a negative impact on our direct to consumer sales. In response to the closing of our tasting rooms and other restrictions, the Company launched curbside pick-ups, complimentary shipping specials with minimum purchase and a new wine delivery service for locals, which we are hopeful will mitigate some of the expected declines in direct to consumer sales.

Additionally, the demand for the Company's wine sold directly or through distributors to restaurants, bars, and other hospitality locations will likely be significantly reduced in the near-term due to orders restricting consumers from visiting, as well as in some cases the temporary closure of such establishments.

The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the response to the pandemic is continuing to evolve. The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted.

RESULTS OF OPERATIONS

Revenue

Sales revenue for the three months ended June 30, 2020 and 2019 were $5,568,654 and $5,790,837, respectively, a decrease of $222,183, or 3.8%, in the current year period over the prior year period. This decrease was mainly caused by a decrease in direct sales of $156,802 and a decrease in sales through distributors of $65,381 in the current year three-month period over the prior year period. The decrease in direct sales to consumers was primarily the result of retail sales decreases in tasting room revenue, hospitality and kitchen sales mostly due to the temporary closure and restrictions on the operation of our tasting rooms resulting from the COVID-19 pandemic. The decrease in revenue from sales through distributors was primarily attributed to lower sales to the on-premise market as many of these establishments have been closed or had other restrictions placed on them due to the COVID-19 pandemic. Sales revenue for the six months ended June 30, 2020 and 2019 were $12,090,549 and $10,789,623, respectively, an increase of $1,300,926, or 12.1%, in the current year period over the prior year period. This increase was mainly caused by an increase in revenues from direct sales of $75,332 and an increase in revenues from sales through distributors of $1,225,594 in the current year period over the prior year period. The increase in revenues from direct sales to consumers was primarily the result of increased phone sales and internet sales. The increase in sales through distributors was primarily the result of an increase in off-premise sales.

Cost of Sales

Cost of Sales for the three months ended June 30, 2020 and 2019 were $2,067,122 and $2,292,479, respectively, a decrease of $225,357, or 9.8%, in the current period over the prior year period. This change was primarily the result of an increase in sales and the vintages sold in 2020. Cost of Sales for the six months ended June 30, 2020 and 2019 were $4,676,975 and $4,010,629, respectively, an increase of $666,346, or 16.6%, in the current period over the prior year period. This change was primarily the result of an increase in sales in 2020.

Gross Profit

Gross profit for the three months ended June 30, 2020 and 2019 was $3,501,532 and $3,498,358, respectively, an increase of $3,174, or 0.1%, in the second quarter of 2020 over the same quarter in the prior year. Gross profit for the six months ended June 30, 2020 and 2019 was $7,413,574 and $6,778,994, respectively, an increase of $634,580, or 9.4%, in the current year period over the prior year period. This increase was primarily the result of an increase in case sales over the first six months of the current year compared to the same period in 2019.

Gross profit as a percentage of net sales for the three months ended June 30, 2020 and 2019 was 62.9% and 60.4%, respectively, an increase of 2.5 percentage points in the current year period over the prior year period. Gross profit as a percentage of net sales for the six months ended June 30, 2020 and 2019 was 61.3% and 62.8%, respectively, a decrease of 1.5 percentage points in the current year period over the prior year period. This decrease was primarily the result of more sales coming from distribution sales which have a lower selling price.

