

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

TRUETT•HURST

a Delaware corporation

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SIC code: 55112

Annual Report For the Fiscal year Ending: June 30, 2019 (the "Reporting Period")

As of June 30, 2019, the number of shares outstanding of our Class A Common Stock was 3,755,145 shares and Class B Common Stock was 5 shares.

As of June 30, 2018, the number of shares outstanding of our Class A Common Stock was 4,535,750 shares and Class B Common Stock was 6 shares.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒ (Double-click and select "Default Value" to check)

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: ☐ No: ☒

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Truett-Hurst, Inc.

Date and state (or jurisdiction) of incorporation (also describe any changes to incorporation since inception, if applicable) Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

Incorporated in Delaware on December 10, 2012 - active

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐ No: ☒

2) Security Information

Trading symbol:	THST
Exact title and class of securities outstanding:	Class A Common Stock
CUSIP:	<u>897871109</u>
Par or stated value:	<u>\$0.001</u>
Total shares authorized:	<u>15,000,000</u> as of date: <u>June 30, 2019</u>
Total shares outstanding:	<u>3,755,145</u> as of date: <u>June 30, 2019</u>
Number of shares in the Public Float ² :	<u>3,669,840</u> as of date: <u>June 30, 2019</u>
Total number of shareholders of record:	<u>63</u> as of date: <u>June 30, 2019</u>

Additional class of securities (if any):

Trading symbol:	N/A
Exact title and class of securities outstanding:	<u>Class B Common Stock</u>
CUSIP:	<u>N/A</u>
Par or stated value:	<u>\$0.001</u>
Total shares authorized:	<u>1,000</u> as of date: <u>June 30, 2019</u>
Total shares outstanding:	<u>5</u> as of date: <u>June 30, 2019</u>

Trading symbol:	N/A
Exact title and class of securities outstanding:	<u>Preferred Stock</u>
CUSIP:	<u>N/A</u>
Par or stated value:	<u>\$0.001</u>
Total shares authorized:	<u>5,000,000</u> as of date: <u>June 30, 2019</u>
Total shares outstanding:	<u>0</u> as of date: <u>June 30, 2019</u>

² "Public Float" shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a "control person"), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

Transfer Agent

Name: American Stock Transfer & Trust Company LLC
Phone: 718-921-8124
Email: help@astfinancial.com

Is the Transfer Agent registered under the Exchange Act?³ Yes: ☒ No: ☐

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

On January 14, 2019, the Company commenced the tender offer to purchase up to 1,000,000 shares of Class A common stock, including shares issued upon exchange of limited liability company interests of its subsidiary H.D.D., LLC at a price of \$2.40 per share (the "Tender Offer"). The tender offer expired on February 22, 2019 and the Company purchased a total of 1,000,000 shares of Class A common stock for an aggregate purchase price of \$2,400,000.

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities in the past two completed fiscal years and any subsequent interim period.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services. Using the tabular format below, please describe these events.

³ To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

<div> <div>Number of Shares outstanding as of <u>July 1, 2016</u></div> <div> <u>Opening Balance:</u> Common: <u>4,306,609</u> Preferred: <u>0</u> </div> <div>*Right-click the rows below and select "Insert" to add rows as needed.</div> </div>									
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual / Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
<u>12/16/16</u>	<u>New issuance</u>	<u>13,554</u>	<u>Class A Common Stock</u>	<u>\$1.89</u>	<u>No</u>	<u>Paul Weber</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/16/16</u>	<u>New issuance</u>	<u>13,554</u>	<u>Class A Common Stock</u>	<u>\$1.89</u>	<u>No</u>	<u>Barrie Graham</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/16/16</u>	<u>New issuance</u>	<u>12,048</u>	<u>Class A Common Stock</u>	<u>\$1.89</u>	<u>No</u>	<u>John Fruth</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/16/16</u>	<u>New issuance</u>	<u>5,264</u>	<u>Class A Common Stock</u>	<u>\$1.89</u>	<u>No</u>	<u>Marcus Benedetti</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>3/22/17</u>	<u>New issuance</u>	<u>75,000</u>	<u>Class A common stock</u>	<u>\$2.17</u>	<u>No</u>	<u>Hurst Family Trust</u>	<u>Share exchange from H.D.D LLC to TH</u>	<u>Unrestricted</u>	<u>S-3</u>
<u>8/30/17</u>	<u>New issuance</u>	<u>33,628</u>	<u>Class A common stock</u>	<u>\$2.18</u>	<u>No</u>	<u>Anna-Marie Schweitzer</u>	<u>Share exchange from</u>	<u>Unrestricted</u>	<u>S-3</u>

