

Truett-Hurst, Inc.  
Form 10-Q  
November 13, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ending September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-187164

**TRUETT-HURST, INC.**

**(Exact name of registrant as specified in its charter)**

**DELAWARE**

**46-1561499**

(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification number)

125 Foss Creek Circle, Healdsburg, California 95448  
(Address of principal executive offices) (zip code)

(707) 431-4436

(Registrant's telephone number, including area code)

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.

Yes  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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Yes  No

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date.

Class A	Number of Shares Outstanding
---------	------------------------------

Edgar Filing: Truett-Hurst, Inc. - Form 10-Q

Common stock, \$0.001 par value per share 3,750,472

**TRUETT-HURST INC. AND SUBSIDIARIES**

**FORM 10-Q**

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Part I. Financial Information

Item 1. <u>Condensed Conoligated Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and June 30, 2014</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2014 and 2013</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2014 and 2013</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	24

Part II. Other Information

Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Securities and Use of Proceeds</u>	25
Item 3. <u>Defaults Upon Senior Securities</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25
Item 5. <u>Other Information</u>	25
Item 6. <u>Exhibits</u>	26

Signatures

## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## TRUETT-HURST INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2014 (unaudited)	June 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,752	\$ 5,567
Accounts receivable	3,959	3,300
Inventories	23,660	17,179
Bulk wine deposit	-	1,424
Other current assets	176	161
Total current assets	32,547	27,631
Property and equipment, net	5,845	5,553
Goodwill	134	134
Intangible assets, net	604	629
Other assets, net	387	381
Total assets	\$ 39,517	\$ 34,328
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Credit facilities	\$ 9,055	\$ 8,685
Accounts payable and accrued expenses	7,758	3,194
Due to related parties	430	56
Current maturities of related party notes	49	67
Current maturities of long-term debt	335	333
Total current liabilities	17,627	12,335
Deferred rent liability	43	48
Long-term debt, net of current maturities	3,442	3,527
Total liabilities	21,112	15,910

## Commitments and contingencies (Note 6)

## Stockholders' equity

Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized and zero issued and outstanding at September 30, 2014 and June 30, 2014	-	-
Class A common stock, par value of \$0.001 per share, 7,000,000 authorized and 3,750,472 issued and outstanding at September 30, 2014 and June 30, 2014	4	4
Class B common stock, par value of \$0.001 per share, 1,000 authorized and 9 issued and outstanding at September 30, 2014 and June 30, 2014	-	-
Additional paid-in capital	14,195	14,057
Accumulated deficit	(4,096	) (3,995 )
Total Truett-Hurst, Inc. equity	10,103	10,066
Non-controlling interests	8,302	8,352
Total equity	18,405	18,418
Total liabilities and stockholders' equity	\$ 39,517	\$ 34,328

*See accompanying notes to condensed consolidated financial statements.*

**TRUETT-HURST INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except share data)****(unaudited)**

	Three Month Period Ended September 30,	
	2014	2013
Sales	\$6,614	\$5,536
Less excise tax	(132 )	(150 )
Net sales	6,482	5,386
Cost of sales	4,047	3,597
Gross profit	2,435	1,789
Operating expenses:		
Sales and marketing	1,565	1,154
General and administrative	943	736
Loss on disposal of assets	2	-
Total operating expenses	2,510	1,890
Loss from operations	(75 )	(101 )
Other income (expense):		
Interest expense, net	(64 )	(42 )
Other	(9 )	(17 )
Total other income (expense)	(73 )	(59 )
Loss before income taxes	(148 )	(160 )
Income tax (benefit) expense	2	(21 )
Net loss before non-controlling interests	(150 )	(139 )
Net income (loss) attributable to non-controlling interest: The Wine Spies, LLC	36	(24 )
Net loss attributable to Truett-Hurst, Inc. and H.D.D. LLC	(186 )	(115 )
Less: Net loss attributable to non-controlling interest: H.D.D. LLC	(86 )	(82 )
Net loss attributable to Truett-Hurst, Inc.	\$(100 )	\$(33 )
Net loss per share:		
Basic and diluted	\$(0.03 )	\$(0.01 )
Weighted average shares used in computing net loss per share:		
Basic and diluted	3,750,472	2,700,000



