

Truett-Hurst, Inc.  
Form 10-Q  
May 15, 2018

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, 2018

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  
(Address of principal executive offices)

95448  
(zip code)

(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

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

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 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	4,496,383
Class B	Number of Shares Outstanding
Common stock, \$0.001 par value per share	6

TRUETT-HURST, INC. AND SUBSIDIARY

FORM 10-Q

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Part I.	<u>Financial Information</u>	3
Item 1.	<u>Condensed Consolidated Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets as of March 31, 2018 (unaudited) and June 30, 2017</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine months Ended March 31, 2018 and 2017</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine months Ended March 31, 2018 and 2017</u>	5
	<u>Notes to the 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>	27
Item 4.	<u>Controls and Procedures</u>	27
Part II.	<u>Other Information</u>	28
Item 1.	<u>Legal Proceedings</u>	28
Item 1A.	<u>Risk Factors</u>	28
Item 2.	<u>Unregistered Sales of Equity</u>	29
Item 3.	<u>Defaults Upon Senior Securities</u>	29
Item 4.	<u>Mine Safety Disclosures</u>	29
Item 5.	<u>Other Information</u>	29
Item 6.	<u>Exhibits</u>	30
	<u>Signatures</u>	31

## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2018	June 30, 2017
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 292	\$783
Accounts receivable	3,331	1,932
Inventories, net	20,762	20,609
Bulk wine deposits	94	—
Other current assets	443	505
Total current assets	24,922	23,829
Property and equipment, net	6,598	5,426
Intangible assets, net	506	506
Other assets, net	176	277
Total assets	\$ 32,202	\$30,038
<b>Liabilities and Equity</b>		
Current liabilities:		
Lines of credit	\$ 9,028	\$7,290
Accounts payable	3,272	1,994
Accrued expenses	1,192	546
Depletion allowance and accrual for sales returns	440	495
Current maturities of long term debt and capital lease obligation	573	502
Total current liabilities	14,505	10,827
Long term debt and capital lease obligation, net of current maturities	2,874	3,065
Total liabilities	17,379	13,892
Commitments and contingencies (Note 6)		
Equity:		
Shareholders' equity:		
Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized, none issued and outstanding at March 31, 2018 and June 30, 2017	—	—
Class A common stock, par value of \$0.001 per share, 15,000,000 authorized, 4,496,383 issued and outstanding at March 31, 2018 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,	—	—

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

6 and 7 issued and outstanding at March 31, 2018 and June 30, 2017,

respectively

Additional paid-in capital	16,485	16,082
Accumulated deficit	(6,644 )	(5,651 )
Total Truett-Hurst, Inc. shareholders' equity	9,845	10,435
Noncontrolling interest	4,978	5,711
Total equity	14,823	16,146
Total liabilities and equity	\$ 32,202	\$30,038

See accompanying notes to condensed consolidated financial statements.

3

---

## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Sales	\$6,670	\$5,427	\$18,954	\$17,487
Less excise tax	(147 )	(87 )	(540 )	(525 )
Net sales	6,523	5,340	18,414	16,962
Cost of sales	4,215	3,318	12,219	11,074
Gross profit	2,308	2,022	6,195	5,888
Operating expenses:				
Sales and marketing	1,534	1,236	4,467	3,843
General and administrative	1,352	641	3,095	2,156
Loss (gain) on disposal of assets	5	4	(14 )	47
Total operating expenses	2,891	1,881	7,548	6,046
Net income (loss) from operations	(583 )	141	(1,353 )	(158 )
Other income (expense):				
Interest expense, net	(116 )	(71 )	(337 )	(248 )
Gain on fair value of interest rate swap	35	28	61	85
Other (expense) income	(19 )	(42 )	(28 )	860
Total other (expense) income, net	(100 )	(85 )	(304 )	697
Net income (loss) before income taxes	(683 )	56	(1,657 )	539
Income tax expense	—	(1 )	(1 )	(2 )
Net income (loss) attributable to Truett-Hurst, Inc.				
and H.D.D. LLC	(683 )	55	(1,658 )	537
Net income (loss) attributable to noncontrolling				
interest: H.D.D. LLC	(274 )	22	(665 )	234
Net income (loss) attributable to Truett-Hurst, Inc.	\$(409 )	\$33	\$(993 )	\$303
Net income (loss) per share:				
Basic per share	\$(0.09 )	\$0.01	\$(0.22 )	\$0.07
Diluted per share	\$(0.09 )	\$0.00	\$(0.22 )	\$0.04
Weighted average shares used in computing net income				
(loss) per share:				
Basic weighted average shares	4,460,417	4,365,122	4,464,933	4,323,487
Diluted weighted average shares	4,460,417	7,459,702	4,464,933	7,572,351

See accompanying notes to condensed consolidated financial statements.



## TRUETT-HURST, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine months Ended March 31, 2018      2017	
Cash flows from operating activities:		
Net income (loss)	\$(1,658)	\$537
Adjustments to reconcile net income (loss) to net cash provided by (used in)		
operating activities:		
Depreciation and amortization	758	623
Reserve for assets to be abandoned	—	141
Stock-based compensation	334	96
Executive termination benefits	132	—
Gain on fair value of interest rate swap	(61 )	(140 )
(Gain) loss on disposal of assets	(14 )	47
Changes in operating assets and liabilities, net		
Accounts receivable	(1,399)	693
Inventories	(153 )	582
Bulk wine deposits	(94 )	(297 )
Other current assets	123	(37 )
Accounts payable	1,278	1,546
Accrued expenses	513	(834 )
Depletion allowance and accrual for sales returns	(55 )	(44 )
Net cash provided by (used in) operating activities	(296 )	2,913
Cash flows from investing activities:		
Acquisition of property and equipment	(1,823)	(473 )
Acquisition of intangible and other assets	(13 )	(31 )
Proceeds from sale of assets	23	5
Net cash used in investing activities	(1,813)	(499 )
Cash flows from financing activities:		
Net proceeds from (payments on) lines of credit	1,738	(6,000)
Proceeds from long term debt	327	388
Payments on long term debt and capital lease obligation	(447 )	(430 )
Net cash provided by (used in) financing activities	1,618	(6,042)
Net change in cash and cash equivalents	(491 )	(3,628)
Cash and cash equivalents at beginning of period	783	4,043
Cash and cash equivalents at end of period	\$292	\$415
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$325	\$245
Cash paid for income taxes	\$1	\$2



See accompanying notes to condensed consolidated financial statements.

5

---

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 majority owned 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 March 31, 2018, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to the 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 the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

In the nine months ended March 31, 2018, the Company adopted these Accounting Standard Updates (ASUs):

- ASU 2015-11: Inventory (Topic 330)
- ASU No. 2015-17: Income Taxes (Topic 740)
- ASU No. 2016-09: Improvements to Employee Share-Based Payment Accounting (Topic 718)
- ASU No. 2016-15: Statement of Cash Flows (Topic 230)

None of these ASUs had a material impact on the Company’s condensed consolidated financial statements.

Reclassifications

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

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

## Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606). The guidance in this update, along with amendments issued in 2015 and 2016, supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The underlying principle is to recognize revenue when promised goods or services are transferred to customers, in an amount that reflects the consideration that is expected to be received for those goods or services. This accounting standard update, as amended, will be effective to reporting periods beginning after December 15, 2017. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption (“modified retrospective basis”). The Company is in the process of evaluating its revenue arrangements and the anticipated effect. Our assessment will be complete by the fourth quarter of fiscal 2018.

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.