Selling, General and Administrative Expenses

Selling, general and administrative expense for the three months ended June 30, 2020 and 2019 was $2,555,958 and $2,901,927 respectively, a decrease of $345,969, or 11.9%, in the current quarter over the same quarter in the prior year. This decrease was primarily the result of a decrease in selling expenses of $292,588, or 15.3% and a decrease in general and administrative expenses of $53,381, or 5.4% in the current quarter compared to the same quarter last year. Selling, general and administrative expense for the six months ended June 30, 2020 and 2019 was $5,385,462 and $5,618,125, respectively, a decrease of $232,663, or 4.1%, in the current year period over the prior year period. This decrease was primarily the result of a decrease in selling expenses of $319,548, or 8.7% being partially offset by an increase in general and administrative expenses of $86,885, or 4.5% in the current year period compared to the same period in 2019. Selling expenses decreased in both the first half and second quarter of 2020 compared to the same periods in 2019 primarily as a result of more sales coming from distributors which have lower selling costs, combined with reduced travel and the temporary closure of tasting rooms as a result of the Covid-19 pandemic. General and administrative expenses decreased in the second quarter primarily a result of less contract labor and professional fees and increased for the six months ended June 30, 2020 primarily as a result of increased insurance and compensation related costs compared to the same period in 2019.

Interest Expense

Interest expense for the three months ended June 30, 2020 and 2019 was $105,133 and $111,088, respectively, a decrease of $5,955 or 5.4%, in the second quarter of 2020 over the same quarter in the prior year. Interest expense for the six months ended June 30, 2020 and 2019 was $210,875 and $221,502, respectively, a decrease of $10,627 or 4.8%, in the current year period over the prior year period. The decrease in interest expense for the second quarter and first six months of 2020 was primarily the result of decreased debt compared to the second quarter and first six months of 2019.

Income Taxes

The income tax expense for the three months ended June 30, 2020 and 2019 was $231,533 and $134,363, respectively, an increase of $97,170 or 72.3%, in the second quarter of 2020 over the same quarter in the prior year mostly as a result of higher pre-tax income in the second quarter of 2020, compared to the same quarter in 2019. The Company's estimated federal and state combined income tax rate was 27.2% for the three months ended June 30, 2020 and 2019. The income tax expense for the six months ended June 30, 2020 and 2019 was $525,766 and $284,366, respectively, an increase of $241,400 or 84.9%, in the current year period over the prior year period mostly a result of higher pre-tax income in the first six months of 2020, compared to the same period in 2019. The Company's estimated federal and state combined income tax rate was 27.2% and 26.6% for the three months ended June 30, 2020 and 2019, respectively.

Net Income

Net income for the three months ended June 30, 2020 and 2019 was $620,421 and $359,911, respectively, an increase of $260,510, or 72.4%, in the second quarter of 2020 over the same quarter in the prior year. Net income for the six months ended June 30, 2020 and 2019 was $1,407,503 and $786,387, respectively, an increase of $621,116, or 79.0%, in the current year period over the prior year period. The increase in net income for the second quarter and first half of 2020, compared to the comparable periods in 2019, was primarily the result of increased gross profits in addition to lower selling, general and administrative expenses.

Income Applicable to Common Shareholders

Income applicable to common shareholders for the three months ended June 30, 2020 and 2019 was $363,969 and $103,459, respectively, an increase of $260,510, or 251.8%, in the second quarter of 2020 over the same quarter in the prior year. Income applicable to common shareholders for the six months ended June 30, 2020 and 2019 was $894,599 and $273,483, respectively, an increase of $621,116, or 227.1%, in the current year period over the prior year period. The increase in income applicable to common shareholders in the second quarter and first six months of 2020, compared to the same periods of 2019, was the result of higher net income in the current periods.

Liquidity and Capital Resources

At June 30, 2020, the Company had a working capital balance of $20.0 million and a current working capital ratio of 4.92:1.

At June 30, 2020, the Company had a cash balance of $5,903,587. At December 31, 2019, the Company had a cash balance of $7,050,176. This decrease is primarily the result of increased cash used in investing activities primarily on the construction of a new tasting room in Dundee, Oregon. The total construction costs for the project is expected to be approximately $13.5 million, which we expect will be funded through a combination of cash on hand as well as equity financing through the current preferred stock offering. Construction began in July 2019 and was paused in March 2020 as a result of the uncertainty on the impact of the COVID-19 pandemic on the Company's business. As of June 30, 2020, we had incurred approximately $4.6 million on the project.

