

Truett-Hurst, Inc.
Form 10-K
September 27, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2013**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission File Number: 333-187164

TRUETT-HURST, INC.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

46-1561499
(IRS Employer
Identification No.)

4035 Westside Road
Healdsburg, CA
(Address of principal executive offices)

95448
(Zip Code)

707.433.9545

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of common stock held by non-affiliates was approximately \$15,929,730 based upon a total of 2,700,000 shares of Class A common stock held by non-affiliates and a closing price of \$5.90 per share on June 28, 2013 for the Class A common stock as reported on The NASDAQ Capital Market. Shares held by each executive officer, director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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Applicable only to Registrants Involved in Bankruptcy Proceedings during the Preceding Five Years

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [] No []

Not Applicable.

The number of shares outstanding with respect to each of the classes of our common stock, as of September 27, 2013, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$0.001 per share	2,700,000
Class B Common Stock, par value \$0.001 per share	10

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section Risk Factors in Item 1A of this Report. Additional risk factors may be described from time to time in our future filings with the Securities and Exchange Commission (SEC). We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

PART I

Item 1. Business

Truett-Hurst, Inc. is a holding company that was incorporated as a Delaware corporation and its sole asset is the controlling equity interest in H.D.D. LLC. Unless the context suggests otherwise, references in this report to Truett-Hurst, the Company, we, us and our refer (1) prior to the June 2013 initial public offering (IPO) of Truett-Hurst, Inc. and related transactions, to H.D.D. LLC and its consolidated subsidiaries and (2) after our IPO and related transactions, to Truett-Hurst Inc. and its consolidated subsidiaries. We refer to The Wine Spies, LLC as Wine Spies. We refer to H.D.D. LLC as the LLC.

Quantities or results referred to as to date or as of this date mean as of or to June 30, 2013, unless otherwise specifically noted. References to FY or fiscal year refer to our fiscal year ending on June 30 of the designated year. For example, FY 2013 and fiscal year 2013 each refer to the fiscal year ended June 30, 2013. Other references to years mean calendar years. This Annual Report on Form 10-K references certain trademarks and registered trademarks of ours and products or service names of other companies mentioned in this Annual Report on Form 10-K may be trademarks or registered trademarks of their respective owners.

General

We produce super and ultra-premium wine and market our wine through innovative packaging and label designs. Our business model is a combination of direct to consumer sales, traditional brand sales and Retail Exclusive Brand Labels with certain national major retailers. Our retail exclusive brand label model allows us to collaboratively work with our retail alliances to develop innovative brands that cater to customer demands and permit our retail alliances to increase their consumer traffic and grow their sales.

In addition to our focus on our retail exclusive brand label business model, we have business operations in the direct to consumer and traditional three-tier distribution channels. Our direct to consumer channel consists of sales through our tasting rooms and wine clubs, which increases brand visibility and loyalty, and through our 50% ownership interest in Wine Spies, an internet wine retailer specializing in short-lived flash sales. Our traditional three-tier distribution business consists of sales of our four fully-owned labels, Truett-Hurst, VML, Healdsburg Ranches and Bradford Mountain.

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We were incorporated in Delaware and prior to our IPO had not engaged in any business or other activities except in connection with our formation, issuance of restricted stock and the IPO. The LLC operated as a separate entity until we completed our IPO on June 25, 2013 and as a result of the IPO and formation transactions, we became the sole managing member of the LLC and its subsidiaries and with our existing owners retaining their equity ownership in the LLC in the form of LLC Units. We operate and control all of the business and affairs through the LLC and consolidate the financial results of the LLC and its subsidiaries.

Our amended and restated certificate of incorporation authorizes two classes of common stock, Class A common stock and Class B common stock.

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Strategic Objectives

The wine industry sales are basically listed in three categories: sub-premium category (below \$7 per bottle retail price), super-premium (between \$7 – \$14 per bottle retail price) and ultra-premium (over \$14 per bottle retail price).

We believe we can benefit from these price points and continue to grow our business relying on our competitive strengths: access to vineyards owned and managed by our founders and investors; our experienced and knowledgeable team; our relationships with the world's top wine retailers; and our innovative approach to distribution and brand development. We intend to grow by:

Continuing to develop innovative products that meet the needs of wine retailers. We have developed a reputation for developing innovative new brands and working closely with our retail alliances to develop brands that cater to customer demands and that permit our retail alliances to increase their consumer traffic. We intend to continue to develop brands with our retail alliances by relying on our branding expertise. We also intend to continue our innovations, such as our evocative wine wraps, the paper bottle, and the square bottle, and exploit these in order to build our brands and market share with wine retailers.