## NOTE 2 – INVENTORIES

Inventories comprise:

	March 31,	June 30,
	2018	2017
	(in thousands)	
Grapes and bulk wine	\$6,496	\$5,933
Bottled wine	14,270	14,495
Bottling materials and other	222	268
	20,988	20,696
Less: inventory reserves	(226 )	(87 )
Total inventories, net	\$20,762	\$20,609

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment comprise:

	March 31,	June 30,
	2018	2017
	(in thousands)	
Land and land improvements	\$3,260	\$3,260
Building and improvements	1,848	1,420
Machinery and equipment	3,639	2,189
Vineyard development	554	554
Vineyard equipment	53	88
Furniture and fixtures	265	293
Leasehold improvements	28	79
Vehicles	119	113
	9,766	7,996
Less: accumulated depreciation and amortization	(3,168)	(2,570)
Total property and equipment, net	\$6,598	\$5,426

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

In the prior year, the Company recorded a reserve for assets that were abandoned when the Company vacated the Russian River Valley tasting room based on a litigation settlement. See Litigation section of Note 6.

Total depreciation and amortization expense for the three and nine months ended March 31, 2018 was \$0.3 million and \$0.8 million, respectively, compared to \$0.2 million and \$0.6 million for the same periods in FY17.

## NOTE 4 – ACCOUNTS PAYABLE

Accounts payable comprises:

	March 31,	June 30,
	2018	2017
	(in thousands)	
Grapes	\$1,508	\$ 583
Other production related	960	940
Barrels	54	—
Administrative	750	471
Total accounts payable	\$3,272	\$ 1,994

Accounts payable as of March 31, 2018 reflect the seasonality associated with the 2017 harvest, specifically, grape procurement, barrel purchases, acquisition of new winery equipment for the leased space within the custom crush facility, and increased production activities.

Administrative accounts payable includes a termination liability of \$0.3 million associated with the separation agreement with the Company's former Chief Financial Officer, Evan B. Meyer. See Note 11 Subsequent Events for further details.

## NOTE 5 – BORROWINGS

The Company's indebtedness is comprised primarily of bank loans including lines of credit and long term debt.

## Lines of Credit

In July 2016, the Company's capital equipment line of credit matured and automatically converted into a \$0.3 million term loan with a 48-month amortization schedule and a 3.95% interest rate.

In July 2017, the Company's capital equipment line of credit matured and automatically converted into a \$0.3 million term loan with a 36-month amortization schedule and a 4.25% interest rate.

On August 17, 2017, the Company completed the renewal process of its revolving line of credit with Bank of the West. The Company chose not to request a new equipment purchase line of credit note from the lender. In addition, the Company chose not to extend the maturity date of the foreign exchange note. The credit facility, which matures on July 31, 2018, consists of a revolving line of credit with a maximum commitment of \$10.0 million which accrues interest at 2.25% above the London Interbank Offered Rate ("LIBOR"). The Company is working on financing options, which may include raising additional equity, and will have a decision during the fourth quarter of fiscal year 2018. In the fiscal year 2016, the credit facility also included (a) a capital equipment line with a maximum commitment of \$0.5 million which carried an interest rate of 2.25% above floating One-Month LIBOR, and (b) a foreign exchange facility with a maximum commitment of \$0.1 million which allowed the Company's bank to enter into any spot or forward transaction to purchase or sell a foreign currency. The Company did not use the foreign exchange facility during the nine months ended March 31, 2018.

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

The credit facility is secured by a pledge of substantially all of the Company's assets and is supported by guaranties from certain LLC members with significant ownership positions. The bank borrowings contain usual and customary covenants, including, among others, limitations on incurrence of senior indebtedness, the making of loans and advances, investments, acquisitions, and capital expenditures, the incurrence of liens, and the consummation of mergers and asset sales. The credit facility maintains the minimum current assets to current liabilities ratio covenant (measured quarterly) and the maximum debt to effective tangible net worth ratio covenant (measured quarterly). When the line of credit was renewed on August 17, 2017, the previous debt service coverage ratio (measured quarterly on a trailing 12-month basis) was replaced with a minimum quarterly EBITDA covenant. The Company was out of compliance with the minimum EBITDA covenant on its revolving line of credit for the quarters ended September 30, 2017, December 31, 2017, and March 31, 2018, but received waivers in October 2017, February 2018 and May 2018, respectively, for those periods from the Company's lender. If the Company was unable to obtain the necessary waivers and the debt was accelerated, it would have a material adverse effect on the financial condition and future operating performance, and the Company would be required to limit activities. The Company was in compliance with all other covenants at March 31, 2018.

In July 2016, the previous minimum EBITDA covenant was replaced with a minimum debt service coverage ratio (measured quarterly on a trailing 12-month basis). The Company was out of compliance with the debt service coverage ratio for the quarters ended December 31, 2016, March 31, 2017 and June 30, 2017, but received waivers for those periods from the Company's lender. The Company was in compliance with all other covenants during those prior year periods.

## Long Term Debt and Capital Lease

Long term debt and capital lease comprises:

	March 31, 2018	June 30, 2017
	(in thousands except payment information)	
Long term debt:		
Note 1	(1) \$ 2,615	\$ 2,716
Note 2	(2) —	45
Note 3	(3) 92	158
Note 4	(4) 175	270
Note 5	(5) 233	304
Note 6	(6) 267	—
Capital lease	(7) 65	74
Total notes payable and capital lease	3,447	3,567



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

Less: current maturities	(573 )	(502 )
Total long term debt and capital lease	\$ 2,874	\$ 3,065

- (1) Note payable to a bank, secured by a deed of trust on property, payable monthly with principal payments of \$11,270 plus interest, matures May 31, 2022, variable interest of 2.25% above LIBOR.
- (2) Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$6,535, matures November 1, 2018, at 3.75% interest. This note was paid in full on January 15, 2018.
- (3) Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$7,783, matures March 15, 2019, at 3.75% interest.
- (4) Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$11,267, matures July 1, 2019, at 3.90% interest.

9

---

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

<sup>(5)</sup>Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$8,729, matures July 1, 2020, at 3.95% interest.

<sup>(6)</sup>Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$9,701, matures August 15, 2020, at 4.25% interest.

<sup>(7)</sup>In June 2017, the Company entered into a \$0.07 million, 72-month capital lease related to wine production equipment. The future lease commitments are approximately \$0.015 million per year for fiscal years 2018 through 2023.

Future principal and interest payments for the long term debt and capital lease as of March 31, 2018 are as follows:

Years ending June 30, (in thousands)	
2018 (remaining three months)	\$ 142
2019	554
2020	374
2021	176
2022	2,189
Thereafter	12
	3,447
Add: estimated interest payments	435
<b>Total</b>	<b>\$3,882</b>

## NOTE 6 – COMMITMENTS AND CONTINGENCIES

## Leases

The Company leases wine production space within a custom crush facility located in Santa Rosa, California. The lease commenced on April 15, 2017 and ends on June 15, 2018. The initial 14-month term may be renewed for additional periods as agreed to by both parties.

The Company has two lease agreements for administrative office space. Both are three-year leases with an end date of October 31, 2019. One of these leases contains three one-year renewal options with adjustment to market rates.

Lease payments for these facilities were \$0.1 million and \$0.3 million for the three and nine months ended March 31, 2018, respectively, compared to \$0.1 million and \$0.2 million for the same periods in FY17.

Future lease commitments are:

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

Years ending June 30, (in thousands)	
2018 (remaining three months)	\$57
2019	90
2020	31
Total future rent payments	\$178

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

**Supply Contracts** The Company enters into short and long term contracts with third-parties and related party growers to supply a portion of its future grape and bulk wine inventory requirements. The grape commitments for the fiscal year 2018 were received in the first and second quarters of fiscal year 2018. Future minimum grape and bulk wine inventory purchase commitments are as follows:

Years ending June 30,	Third-Party (in thousands)	Related Parties	Total
2018	\$1,269	\$ —	\$1,269
2019	4,242	—	4,242
2020	2,767	—	2,767
2021	50	—	50
2022	51	—	51
Total	\$8,379	\$ —	\$8,379

At March 31, 2018, total future purchase commitments for finished goods were approximately \$4.4 million and are expected to be fulfilled during fiscal years 2018 through 2020.