Total cash generated from operating activities in the six months ended June 30, 2020 was $1,776,123. Cash generated in operating activities for the six months ended June 30, 2020 was primarily associated with cash received from increased net income, reduced inventory and income taxes receivable, being partially offset by cash used in connection with an increase in accounts receivable and a decrease in grapes payables.

Total cash used in investing activities in the six months ended June 30, 2020 was $3,058,607. Cash used in investing activities for the six months ended June 30, 2020 primarily consisted of cash used on construction activity on a new tasting room and vineyard development costs.

Total cash generated from financing activities in the six months ended June 30, 2020 was $135,895. Cash generated from financing activities for the six months ended June 30, 2020 primarily consisted proceeds from investor deposits, being partially offset by the repayment of debt.

The Company has an asset-based loan agreement (the “line of credit”) with Umpqua Bank that allows it to borrow up to $2,000,000. The Company renewed this agreement, in July 2019, until July 2021. The interest rate is prime less 0.5%, with a floor of 3.25%. The loan agreement contains 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, 2020, the Company was in compliance with all of the financial covenants.

As of June 30, 2020 and December 31, 2019, the Company had no balance outstanding on the line of credit.

As of June 30, 2020 the Company had a 15-year installment note payable of $1,427,151, due in quarterly payments of $42,534, associated with the purchase of property in the Dundee Hills AVA.

As of June 30, 2020, the Company had a total long-term debt balance of $6,207,114, including the portion due in the next year, owed to Farm Credit Services and Toyota Credit Corporation, exclusive of debt issuance costs of $152,354. As of December 31, 2019, the Company had a total long-term debt balance of $6,423,517, exclusive of debt issuance costs of $158,978.

The Company qualified and obtained a PPP loan for $1.655 million, but quickly returned the funds after obtaining a $5 million commercial loan commitment from Farm Credit Services, which is intended to provide the Company with additional liquidity in the event the Company was to experience operating losses from sales disruptions due to the COVID-19 pandemic. This Commitment came into effect in July 2020 and as of the filing date the Company has not drawn down any funds on this commitment.

The Company believes that cash flow from operations and funds available under the Company’s existing credit facilities will be sufficient to meet the Company’s short-term needs. Due to the uncertainty surrounding the future impact of the COVID-19 pandemic on the Company we will continue to evaluate funding mechanisms to support our long-term funding requirements.

Off Balance Sheet Arrangements

As of June 30, 2020 and December 31, 2019, the Company had no off-balance sheet arrangements.

ITEM 3:

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information required by this item.

ITEM 4:

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – The Company carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures pursuant to paragraph (b) of Rule 13a-15 and 15d-5 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that review, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by the Company in the reports the Company files or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including the Company’s principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting – There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1 – Legal Proceedings

From time to time, the Company is a party to various judicial and administrative proceedings arising in the ordinary course of business. The Company's management and legal counsel have reviewed the probable outcome of any proceedings that were pending during the period covered by this report, the costs and expenses reasonably expected to be incurred, the availability and limits of the Company's insurance coverage, and the Company's established liabilities. While the outcome of legal proceedings cannot be predicted with certainty, based on the Company's review, the Company believes that any unrecorded liability that may result as a result of any legal proceedings is not likely to have a material effect on the Company's liquidity, financial condition or results from operations.

Item 1A – Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"), which could materially affect our business, results of operations or financial condition. The risk factor below updates the risk factors contained in our 2019 Annual Report,

The COVID-19 pandemic could adversely affect our financial results, operations and outlook for an extended period of time.

The COVID-19 pandemic and restrictions imposed by federal, state and local governments in response to the outbreak have disrupted and will continue to disrupt our business. In the State of Oregon where we operate the Winery and most of our vineyards, individuals are being encouraged to practice social distancing, are restricted from gathering in groups and, in some areas, are mandated to stay home except for essential activities. In response to the COVID-19 pandemic and government restrictions, we have at various times closed our tasting rooms and have launched curbside pick-ups and complimentary shipping specials with minimum purchase. We expect the ongoing restrictions and the sudden increase in unemployment caused by the closure of businesses in response to the COVID-19 pandemic to adversely affect our sales revenues, which adversely impacts our liquidity, financial condition, and results of operations. Even after stay-at-home orders are loosened or lifted, the impact of lost wages due to COVID-19 related unemployment may dampen consumer spending for some time in the future.

