

Truett-Hurst, Inc.
Form 10-Q
May 15, 2015

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 Ended March 31, 2015

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: 001-35973

TRUETT-HURST, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

46-1561499
(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
Common stock, \$0.001 par value per share	4,010,120

TRUETT-HURST INC. AND SUBSIDIARIES

FORM 10-Q

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PART I - FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****TRUETT-HURST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	March 31, 2015 Unaudited	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,072	\$ 5,567
Accounts receivable	2,349	3,300
Inventories	22,269	17,179
Bulk wine deposit	1,122	1,424
Other current assets	106	161
Total current assets	27,918	27,631
Property and equipment, net	5,811	5,553
Goodwill	134	134
Intangible assets, net	732	629
Other assets, net	476	381
Total assets	\$ 35,071	\$ 34,328
LIABILITIES and EQUITY		
Current liabilities:		
Credit facilities	\$ 8,865	\$ 8,685
Accounts payable and accrued expenses	4,236	3,194
Accrual for sales returns	556	-
Due to related parties	201	56
Related party note	12	67
Current maturities of long-term debt	379	333
Total current liabilities	14,249	12,335
Deferred rent liability	32	48
Long-term debt, net of current maturities	3,345	3,527
Total liabilities	17,626	15,910

Commitments and contingencies (Note 5)

Stockholders' equity

Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized and zero issued and outstanding at March 31, 2015 and June 30, 2014	-	-
Class A common stock, par value of \$0.001 per share, 15,000,000 authorized and 4,010,120 issued and outstanding at March 31, 2015 and 3,750,472 issued and outstanding at June 30, 2014	4	4
Class B common stock, par value of \$0.001 per share, 1,000 authorized and 8 issued and outstanding at March 31, 2015 and 9 issued and outstanding at June 30, 2014	-	-
Additional paid-in capital	14,516	14,057
Accumulated deficit	(4,829)	(3,995)
Total Truett-Hurst, Inc. stockholders' equity	9,691	10,066
Non-controlling interests	7,754	8,352
Total equity	17,445	18,418
Total liabilities and equity	\$ 35,071	\$ 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 Periods Ended		Nine-Month Periods Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Sales	\$ 6,278	\$ 5,280	\$ 19,624	\$ 16,957
Less excise tax	(126)	(120)	(426)	(415)
Net sales	6,152	5,160	19,198	16,542
Cost of sales	3,723	3,408	12,335	10,880
Gross profit	2,429	1,752	6,863	5,662
Operating expenses:				
Sales and marketing	1,885	1,377	5,308	3,930
General and administrative	855	613	2,610	1,937
Provision for loss of deposit	-	400	-	400
Bulk wine sales, net gain	-	-	-	(1)
Loss on disposal of assets	10	-	12	-
Total operating expenses	2,750	2,390	7,930	6,266
Loss from operations	(321)	(638)	(1,067)	(604)
Other (expense) income:				
Interest expense, net	(74)	(42)	(207)	(123)
Other	(68)	(56)	(154)	(26)
Total other expense	(142)	(98)	(361)	(149)
Loss before income taxes	(463)	(736)	(1,428)	(753)
Income tax expense (benefit)	2	(111)	4	(100)
Net loss before non-controlling interests	(465)	(625)	(1,432)	(653)
Net (loss) income attributable to non-controlling interest:				
The Wine Spies, LLC	(27)	(13)	58	(74)
Net loss attributable to Truett-Hurst, Inc. and H.D.D. LLC	(438)	(612)	(1,490)	(579)
Less: Net loss attributable to non-controlling interest:				
H.D.D. LLC	(178)	(428)	(656)	(402)
Net loss attributable to Truett-Hurst, Inc.	\$ (260)	\$ (184)	\$ (834)	\$ (177)
Net loss per share				
Basic and diluted	\$ (0.07)	\$ (0.06)	\$ (0.22)	\$ (0.07)

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Weighted average shares used in computing net loss per share:

Basic and diluted	3,842,798	2,936,894	3,787,014	2,704,752
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See accompanying notes to condensed consolidated financial statements.