**Production & Storage** The Company enters into various contracts with third-party service providers for grape crushing, wine storage and bottling. The costs are recorded in the period for which the service is provided. The actual costs related to custom crush services are based on volume. The Company's current contracts for custom crush services cover the 2017 harvest. The current bottling contract requires a minimum of 120,000 cases at \$2.85 per case to be bottled in a one year period. The monthly average percentage of the Company's bulk wine stored at a related-party storage facility was 41% and 49% for the three and nine months ended March 31, 2018, respectively, and 43% and 70% for the three and nine months ended March 31, 2017, respectively.

#### Litigation

From time to time, the Company may be subject to various litigation matters arising in the ordinary course of business. Other than discussed below, the Company is not aware of any current pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on the Company's condensed consolidated financial position, results of operations, or cash flows.

In January 2016, Mendocino Wine Group ("MWG") filed a complaint against Phillip Hurst and the LLC alleging breach of fiduciary duty, interference with contract, and interference with economic advantage. On November 10, 2016, the Sonoma County Superior Court granted MWG's Motion to Consolidate the Hurst/LLC case with a second complaint MWG filed against a law firm for legal malpractice and breach of fiduciary duty. On November 20, 2017, the Sonoma County Superior Court granted Phillip Hurst and the LLC's Motion for Summary Judgment to dismiss the breach of fiduciary duty claim. MWG has dismissed the other two causes of action. The plaintiff, MWG, had until February

2018 to appeal the Court's decision. This matter is now closed and a final disbursement from the trust account related to the settlement was received in April 2018 in the amount of \$10,000.

The results for the nine months ended March 31, 2017 include payments totaling \$1.0 million and a net gain of \$0.8 million related to the settlement of certain litigation and termination of a leased facility.

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

Exchange and Tax Receivable Agreement

The Company has an exchange agreement with the existing owners of the LLC, several of whom are directors and/or officers. Under the exchange agreement, each LLC member (and certain permitted transferees thereof) may (subject to the terms of the exchange agreement), exchange their LLC Units for shares of Class A common stock of the Company on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications, or for cash, at the Company's election. In connection with the exchange agreement, the Company has a tax receivable agreement ("TRA") with the LLC members. The agreement provides for the payment from time to time, as "corporate taxpayer," to holders of LLC Units of 90% of the amount of the benefits, if any, that the corporate taxpayer is deemed to realize as a result of (i) increases in tax basis resulting from the exchange of LLC Units and (ii) certain other tax benefits related to the Company entering into the agreement, including tax benefits attributable to payments under the agreement. These payment obligations are obligations of the corporate taxpayer and not of the LLC. The term of the agreement will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayer exercises its right to terminate the agreement for an amount based on the agreed payments remaining to be made under the agreement or the corporate taxpayer breaches any of its material obligations under the agreement in which case all obligations will generally be accelerated and due as if the corporate taxpayer had exercised its right to terminate the agreement. In addition, the tax receivable agreement provides that upon certain mergers, asset sales, or other forms of business combinations, substantial payment obligations to the founding LLC members and affiliates will accelerate.

Indemnification

From time to time the Company enters into certain types of contracts that contingently require it to indemnify various parties against claims from third-parties. Historically, the Company has not been required to make payments under these obligations, and no liabilities have been recorded at March 31, 2018 and June 30, 2017 for these obligations on the condensed consolidated balance sheets.

NOTE 7 – STOCK-BASED COMPENSATION

Equity Incentive Plan

The Company has granted restricted stock awards, stock options and restricted stock units to employees, directors and non-employees under its 2012 Stock Incentive Plan. As of March 31, 2018, the 2012 Plan has 1.0 million shares reserved for issuance and a total of 0.2 million shares available to be issued.

A summary of the Company's activity for restricted stock awards is presented below:

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

	Weighted Avg			
	Number	Grant Date Fair Value	Weighted Avg Contractual	Aggregate Intrinsic Value
	of Shares	per Share	Term in Years	(in thousands)
Outstanding at June 30, 2017	2,631	\$ 3.80	0.49	\$ 5
Granted	—	—	—	—
Exercised	(2,631 )	(3.80 )	(0.49 )	(5 )
Released	—	—	—	—
Vested	—	—	—	—
Forfeited, cancelled or expired	—	—	—	—
Outstanding at March 31, 2018	—	\$ —	—	\$ —
Expected to vest at March 31, 2018	—	\$ —	—	\$ —

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

A summary of the Company's activity for restricted stock units is presented below:

		Weighted Avg	Weighted Avg	
		Grant Date	Contractual	Aggregate
	Number	Fair Value	Term in	Intrinsic Value
	of Units	per Unit	Years	(in thousands)
Outstanding at June 30, 2017	33,334	\$ 2.25	0.50	\$ 69
Granted	172,184	1.86	9.65	315
Exercised	—	—	—	—
Released	—	—	—	—
Vested	(33,334 )	(2.25 )	(9.1 )	(61 )
Forfeited, cancelled or expired	—	—	—	—
Outstanding at March 31, 2018	172,184	\$ 1.86	9.65	\$ 315
Expected to vest at March 31, 2018	172,184	\$ —	—	\$ —

A summary of the Company's activity for stock options is presented below:

		Weighted Avg	Weighted Avg	
		Grant Date	Contractual	Aggregate
	Number	Fair Value	Term in	Intrinsic Value
	of	per Option	Years	(in thousands)
Outstanding at June 30, 2017	215,000	\$ 1.67	9.04	\$ —
Granted	50,000	2.08	—	—
Forfeited, cancelled or expired	(35,000 )	(2.03 )	—	—
Outstanding at March 31, 2018	230,000	\$ 1.71	8.43	\$ 29
Options Vested	80,625	\$ 1.69	8.37	11
Options Non-Vested	149,375	\$ 1.71	8.47	\$ 19
Options Exercisable	80,625	\$ 1.69	8.37	11



The following table summarizes the Company's stock-based compensation included in the condensed consolidated statements of operations for the three and nine months ended March 31, 2018 and March 31, 2017:

	Three Months Ended March 31, (in thousands)		Nine months Ended March 31, (in thousands)	
	2018	2017	2018	2017
Sales and marketing	\$ 6	\$ 8	\$ 15	\$ 25
General and administrative	226	(59 )	319	71
Total stock-based compensation	\$ 232	\$ (51 )	\$ 334	\$ 96

On March 30, 2018, Evan B. Meyer, the Company's former Chief Financial Officer, terminated employment with the Company. In connection with his termination, the Company and Mr. Meyer entered into a separation agreement providing that outstanding equity-based awards granted by the Company that were unvested on the date of his termination became fully vested and, in the case of options, exercisable. Stock compensation expense of \$0.2 million was accrued for associated with the acceleration of 120,000 (of which 43,125 shares were previously vested) stock options and 60,000 restricted stock units based on the market rate at the date of termination of \$1.84. The acceleration of the vesting of these shares is not reflected in the activity of the table for restricted stock units as the acceleration was dependent on Mr. Meyer's acceptance of the separation agreement which occurred in April of 2018.

The separation agreement also provides for additional termination benefits. See Note 11 "Subsequent Events" for additional information.

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount reflected in the condensed consolidated balance sheets of financial assets and liabilities are all categorized as Level 1. They include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, which approximated their fair values due to the short-term nature of these financial assets and liabilities. The carrying amount of the Company's debt approximates its fair value based on prevailing interest rates and time to maturity.

In October 2012, the Company executed an interest rate swap obligation that was measured using observable inputs such as the LIBOR and ten-year Treasury interest rates, and therefore has been categorized as Level 2. This derivative is not designated as a hedging instrument and has been recorded at fair value on the condensed consolidated balance sheets. Changes in the fair value of this instrument have been recognized in the condensed consolidated statements of operations in other expense. The maturity date of the swap is May 31, 2022. At March 31, 2018 and June 30, 2017, the interest rate swap balance was \$0.1 million and \$0.01 million, respectively for both the fair value and the Level 2 value. The balance for the interest rate swap is included in other current assets on the condensed consolidated balance sheets.

