

Truett-Hurst, Inc.  
Form 10-Q  
November 20, 2017

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 September 30, 2017

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)
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125 Foss Creek Circle, Healdsburg, California (Address of principal executive offices)	95448 (zip code)
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(707) 431-4423

(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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of

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this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes      No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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	4,460,417

Class B	Number of Shares Outstanding
Common stock, \$0.001 par value per share	6

TRUETT-HURST, INC. AND SUBSIDIARY

FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2017	June 30, 2017
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 26	\$783
Accounts receivable	3,637	1,932
Inventories, net	21,202	20,609
Bulk wine deposits	94	—
Other current assets	1,177	505
Total current assets	26,136	23,829
Property and equipment, net	5,787	5,426
Intangible assets, net	507	506
Other assets, net	245	277
Total assets	\$ 32,675	\$30,038
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Lines of credit	\$ 7,615	\$7,290
Accounts payable	4,170	1,994
Accrued expenses	710	546
Depletion allowance and accrual for sales returns	509	495
Current maturities of capital lease obligation	11	11
Current maturities of long term debt	475	491
Total current liabilities	13,490	10,827
Long term debt, net of current maturities	3,208	3,002
Capital lease obligation, net of current maturities	60	63
Total liabilities	16,758	13,892
<b>Commitments and contingencies (Note 7)</b>		
<b>Equity:</b>		
<b>Shareholders' equity:</b>		
Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized, none issued and outstanding at September 30, 2017 and June 30, 2017	—	—
Class A common stock, par value of \$0.001 per share, 15,000,000 authorized, 4,460,417 issued and outstanding at September 30, 2017 and 4,426,789 issued and outstanding at June 30, 2017	4	4
Class B common stock, par value of \$0.001 per share, 1,000 authorized,	—	—

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6 and 7 issued and outstanding at September 30, 2017 and June 30, 2017,

respectively

Additional paid-in capital	16,214	16,082
Accumulated deficit	(5,825 )	(5,651 )
Total Truett-Hurst, Inc. shareholders' equity	10,393	10,435
Noncontrolling interest	5,524	5,711
Total equity	15,917	16,146
Total liabilities and equity	\$ 32,675	\$30,038

See accompanying notes to condensed consolidated financial statements.

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## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(unaudited)

	Three Months Ended September 30,	
	2017	2016
Sales	\$6,417	\$6,102
Less excise tax	(227 )	(216 )
Net sales	6,190	5,886
Cost of sales	4,145	4,056
Gross profit	2,045	1,830
Operating expenses:		
Sales and marketing	1,454	1,224
General and administrative	790	812
(Gain) loss on disposal of assets	(22 )	17
Total operating expenses	2,222	2,053
Net loss from operations	(177 )	(223 )
Other income (expense):		
Interest expense, net	(110 )	(80 )
Gain on lease termination, net	—	844
Gain on fair value of interest rate swap	2	23
Other expense	(8 )	(9 )
Total other (expense) income	(116 )	778
Net (loss) income before income taxes	(293 )	555
Income tax expense	—	(1 )
Net (loss) income from continuing operations	(293 )	554
Net (loss) income attributable to Truett-Hurst, Inc. and H.D.D. LLC	(293 )	554
Net (loss) income attributable to noncontrolling interest: H.D.D. LLC	(117 )	237
Net (loss) income attributable to Truett-Hurst, Inc.	\$(176 )	\$317
Net (loss) income per share:		
Basic per share	\$(0.04 )	\$0.07
Diluted per share	\$(0.04 )	\$0.04
Weighted average shares used in computing net (loss) income per share:		
Basic weighted average shares	4,437,998	4,306,609
Diluted weighted average shares	4,437,998	7,675,917

See accompanying notes to condensed consolidated financial statements.

## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income from continuing operations	\$(293 )	\$554
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	213	200
Reserve for assets to be abandoned	—	127
Stock-based compensation	62	95
Gain on fair value of interest rate swap	(2 )	(23 )
Gain on lease termination, net	—	(844 )
Proceeds received on lease termination	—	955
Gain on disposal of assets	(22 )	(94 )
Changes in operating assets and liabilities, net		
Accounts receivable	(1,705)	(1,212)
Inventories	(593 )	(1,748)
Bulk wine deposits	(94 )	271
Other current assets	(670 )	(90 )
Accounts payable	2,176	2,704
Accrued expenses	164	179
Depletion allowance and accrual for sales returns	14	(492 )
Due to related parties	—	64
Net cash (used in) provided by operating activities	(750 )	646
Cash flows from investing activities:		
Acquisition of property and equipment	(535 )	(288 )
Acquisition of intangible and other assets	(6 )	(15 )
Proceeds from sale of assets	22	4
Net cash used in investing activities	(519 )	(299 )
Cash flows from financing activities:		
Net proceeds from (payments on) lines of credit	325	(277 )
Proceeds from long term debt	327	387
Payments on long term debt	(137 )	(176 )
Payments on capital lease obligation	(3 )	—
Net cash provided by (used in) financing activities	512	(66 )
Net change in cash and cash equivalents	(757 )	281
Cash and cash equivalents at beginning of period	783	4,043
Cash and cash equivalents at end of period	\$26	\$4,324
Supplemental disclosure of cash flow information:		

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Cash paid for interest	\$ 110	\$ 80
Cash paid for income taxes	—	\$ 1

See accompanying notes to condensed consolidated financial statements.



TRUETT-HURST, INC. AND SUBSIDIARY

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. (the “Company”) and its subsidiary H.D.D. LLC (the “LLC”). They 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. The Company consolidates the financial results of the LLC and records a noncontrolling interest representing the portion of equity ownership in the LLC that is not attributable to the Company.

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. The accompanying unaudited condensed consolidated financial statements were prepared on the same basis as the audited financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017, 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 the Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the Securities and Exchange Commission (“SEC”) on October 13, 2017.

Quantities or results referred to as “to date” or “as of this date” mean as of or to September 30, 2017, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to the fiscal year ending on June 30 the designated year.

Critical Accounting Policies and Estimates

There have been no material changes to the critical accounting policies and estimates previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

Reclassifications

Certain prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported condensed consolidated results of continuing operations.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606), a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the impact of this ASU.

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

In November 2015, the FASB issued ASU No. 2015-17: Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The update sets forth a requirement for companies to classify deferred tax assets and liabilities as non-current amounts on the balance sheet. It is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this standard and it did not have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02: Leases (Topic 842). The standard includes a lessee accounting model that recognizes two types of leases – finance and operating leases. It requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU.

In March 2016, the FASB issued ASU No. 2016-09: Improvements to Employee Share-Based Payment Accounting which amends ASU 718, Compensation – Stock Compensation. The update sets forth an initiative to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this standard and it did not have a material impact on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15: Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments. The update sets forth guidance on eight specific cash flow issues. The amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this standard and it did not have a material impact on its condensed consolidated financial statements.

In 2015, the FASB issued ASU 2015-11: Inventory (Topic 330) –Topic 330 currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 requires an entity to measure inventory at the lower of cost or net realizable value. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted this standard and it did not have a material impact on its condensed consolidated financial statements.

In 2014, the FASB issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606), a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the

impact of this ASU.

In 2016, the FASB issued ASU 2016-08: Revenue from Contracts with Customers (Topic 606), which amends the principal-versus-agent implementation guidance set forth in ASU 2014-09. Among other things, ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. The Company is currently evaluating the impact of this ASU.

In 2016, the FASB issued ASU 2016-10: Revenue from Contracts with Customers (Topic 606), which amends certain aspects of ASU 2014-09 related to identifying performance obligations and licensing implementation. The Company is currently evaluating the impact of this ASU.

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## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

## NOTE 2 – INVENTORIES

Inventories comprise:

	September 30, 2017 (in thousands)	
Grapes and bulk wine	\$ 5,405	\$ 5,933
Bottled wine	15,400	14,495
Bottling materials and other	524	268
	21,329	20,696
Less: inventory reserves	(127 )	(87 )
Total inventories, net	\$ 21,202	\$ 20,609

See Note 12, Subsequent Events.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment, net comprise:

	September 30, 2017 (in thousands)	
Land and land improvements	\$ 3,261	\$ 3,260
Building and improvements	1,547	1,420
Machinery and equipment	2,756	2,189
Vineyard development	554	554
Vineyard equipment	53	88
Furniture and fixtures	163	293
Leasehold improvements	45	79
Vehicles	119	113
	8,498	7,996
Less: accumulated depreciation and amortization	(2,711 )	