Our operations could be further disrupted if a significant number of our employees are unable or unwilling to work, whether because of illness, quarantine, restrictions on travel or fear of contracting COVID-19, which could further materially adversely affect our liquidity, financial position and results of operations. To support our employees and protect the health and safety of our employees and our customers, we may offer enhanced health and welfare benefits, provide bonuses to our employees, and purchase additional sanitation supplies and personal protective materials. These measures will likely increase our operating costs and adversely affect our liquidity.

The COVID-19 pandemic may also adversely affect the ability of our grape suppliers to fulfill their obligations to us, which may negatively affect our operations. If our suppliers are unable to fulfill their obligation to us, we could face shortages of grapes, and our operations and sales could be adversely impacted.

We have also modified our plans for expanding our operations due to the COVID-19 pandemic. To preserve our liquidity, we have delayed some planned capital expenditures. These changes may adversely affect our ability to grow our business, particularly if these projects are delayed for a significant amount of time.

We cannot predict how long the COVID-19 pandemic will last or if it will recur, if new government restrictions and mandates will be imposed or how long they will be effective, or how quickly, if at all, our customers will return to their pre-COVID-19 purchasing behaviors, so we cannot predict how long our results of operations and financial performance will be adversely impacted.

The COVID-19 pandemic may also have the effect of heightening other risks disclosed in the Risk Factors section included in our 2019 Annual Report, such as, but not limited to, those related to cybersecurity threats, consumer behavior, supply chain interruptions and labor availability and cost.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, results of operations or financial condition.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 – Defaults upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

Item 6 – Exhibits

3.1 Articles of Incorporation of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A, File No. 24S-2996)

3.2 Articles of Amendment, dated August 22, 2000 (incorporated herein by reference to Exhibit 3.4 to the Company's Form 10-Q for the quarterly period ended June 30, 2008, filed on August 14, 2008, File No. 000-21522)

3.3 Amended and Restated Bylaws of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company's Current Reports on Form 8-K filed on November 20, 2015, File No. 001-37610)

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

32.1 Certification of James W. Bernau pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

32.2 Certification of John Ferry pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

101 The following financial information from the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements, tagged as blocks of text. (Filed herewith).

SIGNATURES

Pursuant to the requirements of the Security Exchange Act of 1934, 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, 2020	By	/s/ James W. Bernau James W. Bernau Chief Executive Officer (Principal Executive Officer)
Date: August 12, 2020	By	/s/ John Ferry John Ferry Chief Financial Officer (Principal Accounting and Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, James W. Bernau, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willamette Valley Vineyards, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2020

By /s/ James W. Bernau
James W. Bernau
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, John Ferry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willamette Valley Vineyards, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2020

By /s/ John Ferry
John Ferry
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James W. Bernau, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of Willamette Valley Vineyards, Inc. on Form 10-Q for the quarterly period ended June 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) information contained in the Report fairly presents in all material respects the financial condition and results of operations of Willamette Valley Vineyards, Inc.

Date: August 12, 2020

By /s/ James W. Bernau
James W. Bernau
Title: Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Willamette Valley Vineyards, Inc. and will be retained by Willamette Valley Vineyards, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by Willamette Valley Vineyards, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Willamette Valley Vineyards, Inc. specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John Ferry, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of Willamette Valley Vineyards, Inc. on Form 10-Q for the quarterly period ended June 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) information contained in the Report fairly presents in all material respects the financial condition and results of operations of Willamette Valley Vineyards, Inc.

Date: August 12, 2020

By /s/ John Ferry
John Ferry
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Willamette Valley Vineyards, Inc. and will be retained by Willamette Valley Vineyards, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by Willamette Valley Vineyards, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Willamette Valley Vineyards, Inc. specifically incorporates it by reference.