NOTE 9 – INCOME TAXES

For the nine months ended March 31, 2018, the Company recorded income tax expense of \$0.001 million and had an effective tax rate of less than 1%. The Company has net operating loss ("NOL") carryforwards available to offset fiscal year 2018 taxable income. The utilization of the NOL carryforwards may be subject to substantial annual limitations due to ownership change provisions under Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of NOL's before they can be utilized by the Company.

The Company's effective tax rate is a function of:

- A rate benefit attributable to the fact that the LLC operates as a limited liability company which is not subject to federal or state income tax. Accordingly, a portion of the earnings are not subject to corporate level taxes.
- Operating losses for the periods or utilization of net operating loss carryforwards.
- Recording a full valuation allowance against net deferred tax assets as the Company has determined that it is more likely than not that the future tax benefits would not be realized. The Company did not record a deferred tax asset during the three and nine months ended March 31, 2018.

There were no unrecognized tax benefits at March 31, 2018 and the Company did not incur any income tax related interest expense or penalties related to uncertain tax positions.

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains significant changes to corporate taxation, including (1) reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%; (2) limitation of the tax deduction for interest expense, generally to 30% of adjusted earnings (as specifically calculated for this purpose); (3) for net operating losses generated for years beginning after 2017, limitation of the deduction to 80% of current year taxable income, indefinite carryforwards, and elimination of carrybacks; (4) immediate deductions for certain new investments instead of deductions for depreciation expense over time.

We continue to examine the impact this tax reform legislation may have on our business, financial condition and results of operations.

## TRUETT-HURST, INC. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

## NOTE 10 – SIGNIFICANT CUSTOMER INFORMATION, SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

The Company's primary reporting segments are identified as wholesale and direct to consumer.

Wholesale sales include the retail exclusive brand label model and other brands sold through the three-tier distribution system. Direct to consumer sales occur through the Company's tasting rooms, wine clubs, and winery websites. Operating and other expenses are not allocated between operating segments; therefore, operating and net income (loss) information for the respective segments is not available. In addition, discrete financial information related to segment specific assets is not available. Sales and cost of sales are reported by segment.

The following tables reflect net sales, cost of sales and gross profit by segment for continuing operations for each of the three and nine months ended March 31, 2018 and 2017, respectively:

	Three Months Ended March 31, (in thousands)					
	Wholesale		Direct to Consumer		Total	
	2018	2017	2018	2017	2018	2017
Net Sales	\$4,806	\$3,924	\$1,717	\$1,416	\$6,523	\$5,340
Cost of Sales	3,487	2,834	728	484	4,215	3,318
Gross Profit	\$1,319	\$1,090	\$989	\$932	\$2,308	\$2,022
Gross Profit %	27.4 %	27.8 %	57.6 %	65.8 %	35.4 %	37.9 %

  

	Nine months Ended March 31, (in thousands)					
	Wholesale		Direct to Consumer		Total	
	2018	2017	2018	2017	2018	2017
Net Sales	\$13,482	\$12,378	\$4,932	\$4,584	\$18,414	\$16,962
Cost of Sales	10,315	9,430	1,904	1,644	12,219	11,074
Gross Profit	\$3,167	\$2,948	\$3,028	\$2,940	\$6,195	\$5,888
Gross Profit %	23.5 %	23.8 %	61.4 %	64.1 %	33.6 %	34.7 %

## Significant Customer Information:

The following table sets forth concentrations of wholesale sales and accounts receivable as a percent of each total:

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

	Percentage of Wholesale Sales				Percentage of Total Accounts Receivable			
	Three Months Ended		Nine months Ended					
	March 31,		March 31,		March 31,			
	2018	2017	2018	2017	2018		2017	
Customer A	34 %	26 %	33 %	19 %	37	%	31	%
Customer B	29 %	29 %	21 %	33 %	36	%	27	%
Customer C	5 %	9 %	7 %	9 %	4	%	9	%

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

International sales were \$0.1 million and \$0.4 million for the three and nine months ended March 31, 2018, respectively, compared to \$0.2 million and \$0.7 million for the three and nine months ended March 31, 2017.

NOTE 11 – SUBSEQUENT EVENTS

The Company was out of compliance with the minimum EBITDA covenant on its revolving line of credit for the quarter ended March 31, 2018, but received a waiver in May 2018 for that period from the Company's lender. If the Company was unable to obtain the necessary waivers and the debt was accelerated, it would have a material adverse effect on the financial condition and future operating performance, and the Company would be required to limit activities.

On March 30, 2018, Evan B. Meyer, the Company's former Chief Financial Officer, terminated employment with the Company. In connection with his termination, the Company and Mr. Meyer entered into a separation agreement providing for a cash severance payment of \$0.1 million, to be paid in two monthly installments, and payment of his COBRA premiums for continuation of health benefits for up to six months. In addition, Mr. Meyer's outstanding equity-based awards granted by the Company that were unvested on the date of his termination became fully vested and, in the case of options, exercisable. The separation agreement also includes Mr. Meyer's release of claims and certain other covenants in favor of the Company. Since this condition existed as of March 31, 2018, the Company accrued \$0.3 million associated with the separation agreement as a termination liability as of March 31, 2018 consisting of \$0.2 million of acceleration of stock options and restricted stock units, and \$0.1 million in severance and benefit payments.

The Company has evaluated all subsequent event activity through the issue date of these condensed consolidated financial statements and concluded that, other than the items discussed above, no additional subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes to the condensed consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact, regarding strategy, future operations, financial position, prospects, plans, opportunities, and objectives constitute "forward-looking statements." The words "may," "will," "expect," "plan," "anticipate," "believe," "estimate," "potential," or "continue" and similar types of expressions identify such statements, although not all forward-looking statements contain these identifying words. These statements are based upon information that is currently available to the Company and management's current expectations, speak only as of the date hereof, and are subject to risks and uncertainties. The Company expressly disclaims any obligation, except as required by federal securities laws, or undertaking to update or revise any forward-looking statements contained herein to reflect any change or expectations with regard thereto or to reflect any change in events, conditions, or circumstances on which any such forward-looking statement is based, in whole or in part. The Company's actual results may differ materially from the results discussed in or implied by such forward-looking statements. Important factors that could cause such differences include, but are not limited to, a reduction in the supply of grapes and bulk wine available to the Company; significant competition; any change in the Company's relationships with retailers which could harm the Company's business; the Company may not achieve or maintain profitability in the future; the loss of key employees; a reduction in the Company's access to, or an increase in the cost of, the third-party services the Company uses to produce its wine; credit facility restrictions on the Company's current and future operations; and failure to protect, or infringement of, trademarks and proprietary rights; these factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. Risks that may affect the Company's operating results include, but are not limited to, those discussed in the "Risk Factors" section of its Annual Report on Form 10-K for fiscal year 2017 filed with the SEC on October 13, 2017, as amended. Readers should carefully review the risk factors described in the Annual Report on Form 10-K for fiscal year 2017 and in other documents that the Company files from time to time with the SEC.

The unaudited interim condensed consolidated financial statements include the results of the Company and its subsidiary, the LLC, and have been prepared in accordance with GAAP for interim financial information and with the general instructions for quarterly reports filed on Form 10-Q and Article 8 of Regulation S-X. The disclosures do not include all the information necessary for audited financial statements in accordance with GAAP. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the SEC on October 13, 2017, as amended. In the opinion of the Company's management, all adjustments, which include normal recurring adjustments, considered necessary for a fair presentation have been included. All intercompany transactions and balances have been eliminated. Unless otherwise indicated, the notes to the unaudited condensed consolidated financial statements relate to the discussion of the Company's continuing operations. The Company's condensed consolidated financial statements reflect all of the Company's accounts, including those of its controlled subsidiary and the portion of equity in a consolidated subsidiary that is not attributable to the Company, directly or indirectly, is presented as noncontrolling interests.

### OVERVIEW OF BUSINESS

#### General

The Company is a holding company incorporated as a Delaware corporation and its sole asset is a controlling equity interest in the LLC. Unless the context suggests otherwise, references in this report to "Truett-Hurst," the "Company," "we," "us" and "our" refer to Truett-Hurst, Inc. and its consolidated subsidiary. Truett-Hurst consolidates the financial results of

the LLC and records a noncontrolling interest for the economic interest in the LLC it does not own. The Company's amended and restated certificate of incorporation authorizes two classes of common stock, Class A common stock and Class B common stock.