Growing our retailer base to include the top ten U.S. and global retail chains. We intend to pursue relationships with the largest retail chains in the United States and around the world. This will allow us to further diversify our customer base and reduce the risk associated with losing any particular retailer relationship.

Expanding our direct to consumer business. We intend to build our wine clubs via targeted public relations and advertising, expand our tasting rooms and create exciting new events at our wineries. The direct to consumer distribution channel allows us to respond rapidly to consumers and anticipate and establish new market trends. The direct to consumer business generates higher margins, so we intend to expand this distribution channel in order to achieve our growth objectives.

Building our internet customer base. We intend to build our internet presence. We recently acquired a controlling interest in Wine Spies, our internet segment, and we intend to develop e-commerce platform. With strong margins and a solid business platform, we believe our internet segment is poised for strong growth.

Expanding into key international markets. With our recent launch of our wrapped bottle project, we are beginning to experience demand in Canada, Europe and Australia. In late 2012, our distributor in Canada, met with all of the large regional Liquor Control Boards and obtained listings for our brand Dearly Beloved, certain wrapped wines, including Curious Beasts, and commitments for both the square bottle and paper bottle projects to be released in the first and second quarter of fiscal 2014. Several retailers in the United Kingdom are requesting information and gathering samples. In Australia, the nation's largest coffee company has decided to enter the wine distribution market after spotting our Dearly Beloved on a research trip to the United States. We expect to launch our wrapped wines and ship our first orders in the fourth quarter of fiscal year 2014 with the Australian company.

Continuing to develop new ways to engage customers and to distribute our products. By aggressively tackling the market in nontraditional ways – direct to the trade and consumer, rather than through layers of sales entities and employees – we are able to respond timely to the needs of consumers, retailers and restaurateurs. We are discovery-oriented in our approach and we are always on the lookout for new innovations and approaches to the market. This is somewhat counterintuitive especially when you consider that wine has been with us for about 7,000 years. We believe that tradition, to some degree, has stymied creativity.

Building our national brands. We continue to strengthen our traditional three-tier brands, including Truett-Hurst, Healdsburg Ranches and Bradford Mountain. We plan to continue to market and promote these products with our alliances.

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Recent Developments

Wine Spies LLC

On August 1, 2012, pursuant to a membership interest purchase agreement, we purchased 50% of the outstanding membership interests in Wine Spies, an internet retailer, for \$0.3 million. The membership interest purchase agreement entitles us to a 50% allocation of Wine Spies gains and losses. The remaining 50% membership interest is held by a founder and is currently its chief executive officer of the Wine Spies. Additionally, we were granted all right, title and interest in the Wine Spies trademark. Wine Spies is managed by a board of four managers and we reserve the right to name three managers with the founder having the right to name one manager. As of June 30, 2013, we have not named any managers. Our relationship with Wine Spies allows us to sell into the internet segment.

Product Development

In August 2012, we entered into an agreement with West Coast Paper Company (WCP) pursuant to which we were assigned all rights to a series of wine wraps jointly developed by us and WCP, in consideration for certain exclusive manufacturing rights. The exclusive manufacturing rights granted to WCP are for a term of three years. The wine wraps assignment is perpetual and fully transferable. As of June 30, 2013, our U.S. patent for the wine wraps is still pending.

In February 2013, we entered into a seven-year exclusive agreement with the producer of what we believe to be the first ever paper wine bottle. We intend to begin selling wine in the paper bottle in the second quarter of fiscal year 2014 and are in discussions with several of the top U.S. retailers and distributors. During the term of the agreement, the price of the empty paper bottles can only be increased to account for increases in manufacturing costs of greater than 3%.

We have finalized the design for our square bottle concept and have applied for a design patent with the U.S. Patent and Trademark Office. If granted, the patent would protect our proprietary wine bottle design from duplication by our competitors. Shipments of the square bottle will commence the first quarter of fiscal year 2013.

Our Products

Our retail exclusive brand labels

We produce a wide spectrum of varietals, including Pinot Noir, Chardonnay, Sauvignon Blanc, Merlot, Cabernet Sauvignon and Zinfandel, across a number of premium price points from \$7.00 to \$50.00 for three distinct channels of distribution: direct to consumer, three-tier and retail exclusive brand label. From fiscal year 2012 to fiscal year 2013, our retail exclusive brands grew at an annual rate of 22%. The retail exclusive brands represent approximately 82% and 78% of our current wholesale revenue for fiscal years ended June 30, 2013 and 2012, respectively. The following table lists our wine brands:

Product	Key Varietals	Distribution Chanel
Truett Hurst	Zinfandel	Direct to Consumer/Three-Tier
VML	Pinot Noir/Chardonnay	Direct to Consumer/Three-Tier
Bradford Mountain	Zinfandel/Syrah	Direct to Consumer/Three-Tier
Healdsburg Ranches	Chardonnay/Pinot Noir/Zinfandel	Three-Tier

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The Fugitive	Red Blend	Retail Exclusive
The Criminal	Red Blend	Retail Exclusive
Dearly Beloved	Red Blend	Retail Exclusive
Sauvignon Republic	Sauvignon Blanc	Retail Exclusive
	Chardonnay/Cabernet	
Harbor Front	Sauvignon/Merlot/ Pinot Noir	Retail Exclusive
	Chardonnay/Cabernet	
Kiarna	Sauvignon/Merlot	Retail Exclusive
	Chardonnay/Cabernet	
Hobson Estate	Sauvignon/Merlot	Retail Exclusive

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Product	Key Varietals	Distribution Chanel
Evocative Wraps	Various	Retail Exclusive
Bewitched	Chardonnay/Pinot Noir	Retail Exclusive
Curious Beasts	Red Blend	Retail Exclusive
Fuchsia	Rose/White Blend	Retail Exclusive
Schuck s	Sauvignon Blanc/Chardonnay/Pinot Noir	Retail Exclusive
Candell s	Sparkling	Retail Exclusive
Eden Ridge	Chardonnay	Retail Exclusive
Chateau Crisp	Sauvignon Blanc	Retail Exclusive
The Supper Club	Chardonnay/Cabernet Sauvignon	Retail Exclusive
The Wine with No Name	Red Blend	Retail Exclusive
Mad Duck	Zinfandel	Retail Exclusive
California Square	Chardonnay/Cabernet Sauvignon/Red Blend	Retail Exclusive
Paso Ranches	Cabernet Sauvignon	Retail Exclusive
The Wine with No Name	Red Blend	Retail Exclusive

Our wineries and brands

Our first winery operation and brand, Truett-Hurst, was established in 2007. Truett-Hurst winery is located in the Dry Creek Valley appellation of Sonoma County and focuses on producing super-premium wine from a range of varietals which sell for \$20 to \$50. The range of varietals that are sold exclusively from our tasting room, include Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah and other red blends.

Our second winery operation and brand, VML, was established in 2011. VML is located in the Russian River appellation of Sonoma County and focuses on producing super-premium wines from grapes purchased from local growers, including from our founders and members of our management team s vineyards. In addition, VML produces ultra-premium wines made from traditional varietals. VML wines are sold primarily through our direct to consumer channel and range in price from \$30 for the Russian River Chardonnay to \$50 for the vineyard designated Pinot Noirs. Additional varietals, including Sauvignon Blanc, Gewurztraminer and Rosé, are offered in our tasting room.

The Bradford Mountain brand, an historic award-winning brand, acquired from the Hambrecht family in 2011, is sold in our direct to consumer and three-tiered distribution channels. Bradford Mountain wines highlight the grapes from western foothills of the Dry Creek appellation of Sonoma County. This mountain range has a southern exposure, due to elevation and proximity to the Pacific Ocean that provides conditions ideal for ripening grapes.

Wine Supply and Production

Wine Production

We operate two wineries where wine is produced from many varieties of grapes grown principally in Russian River Valley and Dry Creek Valley regions of California. The Russian River and Dry Creek Valley regions are among the top grape growing regions in the United States of America. Our VML winery can crush, ferment and oak barrel age approximately 500 tons (35,000 cases) of ultra-premium grapes annually, with capacity to increase to 2,000 tons with additional capital improvements. For increased production capacities, we outsource to a variety of specialist wineries and bottling facilities. We have been able to satisfy our production requirements with respect to the foregoing and consider our sources to be adequate at this time. However, the inability of any of our suppliers to satisfy our requirements could adversely affect our operations.

Grape and Wine Contracts

Our annual grape requirements are satisfied by purchases from each year's harvest which normally begins in August and runs through October. We supplement grapes with bulk wine contracts to meet our sales and production requirements. However, when demand for certain wine programs or varieties exceeds expectations, we source the additional demand requirements from the bulk wine markets. Depending upon overall demand, we could experience shortages.

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We enter into a grape contract with terms of one to four years, which require us to pay an agreed upon price per ton that varies according to the type of grape, its appellation and in certain cases, the vineyard block in which the grapes are grown. Contracts are typically terminable after the specified term, unless earlier mutually agreed to by the parties.