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

	Nine-Month Periods Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss before non-controlling interests	\$ (1,432)	\$ (653)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	496	394
Stock-based compensation	458	253
Loss (gain) on fair value of interest rate swap	98	(3)
Loss on disposal of asset	12	-
Deferred rent	(16)	(2)
Deferred taxes	2	(100)
Changes in operating assets and liabilities, net		
Accounts receivable	951	293
Inventories	(5,090)	(3,962)
Bulk wine deposit	302	(1,125)
Other current assets	(43)	44
Accounts payable and accrued expenses	1,042	(880)
Accrual for sales returns	556	-
Net cash used in operating activities	(2,664)	(5,741)
Cash flows from investing activities:		
Acquisition of property and equipment	(615)	(472)
Acquisition of intangible and other assets	(240)	(180)
Proceeds from sale of assets	3	1
Net cash used in investing activities	(852)	(651)
Cash flows from financing activities:		
Net proceeds (payments on) from line of credit	180	(305)
Net proceeds from related parties	90	208
Proceeds (payments to) on long-term debt	(249)	239
Net cash provided by financing activities	21	142
Net decrease in cash	(3,495)	(6,250)
Cash at beginning of period	5,567	11,367
Cash at end of period	\$ 2,072	\$ 5,117

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 188	\$ 125
Cash paid for income taxes	\$ 2	\$ 2

Supplemental disclosure of non-cash transactions

Seller-financed acquisition of trademark	\$ 170	\$ -
Deferred tax asset arising from LLC unit exchange	\$ 3,606	\$ 2,791
Due to related parties pursuant to tax receivable agreement	\$ 3,245	\$ 2,512
Equity benefit on LLC unit exchange	\$ 31	\$ 279

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, without audit, 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. We consolidate the financial results of the LLC and its consolidated subsidiary, and record a non-controlling interest which represents the portion of equity ownership in the aforementioned subsidiaries that is not attributable to us.

The accompanying unaudited financial statements do not include all of the information and footnotes required by GAAP for audited financial statements and 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. 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. Unless otherwise indicated, the notes to the unaudited condensed consolidated financial statements relate to the discussion of our continuing operations.

Certain reclassifications have been made to the prior period unaudited 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 March 31, 2015, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to our fiscal year ending on June 30 of the designated year.

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 April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-05: Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (“ASU 2015-05”). The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the update specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. The update further specifies that the customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. ASU 2015-05 will be effective for us in FY16. We are in the process of assessing the future impact of this update to the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03: Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The update sets forth a requirement that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this update. ASU 2015-03 will be effective for us in FY16. We are in the process of assessing the future impact of this update to the 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:

	March 31, 2015 (in thousands)	June 30, 2014
Grapes, bulk wine, and capitalized cultural costs	\$6,725	\$ 5,499
Bottled wine	15,059	11,285
Bottling materials and other	485	395
Total inventories	\$22,269	\$ 17,179

NOTE 3 - PROPERTY AND EQUIPMENT, net

Property and equipment consists of the following:

	March 31, 2015 (in thousands)	June 30, 2014
Land and land improvements	\$2,804	\$ 2,804
Building and improvements	1,805	1,756
Machinery and equipment	1,757	1,233
Vineyard development	353	353

Vineyard equipment	327	327
Furniture and fixtures	259	256
Leasehold improvements	120	117
Vehicles	93	93
	7,518	6,939
Less accumulated depreciation	(1,707)	(1,386)
Total property and equipment, net	\$5,811	\$ 5,553

Total depreciation was \$0.1 million and \$0.3 million for the three-month and nine-month periods of FY15 compared to \$0.1 million and \$0.2 million for the same prior-year periods of FY14, respectively.

NOTE 4 - INTANGIBLE ASSETS AND OTHER ASSETS, net

We performed our annual impairment review of goodwill, indefinite lived intangible and finite lived assets as of April 1, 2015. Under the authoritative guidance we elected to perform a qualitative assessment for our impairment testing. Based on our qualitative assessment, we concluded that it was more likely than not that the fair value of goodwill, indefinite lived intangible and finite lived assets were greater than their carrying amounts, and therefore no further testing or impairment was required. Our qualitative analysis included macroeconomic and industry and market specific considerations, financial performance indicators and measurements, and other factors. Historically, we have recorded no impairment charges.

TRUETT-HURST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

(Unaudited)

NOTE 4 - INTANGIBLE ASSETS AND OTHER ASSETS, net, continued

Intangible asset balances are summarized as follows:

	March 31, 2015	June 30, 2014
(in thousands)		
Finite lives:		
Customer lists	\$ 213	\$ 213
Trademarks	169	169
Proprietary technology	95	95
Non-compete agreement	38	38
Patent		