Quantities or results referred to as “to date” or “as of this date” mean as of or to March 31, 2018, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to the fiscal year ending on June 30th of the designated year. For example, “FY17” and “fiscal year 2017” each refer to the fiscal year ended June 30, 2017. This Quarterly Report on Form 10-Q references certain trademarks and registered trademarks which may be trademarks or registered trademarks of their respective owners.

The Company produces and sells premium, super-premium, and ultra-premium wines made generally from grapes purchased from California-based growers. In addition, the Company purchases semi-finished bulk wine under contract and opportunistically on the spot market. On a more limited basis, the Company also purchases finished goods from both foreign and domestic producers. The Company is headquartered in Sonoma County, California with a tasting room in the Dry Creek Valley. The Company owns its tasting rooms and winery in the Dry Creek Valley and leases space for wine production within a custom crush facility located in Santa Rosa, California. The wines include Pinot Noir, Chardonnay, Sauvignon Blanc, Zinfandel, Petite Sirah, Merlot, and Cabernet Sauvignon and are sold across a number of price points through two distinct distribution channels: three-tier and direct to consumer. The business model is a combination of direct to consumer sales, traditional three-tier brand sales and retail exclusive brand sales. The Company owns, designs and develops its brands, including those developed and sold on a retailer exclusive basis. The Company’s brands are differentiated and marketed through innovative packaging and label designs.

Wines in the three-tier channel are sold to distributors with programs available to the broad market or to specific retailers on an exclusive basis. The traditional three-tier distribution business consists of sales of VML, Healdsburg Ranches, Colby Red, Bradford Mountain, and Dearly Beloved branded wines. Through the retail exclusive brand model, the Company works with retail partners to develop innovative brands which are intended to resonate with their customers and are intended to increase store traffic and expand exclusive brand sales. The retail exclusive model allows the Company to own the brands it creates, which the Company believes differentiates it from the traditional private label model, and allows it the option of expanding the brands into national and international markets, thereby increasing sales and building the brand equity. The direct to consumer channel consists of sales of products produced by the Company through its tasting rooms, wine clubs and its winery websites.

In October 2017, the Company executed an Endorsement Agreement with Weight Watchers International, Inc. (“WW”) to jointly produce the first premium low-calorie range of wines under the brand Cense ([www.censewines.com](http://www.censewines.com)). The first Cense wine, a New Zealand Sauvignon Blanc, was launched in late October 2017 through the Company’s direct to consumer business and in an exclusive arrangement with a major national retailer. The second Cense wine, a California Rosé, was launched in late January 2018 through the same channels. Weight Watchers is promoting the Cense wines with various forms of public relations and media outreach, their eCRM platform and its website.

On October 8, 2017, and for several days thereafter, significant wildfires broke out in Napa, Sonoma, and surrounding counties in Northern California. Certain of the Company’s inventory, primarily juice pressed from grapes picked during the 2017 harvest and maintained at outside production and storage facilities, may be subject to smoke taint and spoilage. The amount of spoilage, if any, cannot be reasonably estimated at this time. However, the Company is working with its insurance carrier and believes that any loss of inventory related to the fires is substantially covered under the Company’s insurance policies. No spoilage has been detected to date, but during the barrel aging process, there is a possibility some smoke taint of the wine may develop.

The October 2017 Northern California wildfires also negatively impacted the Company’s direct to consumer business as its tasting rooms were closed for approximately one week during the fires and experienced a significant drop in customers and sales of the Company’s higher margin flagship brands throughout the remainder of the quarter ended December 31, 2017. The impact of the fires was partially offset by increased online promotions and sales of discounted labels.



## Strategic Objectives

There are three primary categories into which the Company sells its wine: premium (\$12 - \$14 per bottle retail price), super-premium (\$15 - \$24 per bottle retail price), and ultra-premium (\$25 - \$49 per bottle retail price). The Company believes it can benefit from growth at the premium and above price points and continue to grow the business relying on its competitive strengths: its experienced and knowledgeable team; its relationships with the world's top wine distributors and retailers; and its innovative approach to distribution and brand development. The Company intends to grow by:

- Developing innovative retail exclusive products that meet the needs of wine retailers. The Company has a reputation for developing innovative retail exclusive brands and working with retailer partners on unique programs to support sales of those products. With branding expertise, the Company intends to continue innovation and build its market share with global wine retailers who are focused on increasing their profitability through retail exclusive offerings.
- Growing the customer base to include additional major U.S. retail chains. The Company is actively pursuing relationships with the largest retail chains in the United States.
- Expanding the direct to consumer business. The wine clubs continue to grow due to growing consumer awareness of the brands from targeted public relations, exciting wine club events and advertising. The direct to consumer business generally generates higher gross margins and the Company intends to continue building this distribution channel in order to further growth.
- Marketing to key international markets. During FY14, the Company completed an agreement with the Trialto Wine Group, LTD, based in Vancouver, Canada, creating a national partnership to distribute the Truett-Hurst family of brands throughout Canada. The Company also continues to review selective brand development and distribution opportunities in other international markets.
- Developing new ways to engage customers and to distribute products. The Company continues to be discovery-oriented in its approach and is always looking for new innovations in and approaches to the global wine market. The Company believes that traditional wine marketing, to some degree, has stymied creativity and believes the innovative branding expertise allows the Company to rapidly capitalize on evolving customer demands.

## RESULTS OF OPERATIONS

### Factors Affecting Operating Results

Net sales are affected by advertising, discounts and promotions, merchandising, packaging and in the wholesale segment, the availability of display space at retailers, all of which have a significant impact on consumers' buying decisions. Continued growth of net sales and profits is expected to depend, substantially, on the continued popularity of the Company's new and existing brands, its ability to effectively manage sales channels, and its ability to maintain sufficient product supply to meet expected growth in demand.

Cost of sales for the wholesale and direct to consumer segments includes wine-related inputs, such as grapes and semi-finished bulk wine, bottling materials, such as bottles, capsules, corks and labeling materials, labor and overhead expenses including inbound and outbound freight, storage and barrel depreciation.

## Comparison of the Three and Nine months Ended March 31, 2018 and 2017

The following table compares the Company's financial results by reporting segment:

Three Months Ended March 31, (dollars in thousands)						
	Wholesale		Direct to Consumer		Total	
	2018	2017	2018	2017	2018	2017
Net Sales	\$4,806	\$3,924	\$1,717	\$1,416	\$6,523	\$5,340
Cost of Sales	3,487	2,834	728	484	4,215	3,318
Gross Profit	\$1,319	\$1,090	\$989	\$932	\$2,308	\$2,022
Gross Profit %	27.4 %	27.8 %	57.6 %	65.8 %	35.4 %	37.9 %

  

Nine months Ended March 31, (dollars in thousands)						
	Wholesale		Direct to Consumer		Total	
	2018	2017	2018	2017	2018	2017
Net Sales	\$13,482	\$12,378	\$4,932	\$4,584	\$18,414	\$16,962
Cost of Sales	10,315	9,430	1,904	1,644	12,219	11,074
Gross Profit	\$3,167	\$2,948	\$3,028	\$2,940	\$6,195	\$5,888
Gross Profit %	23.5 %	23.8 %	61.4 %	64.1 %	33.6 %	34.7 %

For the three months ended March 31, 2018, net sales increased \$1.2 million or 22% and consolidated gross profit margin decreased from 37.9% to 35.4%, compared to the same period during the prior year. For the nine months ended March 31, 2018, net sales increased \$1.5 million or 9%; however, consolidated gross profit decreased slightly from 34.7% to 33.6% compared to the same period during the prior year. The decrease in gross profit during the quarter and nine months ended March 31, 2018 was primarily due to an increase in cost of sales attributable to higher case sales, and an increase in discounts which contributed to lower net sales. Also contributing to the lower gross profit during the nine months ended March 31, 2018 is an increase in inventory reserves and write-offs.