LLC Member Owned Vineyards

In addition to our 15 acres of company-owned vineyards, certain of our founders, executive officers, and principal stockholders also own, operate or farm vineyards (approximately 540 acres). The majority of the grapes produced from these vineyards are sold to us at market prices or slightly below market prices, with the balances sold to other wineries. See Part II, Item 8, Note 9, Commitments and Contingencies, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for additional details regarding related party commitments.

Sources and Availability of Production Materials

We utilize glass and other materials such as corks, capsules, labels and cardboard cartons in the bottling and packaging of our products. After grape purchases, glass bottle costs are the next most significant component of our cost of sales. The glass bottle industry is highly concentrated with only a small number of quality producers. We obtain our glass requirements from a limited number of producers under supply arrangements. We have been able to satisfy our production requirements with respect to the foregoing and consider our sources of supply to be adequate at this time. However, the inability of any of our glass bottle suppliers to satisfy our requirements could adversely affect our operations.

Our Team and Culture

Our team consists of seasoned professionals who have worked their way up through the industry often achieving senior level positions in noted wine companies, such as Diagio, Constellation Brands, Inc., the Brown-Forman Corporation, Fetzer Vineyards, Kendall-Jackson Wine Estates, DeLoach, and Rodney Strong. We seek to foster a dynamic and energetic culture where teamwork prevails but individuals have the leeway to make informed and timely decisions. Our team shares an entrepreneurial spirit and believes we can build a business that can change the way consumers purchase and enjoy wine.

In addition to building a seasoned team of professionals and shaping our entrepreneurial culture, an important part of our strategy is to create alliances with the best organizations and professionals in order to leverage our core competencies in the most efficient, cost effective and profitable manner. We are proud of our corporate alliances we have created throughout our sales channels.

Sales and Marketing

We employ full-time, in-house marketing, sales and customer service personnel. Our sales and marketing use a range of marketing strategies and tactics designed to build brand equity and increase sales, including market research, consumer and trade advertising, price promotions, point-of-sale materials, event sponsorship, on-premise promotions, social media and public relations. The majority of our wine is currently sold in the United States and to a lesser extent, Canada.

Competitive Environment

We operate in a highly fragmented market that is nevertheless dominated in the United States by a handful of extremely large volume producers. According to data from the United States Tax and Trade Bureau and the Wine Institute, in 2010 more than 7,600 wineries operated in the United States, with over 3,300 in California, which grows 90% of wine grapes and produces 90% of wine exports. According to the 2011 Gomberg-Fredrikson Report, Five large producers made up 84% of 2011 packaged export volume, with the top three E.&J. Gallo Winery, The Wine Group and Constellation Brands, Inc. representing 64% of California shipments in cases.

We compete specifically with these large producers and other wineries for shelf space at retailers and at restaurants, especially within the \$15 to \$50 per bottle range. Within this range, we believe that the principal competitive factors are product quality, price, label recognition, and product supply, and we believe that we compete favorably with respect to each of these factors.

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In the private label market, we believe our chief competitors are Winery Exchange Inc., the company co-founded by Phil Hurst, Vintage Wine Estates, Delicato Family Vineyards, Bronco Wines, E.&J. Gallo Winery, Constellation Brands, Inc. and other California and international wine producers. While they operate strong businesses run by executives we respect, we believe the private label market is growing and has room for many players. We also believe our business model differentiates us and represents a new approach that provides us with a strong platform on which to build a thriving business.

There are relatively few publicly traded beverage companies with significant wine operations. Two of the largest, Constellation Brands, Inc. owner of brands such as Robert Mondavi, Clos du Bois and Kim Crawford and Diageo plc which owns Rosenblum, Chalone, Sterling and others also have beer and spirits divisions, and Concha y Toro S.A. is a Chilean-based and traded manufacturer.

As with other large producers, we compete with certain brands from Constellation Brands, Inc. and Diageo plc for traditional distribution shelf space, but do not see them or the other names listed as direct competitors for our primary private label market.

Intellectual Property

Trademarks are an important aspect of our business. We sell our products under a number of trademarks, which we own or license. As of June 30, 2013, we had 21 registered, 16 published and 6 pending material trademarks. They are:

Registered	<i>Published</i>	<i>Pending</i>
Bewitched	California Square	Design (mohawk skull)
Bradford Mountain	Cense	Fugitive
By Locals. For Locals	Chateau Crisp	Juice Brothers
Candells	Dearly Beloved I Thee Red	MOFO
Dearly Beloved	Back to the Very	The Criminal
Dearly Beloved Forever Red	Earth	West Coast Original
Design (wild boar)	Inconspicuous	
Eden Ridge	Mad Duck	
Fuchsia	Nature's Gate	
Fugitive	Paper Boy	
	Paso Ranches	