*See accompanying notes to condensed consolidated financial statements.*

**TRUETT-HURST INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three Month Period Ended September 30, 2014      2013	
Cash flows from operating activities:		
Net loss before non-controlling interests	\$(150 )	\$(139 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	154	121
Deferred rent	(5 )	(3 )
Deferred taxes	(2 )	(21 )
Loss (gain) on fair value of interest rate swap	(5 )	3
Loss on disposal of assets	2	-
Stock-based compensation	138	114
Changes in operating assets and liabilities, net		
Accounts receivable	(659 )	955
Inventories	(6,481)	(3,895 )
Bulk wine deposit	1,424	-
Other current assets	(15 )	(195 )
Accounts payable and accrued expenses	4,938	1,318
Net cash used in operating activities	(661 )	(1,742 )
Cash flows from investing activities:		
Acquisition of property and equipment	(392 )	(247 )
Acquisition of intangible and other assets	(31 )	(71 )
Proceeds from sale of assets	-	2
Net cash used in investing activities	(423 )	(316 )
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	370	(869 )
Payments on related party notes	(18 )	(17 )
Payments on long-term debt	(83 )	(62 )
Net cash provided by (used in) financing activities	269	(948 )
Net decrease in cash	(815 )	(3,006 )
Cash at beginning of period	5,567	11,367
Cash at end of period	\$4,752	\$8,361

Edgar Filing: Truett-Hurst, Inc. - Form 10-Q

Supplemental disclosure of cash flow information:

Cash paid for interest	\$39	\$53
Cash paid for income taxes	\$2	\$1

*See accompanying notes to condensed consolidated financial statements.*

**TRUETT-HURST INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands)**

**(Unaudited)**

**NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The unaudited interim condensed consolidated financial statements include the results of Truett-Hurst, Inc. (“THI”) and its subsidiaries: H.D.D. LLC (“LLC”) and its consolidated subsidiary, The Wine Spies, LLC (“Wine Spies”) (collectively, “we,” “Truett-Hurst,” “our,” “us,” or “the Company”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with general instructions for quarterly reports filed on Form 10-Q and Article 8 of Regulation S-X. THI consolidates the financial results of the LLC and its consolidated subsidiary, and records a non-controlling interest for the economic interest in the LLC and its consolidated subsidiary. Such non-controlling interest represents the portion of equity ownership in the aforementioned subsidiaries that is not attributable to THI.

The accompanying unaudited financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. We prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, and, in the opinion of management, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim period presented are not necessarily indicative of the results expected for the full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014 filed with the SEC on September 29, 2014.

Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current period presentation. Reclassifications had no material impact on previously reported results of operations, financial position or cash flows.

Quantities or results referred to as “to date” or “as of this date” mean as of or to September 30, 2014, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to our fiscal year ending on June 30 the designated year.

Unless otherwise indicated, the notes to the unaudited condensed consolidated financial statements relate to the discussion of our continuing operations.

### ***Critical Accounting Policies and Estimates***

There have been no material changes to the critical accounting policies and estimates previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

### ***Accounting Pronouncements***

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, or ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

We have reviewed all other recently issued, but not yet effective, accounting pronouncements and we do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

**TRUETT-HURST INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands)****(Unaudited)****NOTE 2 – INVENTORIES**

Inventories consist of the following:

	September 30, 2014	June 30, 2014
	(in thousands)	
Bulk wine	\$ 7,360	\$ 5,392
Bottled wine	15,565	11,285
Bottling materials and other	578	395
Capitalized cultural costs	157	107
Total inventories	\$ 23,660	\$ 17,179

**NOTE 3 – PROPERTY AND EQUIPMENT, net**

Property and equipment consists of the following:

	September 30, 2014	June 30, 2014
	(in thousands)	
Land and land improvements	\$ 2,804	\$ 2,804
Building and improvements	1,779	1,756
Machinery and equipment	1,604	1,233
Vineyard development	353	353
Vineyard equipment	327	327

Edgar Filing: Truett-Hurst, Inc. - Form 10-Q

Furniture and fixtures	256	256
Leasehold improvements	119	117
Vehicles	93	93
	7,335	6,939
Less accumulated depreciation		