Net sales for the nine months ended March 31, 2018 increased over the prior year despite the falloff from a significant customer that is undergoing a major change in distribution tactics. The customer is committed to getting back on track by June and is submitting monthly orders.

Wholesale net sales increased 22% for the three months ended March 31, 2018, and 9% for the nine months ended March 31, 2018. The increase is due to higher sales in the broadmarket for both the three and nine months ended March 31, 2018, and sales to one large retailer during the first quarter.

Direct to consumer net sales increased 21% for the three months ended March 31, 2018, and 8% for the nine months ended March 31, 2018. The October 2017 Northern California wildfires negatively impacted the Company's direct to consumer business as its tasting rooms were closed for approximately one week during the fires and experienced a significant drop in customers and sales of the Company's higher margin flagship brands during the second quarter of fiscal year 2018. The gross profit percentages decreased as a result of a change in the mix between discounted online

sales and higher margin tasting room sales. The Company continues its efforts to grow the channel through wine club and tasting room sales, as well as special offers presented via email and online to wine club members and others which contributed to the increase in net sales during the third quarter of fiscal year 2018.

International sales were \$0.1 million and \$0.4 million for the three and nine months ended March 31, 2018, respectively, compared to \$0.2 million and \$0.7 million for the same periods in FY17.

Sales discounts and depletion allowances are recorded as a reduction of sales at the time of sale. For the three and nine months ended March 31, 2018, sales discounts and depletion allowances totaled \$1.3 million and \$3.6 million, respectively, compared to \$0.4 million and \$1.4 million, respectively, for the same periods in FY17.

### Sales and Marketing

Sales and marketing expenses consist primarily of personnel costs, advertising, and other costs for marketing and promoting the Company's products. Advertising costs are expensed as incurred and were \$0.1 million and \$0.4 million for the three and nine months ended March 31, 2018, respectively, compared to \$0.1 million and \$0.3 million for the same periods in FY17.

Sales and marketing expenses consist of the following:

	Three Months Ended March 31, (dollars in thousands)				Nine months Ended March 31, (dollars in thousands)			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Sales and marketing	\$1,534	\$1,236	\$ 298	24.1 %	\$4,467	\$3,843	\$ 624	16.2 %
Percentage of net sales	23.5 %	23.1 %	0.4 %		24.3 %	22.7 %	1.6 %	

Sales and marketing expenses increased by 24.1% and 16.2% for the three and nine months ended March 31, 2018, respectively, compared to the same periods last fiscal year. The increase was largely due to the hiring of additional sales personnel, advertising and promotions along with selling expenses. The increase in sales in marketing costs correlates to the higher sales experienced during the three and nine months of fiscal year 2018.

The amounts billed to customers for shipping and handling are recorded as sales and reported as the costs are incurred for shipping and handling as a sales and marketing expense. For the three and nine months ended March 31, 2018 and March 31, 2017 shipping costs were \$0.3 million and \$0.9 million, respectively, compared to \$0.3 million and \$0.8 million for the same periods in FY17.

### General and Administrative

General and administrative expenses include the costs associated with personnel, professional fees, insurance and other expenses related to administrative and compliance functions. General and administrative expenses consist of the following:

	Three Months Ended March 31, (dollars in thousands)				Nine months Ended March 31, (dollars in thousands)			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
General and	\$1,352	\$641	\$ 711	110.9 %	\$3,095	\$2,156	\$ 939	43.5 %

administrative

Percentage of net sales	20.7 %	12.0%	8.7 %	16.8 %	12.7 %	4.1 %
-------------------------	--------	-------	-------	--------	--------	-------

General and administrative expense for the three and nine months ended March 31, 2018 increased compared to the same periods in fiscal year 2017 both in terms of absolute dollars and measured as a percentage of net sales. The increase was primarily due to increases in outside services. Also included in general and administrative expense for the three and nine months ended March 31, 2018 is the accrual of a termination liability of \$0.3 million as further explained below.

On March 30, 2018, Evan B. Meyer, the Company's former Chief Financial Officer, terminated employment with the Company. In connection with his termination, the Company and Mr. Meyer entered into a separation agreement providing for a cash severance payment of \$0.1 million, to be paid in two monthly installments, and payment of his COBRA premiums for continuation of health benefits for up to six months. In addition, Mr. Meyer's outstanding equity-based awards granted by the Company that were unvested on the date of his termination became fully vested and, in the case of options, exercisable. The separation agreement also includes Mr. Meyer's release of claims and certain other covenants in favor of the Company. Since this condition existed as of March 31, 2018, the Company accrued \$0.3 million in General and Administrative associated with the separation agreement as a termination liability as of March 31, 2018 consisting of \$0.2 million of acceleration of stock options and restricted stock units, and \$0.1 million in severance and benefit payments.

#### Interest Expense

Interest and loan fee amortization was \$0.1 million and \$0.3 million for the three and nine months ended March 31, 2018, respectively, compared to \$0.07 million and \$0.3 million for the same periods in fiscal year 2017.

### LIQUIDITY AND CAPITAL RESOURCES

#### General

The Company's primary sources of available cash are from operations, bank borrowings and equity offerings. The Company's primary cash needs are to fund working capital requirements (primarily inventory), capital expenditures for barrels and other equipment to facilitate production, repay indebtedness (interest and principal payments) and for other operating expenses. The Company is currently able to borrow against working capital assets (accounts receivable and inventory) by utilizing an asset based bank loan.

	March 31, 2018	June 30, 2017	Increase (Decrease)	% Change
	(dollars in thousands)			
Working capital	\$10,417	\$13,002	\$ (2,585 )	-19.9 %
Cash and cash equivalents	\$292	\$783	\$ (491 )	(62.7 )%

The Company had approximately \$1.0 million of availability under its revolving credit facility as of March 31, 2018, compared to \$3.0 million as of June 30, 2017. During the third quarter of fiscal year 2018, the Company's average borrowings outstanding under its revolving credit facility were \$8.8 million compared to average borrowings of \$4.2 million in the prior year.

The weighted average interest rate on the line of credit was 3.90% and 2.77% for the three months ended March 31, 2018 and March 31, 2017, respectively. The weighted average interest rate on the line of credit was 3.74% and 2.79% for the nine months ended March 31, 2018 and March 31, 2017, respectively.

On August 17, 2017, the Company renewed its revolving line of credit with Bank of the West. The Company chose not to request a new equipment purchase line of credit note from the lender. In addition, the Company chose not to extend the maturity date of the foreign exchange note. The credit facility, which matures on July 31, 2018, consists of



a revolving line of credit with a maximum commitment of \$10.0 million which accrues interest at 2.25% above LIBOR. The Company is working on financing options, which may include raising additional equity, and will have a decision during the fourth quarter of fiscal year 2018. In the prior fiscal year, the credit facilities also included (a) a capital equipment line with a maximum commitment of \$0.5 million which carries an interest rate of 2.25% above floating one-month LIBOR, and (b) a foreign exchange facility with a maximum commitment of \$0.1 million which allows the Company's bank to enter into any spot or forward transaction to purchase or sell a foreign currency. The Company did not use the foreign exchange facility during the nine months ended March 31, 2018 and March 31, 2017.

The outstanding balances on the Company's lines of credit are:

Lines of Credit	March 31, 2018, 2017	
	(in thousands)	
Revolving line of credit	\$9,028	\$ 6,963
Equipment line of credit	—	327
Total lines of credit	\$9,028	\$ 7,290

Bank borrowings are collateralized by substantially all of the Company's assets and are supported by guaranties from certain LLC members with significant ownership positions. Availability on the revolving line of credit is subject to a monthly borrowing base and compliance with certain covenants, including, without limitation, a minimum current assets to current liabilities ratio (measured quarterly), and a debt to effective tangible net worth ratio (measured quarterly).

When the line of credit was renewed on August 17, 2017, the previous debt service coverage ratio (measured quarterly on a trailing 12-month basis) was replaced with a minimum quarterly EBITDA covenant. The Company was out of compliance with the minimum EBITDA covenant on its revolving line of credit for the quarters ended September 30, 2017, December 31, 2017 and March 31, 2018, but received waivers in October 2017, February 2018 and May 2018, respectively, for those periods from the Company's lender. If the Company was unable to obtain the necessary waivers and the debt was accelerated, it would have a material adverse effect on the financial condition and future operating performance, and the Company would be required to limit activities. The Company was in compliance with all other covenants at March 31, 2018.

In July 2016, the previous minimum EBITDA covenant was replaced with a minimum debt service coverage ratio (measured quarterly on a trailing 12-month basis). The Company was out of compliance with the debt service coverage ratio for the quarters ended December 31, 2016, March 31, 2017, and June 30, 2017, but received waivers for those periods from the Company's lender. The Company was in compliance with all other covenants during those prior periods.

In July 2017, the capital equipment line of credit from FY16 matured and converted to a \$0.3 million term loan with a 36-month amortization schedule and a 4.25% interest rate. In July 2016, the capital equipment line of credit from FY15 was converted to a \$0.3 million term loan with a 48-month amortization schedule and a 3.95% interest rate.

The Company believes that its cash position, net cash provided by operating activities in coming periods, and the current lines of credit will be adequate to finance working capital and operations needs for at least the next twelve months. The Company may, however, require additional liquidity as it continues to execute its business strategy. In addition, if the Company faces unanticipated cash needs, its existing cash and cash equivalents and available borrowings may be insufficient, if, for example, the Company is unable to comply with covenants contained in the Bank's line of credit agreement and the Bank does not agree to waive noncompliance with such covenants. The Company cannot assure that its business will generate sufficient cash flow from operations or that future borrowings will be available in amounts sufficient enough to enable the Company to repay its indebtedness when due or to fund other liquidity needs. The Company anticipates that to the extent that it requires additional liquidity, it will be funded through the incurrence of indebtedness, additional equity financings, or a combination of these potential sources of liquidity, although no assurance can be given that such forms of capital will be available at all, or if available, on terms acceptable to the Company.

## Cash Flows

	Nine months Ended March 31, (in thousands)		Increase (Decrease)
	2018	2017	
Net cash provided by (used in) operating activities	\$(296 )	\$2,913	\$ (3,209 )
Net cash (used in) investing activities	\$(1,813)	\$(499 )	\$ (1,314 )
Net cash provided by (used in) financing activities	\$1,618	\$(6,042)	\$ 7,660

23

### Operating Activities

For the nine months ended March 31, 2018, net cash used by operating activities was \$0.3 million which was a decrease of \$3.3 million compared to the same period last fiscal year. The changes in cash flows used by operating activities are attributable to higher inventory and accounts receivable investment levels, and higher accrued expenses partially offset by decreased accounts payable.

### Investing Activities

For the nine months ended March 31, 2018, cash used in investing activities increased by \$1.3 million compared to the same period of last fiscal year. This is a result of an increase in acquisition of property and equipment.

### Financing Activities

Financing activities, which consisted entirely of net new borrowings from bank financing of \$1.6 million for the nine months ended March 31, 2018, an increase of \$7.7 million over the same period of the prior year. During the nine months ended March 31, 2017, the Company paid down its line of credit in the amount of \$5.9 million.

### Contractual Obligations and Commitments

#### Financing Agreements

The Company's indebtedness is comprised primarily of bank loans including lines of credit and long term debt.

#### Lines of Credit

See discussion under "Liquidity and Capital Resources" above.

#### Long Term Debt

Long term debt consists of various notes payable to a bank secured by specific property and/or equipment. The total outstanding principal balance on all the notes as of March 31, 2018 was \$2.8 million. The interest rates and maturity dates of the notes are described in Note 5 - "Borrowings" of the condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

#### Capital Lease

In June 2017, the Company entered into a \$0.07 million, 72-month capital lease related to wine production equipment. The future lease commitments are approximately \$0.01 million per year for fiscal years 2018 through 2023.

### Concentration of Credit Risk and Off-Balance Sheet Arrangements

The Company's cash is held in highly rated credit institutions. Although the Company tries to limit the amount of credit exposure with any one financial institution, the Company does in the normal course of business, maintain cash balances in excess of federally insured limits.

Accounts receivable consists primarily of trade receivables from customers. The Company reviews accounts receivable regularly and makes estimates for an allowance when there is doubt as to the collectability of individual balances. The Company's accounts receivable credit risk is not concentrated within any one geographic area. The Company has national distribution agreements with multi-state distributors and these distributors make up a significant amount of the accounts receivable; however, the Company believes the accounts receivable credit risk is limited. The Company has not experienced any material charge offs.

### Off-Balance Sheet Arrangements

The Company does not have off-balance sheet risks related to foreign exchange contracts, option contracts or other foreign hedging arrangements.

The Company enters into short and long term contracts with third-parties and related party growers to supply a portion of its future grape and bulk wine inventory requirements. The grape commitments for the FY18 were received during the first quarter. Future minimum grape and bulk wine inventory purchase commitments are as follows:

Years ending June 30,	Related	
	Third-Parties (in thousands)	Total
2018	\$1,269	\$ —
2019	4,242	—
2020	2,767	—
2021	50	—
2022	51	—
Total	\$8,379	\$ —

At March 31, 2018, total future purchase commitments for finished goods total approximately \$4.4 million and are expected to be fulfilled during fiscal years 2018 through 2020.

### Production & Storage

The Company enters into various contracts with third-party service providers for grape crushing, wine storage and bottling. The costs are recorded in the period for which the service is provided. The actual costs related to custom crush services are based on volume. The Company's current contracts for custom crush services cover the 2017 harvest. The current bottling contract requires a minimum of 120,000 cases at \$2.85 per case to be bottled in a one year period. The monthly average percentage of the Company's bulk wine stored at a related-party storage facility was 41% and 49% for the three and nine months ended March 31, 2018, respectively, and 43% and 70% for the three and nine months ended March 31, 2017, respectively.

On October 8, 2017, and for several days thereafter, significant wildfires broke out in Napa, Sonoma, and surrounding counties in Northern California. Certain of the Company's inventory, primarily juice pressed from grapes picked during the 2017 harvest and maintained at outside production and storage facilities, may have been subject to smoke taint and spoilage. The amount of spoilage, if any, cannot be reasonably estimated at this time. However, the Company is working with its insurance carrier and believes that any loss of inventory related to the fires is substantially covered under the Company's insurance policies. No spoilage has been detected to date, but during the barrel aging process, there is a possibility some smoke taint of the wine may develop. Additionally, there may be future negative impacts on the Company's outside production and operating arrangements, including bottling and warehousing of case goods.

### Leases

The Company leases space for wine production within a custom crush facility located in Santa Rosa, California. The lease, which relates to the 2017 harvest, commenced April 15, 2017 and terminates on June 15, 2018. The initial 14-month term may be renewed for additional periods as agreed to by both parties. The future lease commitments as presented below include amounts for this lease. In addition, pursuant to the terms of the lease and related winery facilities agreement, the Company is obligated to pay variable processing fees based on the tonnage of grapes crushed in the facility.

The Company has two lease agreements for administrative office space. Both are three leases with an end date of October 31, 2019. One of these leases contains three one-year renewal options with adjustment to market rates.

Lease payments for these facilities were \$0.01 million and \$0.3 million for three and nine months ended March 31, 2018, respectively, compared to \$0.1 million and \$0.2 million for the same periods in fiscal year 2017.

Future lease commitments are:

Years ending June 30, (in thousands)	
2018 (remaining three months)	\$57
2019	90
2020	31
Total future rent payments	\$178

#### Effects of Inflation and Changing Prices

The results of operations and financial condition have not been materially affected by inflation and changing prices; however, as agricultural commodities, grape and bulk wine prices experience certain levels of variability. The Company intends to pass along rising costs through increased selling prices, subject to normal competitive conditions. There can be no assurances, however, that the Company will be able to pass along rising costs through increased selling prices effectively.

#### Critical Accounting Policies and Estimates

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

#### Accounting Pronouncements

See Note 1 of the condensed consolidated financial statements of this Quarterly Report on Form 10-Q for the summary of accounting pronouncements.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Truett Hurst is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this Item.

### ITEM 4. CONTROLS AND PROCEDURES

#### Management's Report on Internal Controls over Financial Reporting

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the Company's management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective and provide reasonable assurance, as of the end of the period covered by this report, that information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely discussions regarding required disclosure.

#### Changes to Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

#### Limitations on the Effectiveness of Controls

A control system, no matter how well designed and operated, cannot provide absolute assurance due to its inherent limitations: it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human or other failures. A control system also can be circumvented in various ways, including, without limitation, by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and internal control over financial reporting cannot prevent or detect all misstatements, including, without limitation, unintentional errors or fraud. Because these inherent limitations are known features of the financial reporting process, it is possible to design and implement process safeguards to reduce such risk, however, such risk cannot be completely eliminated. As such, management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all misstatements, including without limitation, unintentional errors and fraud.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company may be subject to various litigation matters arising in the ordinary course of business from time to time. Other than the matters discussed below, the Company is not aware of any current pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our consolidated financial position, results of operations, or cash flows.

In January 2016, Mendocino Wine Group (“MWG”) filed a complaint against Phillip Hurst and the LLC alleging breach of fiduciary duty, interference with contract, and interference with economic advantage. On November 10, 2016, the Sonoma County Superior Court granted MWG’s Motion to Consolidate the Hurst/LLC case with a second complaint MWG filed against a law firm for legal malpractice and breach of fiduciary duty. On November 20, 2017, the Sonoma County Superior Court granted Phillip Hurst and the LLC’s Motion for Summary Judgment to dismiss the breach of fiduciary duty claim. MWG has dismissed the other two causes of action. The plaintiff, MWG, had until February 2018 to appeal the Court’s decision. This matter is now closed and a final disbursement from the trust account related to the settlement was received in April 2018 in the amount of \$10,000.

The results for the nine months ended March 31, 2017 include payments totaling \$1.0 million and a net gain of \$0.8 million related to the settlement of certain litigation and termination of a leased facility.

### ITEM 1A. RISK FACTORS

There have been no material changes in information regarding our risk factors as described in Item 1A of our Form 10-K as filed with the SEC on October 13, 2017, except that we have updated the risk factor concerning restrictive covenants included within the terms of the Company’s current bank loans and added risk factors concerning the Company’s ability to repay indebtedness and ineligibility to file short form registration statements on Form S-3, as set forth below:

The terms of the Company’s current bank loans may restrict current and future operations, which could adversely affect the Company’s ability to respond to changes in its business and to manage its operations.

The Company’s bank loans include a number of customary restrictive covenants that could impair the Company’s financing and operational flexibility and make it difficult to react to market conditions and satisfy ongoing capital needs and unanticipated cash requirements. The bank loans contain usual and customary covenants, including, without limitation:

- limitation on incurring senior indebtedness;
- limitation on making loans and advances;
- limitation on investments, acquisitions and capital expenditures;
- limitation on liens, mergers and sales of assets;
- minimum current assets to current liabilities ratio;
- maximum debt to effective tangible net worth ratio; and
- minimum quarterly EBITDA.

The Company’s ability to comply with the covenants and other terms of its bank loans will depend on future operating performance and, in addition, may be affected by events beyond the Company’s control, and the Company may not meet them. If the Company fails to comply with such covenants and terms, it would be required to obtain waivers from its lenders or agree with the lenders to an amendment of the facility’s terms to maintain compliance under such facility. The Company was out of compliance with EBITDA-based covenants on its revolving line of credit for the last

six fiscal quarters, including the third fiscal quarter ended March 31, 2018. If the Company is unable to obtain any necessary waivers and the debt is accelerated, it would have a material adverse effect on the financial condition and future operating performance, and the Company may be required to limit activities.

Our business and financial condition would be adversely affected if we are unable to generate sufficient cash flow to fund our operations or repay maturing debt or obtain alternative financing on commercially reasonable terms.

We generally do not intend to reserve funds to retire existing debt upon maturity, which includes \$10.0 million line of credit maturing on July 31, 2018. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in amounts sufficient to enable us to repay our indebtedness when due or to fund other liquidity needs. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity. If we cannot repay or otherwise service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital and operating expenditures. Any such action, if necessary, may not be effected on commercially reasonable terms or at all. Our line of credit restricts our ability to sell assets and use the proceeds from such sales.

As a result of our failure to timely file the Part III information in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, we are currently ineligible to file new short form registration statements on Form S-3 for sales of securities by us, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all.

Form S-3 permits eligible issuers to conduct registered offerings using a short form registration statement that allows the issuer to incorporate by reference its past and future filings and reports made under the Securities Exchange Act of 1934, as amended, or the Exchange Act. In addition, Form S-3 enables eligible issuers to conduct primary offerings “off the shelf” under Rule 415 of the Securities Act of 1933, as amended, or the Securities Act. The shelf registration process, combined with the ability to forward incorporate information, allows issuers to avoid delays and interruptions in the offering process and to access the capital markets in a more expeditious and efficient manner than raising capital in a standard registered offering pursuant to a Registration Statement on Form S-1. The ability to register securities for resale may also be limited as a result of the loss of Form S-3 eligibility.

As a result of our failure to timely file the Part III information in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, we are currently ineligible to file new short form registration statements on Form S-3. If we seek to access the capital markets through a registered offering during the period of time that we are unable to use Form S-3, we may be required to publicly disclose the proposed offering and the material terms thereof before the offering commences, we may experience delays in the offering process due to SEC review of a Form S-1 registration statement and we may incur increased offering and transaction costs and other considerations. Disclosing a public offering prior to the formal commencement of an offering may result in downward pressure on our stock price. In addition, our inability to conduct an offering “off the shelf” may require us to offer terms that may not be advantageous (or may be less advantageous) to us or may generally reduce our ability to raise capital in a registered offering. If we are unable to raise capital through a registered offering, we would be required to conduct our financing transactions on a private placement basis, which may be subject to pricing, size and other limitations imposed under rules of The NASDAQ Capital Market.

Assuming we continue to timely file our required Exchange Act reports, the earliest we would regain the ability to use Form S-3 is April 17, 2019.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

29

---

ITEM 6. EXHIBITS.

Exhibit Number Description

3.1+	<u>Amended and Restated Certificate of Incorporation of Truett-Hurst, Inc. (incorporated by reference to Exhibit 3.1 to the Amendment No. 1 on Form 10-K/A filed with the SEC on April 17, 2018 (File No.: 001-35973)).</u>
3.2+	<u>Bylaws of Truett-Hurst, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1/A submitted to the SEC on March 27, 2013 (File No.: 333-187164)).</u>
3.3+	<u>Third Amended and Restated Operating Agreement of H.D.D. LLC, dated as of June 19, 2013 (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K submitted to the SEC on June 25, 2013 (File No.: 001-35973)).</u>
4.1+	<u>Class A common stock certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1/A submitted to the SEC on April 11, 2013 (File No.: 333-187164)).</u>
4.2+	<u>Class B common stock certificate (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1/A submitted to the SEC on April 11, 2013 (File No.: 333-187164)).</u>
10.1	<u>Separation and General Release Agreement by and between the Company and Evan B. Meyer dated March 29, 2018.</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934</u>
32.1	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

<sup>(1)</sup>+ Indicates documents previously filed with the Company's registration and prospectus filings with the SEC.  
30

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Healdsburg, State of California, on the 15th day of May, 2018.

TRUETT-HURST, INC.

/s/ Phillip L. Hurst  
Phillip L. Hurst  
President and Chief Executive Officer  
(Principal Executive Officer) May 15, 2018

/s/ Karen Weaver  
Karen Weaver  
Chief Financial Officer  
(Principal Financial/Accounting Officer) May 15, 2018