							<u>H.D.D. LLC to TH</u>		
<u>12/15/16</u>	<u>New issuance</u>	<u>760</u>	<u>Class A common stock</u>	<u>\$1.85</u>	<u>No</u>	<u>Marcus Benedetti</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/24/17</u>	<u>New issuance</u>	<u>10,000</u>	<u>Class A common stock</u>	<u>\$2.04</u>	<u>No</u>	<u>Barrie Graham</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/24/17</u>	<u>New issuance</u>	<u>8,889</u>	<u>Class A common stock</u>	<u>\$2.04</u>	<u>No</u>	<u>John Fruth</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/24/17</u>	<u>New issuance</u>	<u>4,445</u>	<u>Class A common stock</u>	<u>\$2.04</u>	<u>No</u>	<u>Marcus Benedetti</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>1/24/18</u>	<u>New issuance</u>	<u>10,000</u>	<u>Class A common stock</u>	<u>\$1.97</u>	<u>No</u>	<u>Paul Weber</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/15/17</u>	<u>New issuance</u>	<u>2,623</u>	<u>Class A common stock</u>	<u>\$2.01</u>	<u>No</u>	<u>Marcus Benedetti</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>5/3/18</u>	<u>New issuance</u>	<u>39,367</u>	<u>Class A common stock</u>	<u>\$1.65</u>	<u>No</u>	<u>Evan Meyer</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>10/1/18</u>	<u>New issuance</u>	<u>39,930</u>	<u>Class A common stock</u>	<u>\$1.90</u>	<u>No</u>	<u>Jason Strobbe</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>12/5/18</u>	<u>New issuance</u>	<u>12,407</u>	<u>Class A common stock</u>	<u>\$2.09</u>	<u>No</u>	<u>Jason Strobbe</u>	<u>RSU release</u>	<u>Unrestricted</u>	<u>S-8</u>
<u>1/10/19</u>	<u>New issuance</u>	<u>158,480</u>	<u>Class A common stock</u>	<u>\$1.86</u>	<u>No</u>	<u>Virginia Marie Lambrix</u>	<u>Share exchange from</u>	<u>Restricted</u>	<u>EXEMPT 4(A)(2)</u>

							<u>H.D.D LLC to TH</u>		
<u>2/11/19</u>	<u>New issuance</u>	<u>8,578</u>	<u>Class A common stock</u>	<u>\$2.16</u>	<u>No</u>	<u>Spencer Grimes</u>	<u>RSU release</u>	<u>Unrestrict ed</u>	<u>S-8</u>
<u>3/4/19</u>	<u>New issuance</u>	<u>2,784</u>	<u>Class A common stock</u>	<u>\$2.10</u>	<u>No</u>	<u>Jean- Marc Buisson</u>	<u>NQ exercise</u>	<u>Unrestrict ed</u>	<u>S-8</u>
<u>3/4/19</u>	<u>Stock Repurchas e</u>	<u>(1,000.00 0)</u>	<u>Class A common stock</u>	<u>\$2.40</u>	<u>No</u>	<u>Individual s and entities</u>	<u>1/14/19 Tender Offer to purchase shares</u>	<u>Unrestrict ed</u>	<u>N/A</u>
<u>3/12/19</u>	<u>New issuance</u>	<u>16,611</u>	<u>Class A common stock</u>	<u>\$2.04</u>	<u>No</u>	<u>Barrie Graham</u>	<u>RSU release</u>	<u>Unrestrict ed</u>	<u>4(a)(2)</u>
<u>3/15/19</u>	<u>New issuance</u>	<u>3,199</u>	<u>Class A common stock</u>	<u>\$1.42</u>	<u>No</u>	<u>Ross Reedy</u>	<u>ISO exercise</u>	<u>Unrestrict ed</u>	<u>4(a)(2)</u>
<u>3/29/19</u>	<u>Stock Repurchas e</u>	<u>(16,611)</u>	<u>Class A common stock</u>	<u>\$2.13</u>	<u>No</u>	<u>Barrie Graham</u>	<u>3/26/19 Stock Repurcha se</u>	<u>Unrestrict ed</u>	<u>N/A</u>
<u>4/5/19</u>	<u>Stock Repurchas e</u>	<u>(2,784)</u>	<u>Class A common stock</u>	<u>\$2.13</u>	<u>No</u>	<u>Jean- Marc Buisson</u>	<u>3/26/19 Stock Repurcha se</u>	<u>Unrestrict ed</u>	<u>N/A</u>
<u>4/16/19</u>	<u>Stock Repurchas e</u>	<u>(3,199)</u>	<u>Class A common stock</u>	<u>\$2.13</u>	<u>No</u>	<u>Ross Reedy</u>	<u>3/26/19 Stock Repurcha se</u>	<u>Unrestrict ed</u>	<u>N/A</u>
Shares Outstandi ng on	<u>Ending Balance:</u> Common: <u>3,755,145</u> Preferred: <u>0</u>								

<u>June 30,</u> <u>2019:</u>		
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Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended September 30, 2018, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2016 through September 30, 2018 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

N/A

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe any issuance of promissory notes, convertible notes or convertible debentures in the past two completed fiscal years and any subsequent interim period.

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
<u>December 21, 2018</u>	<u>\$4,479,723</u>	<u>\$4,500,000</u>	<u>0</u>	<u>March 1, 2044</u>	<u>N/A</u>	<u>H.D.D. LLC</u>	<u>The primary purpose is to fund working capital</u>

Use the space below to provide any additional details, including footnotes to the table above:

\$4,500,000 Real Estate Note. H.D.D. LLC received for the purpose of reimbursement of working capital. The loan is due on or before March 1, 2044, interest bears at the combination of Association Variable Rates, 5.77% initial rate.

4) Financial Statements

A. The following financial statements were prepared in accordance with:

- ☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual)⁴:

Name: Karen K. Weaver
Title: Chief Financial Officer
Relationship to Issuer: Officer

Provide the financial statements described below for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- C. Balance sheet;
- D. Statement of income;
- E. Statement of cash flows;
- F. Financial notes; and
- G. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

The following consolidated Balance Sheets as of June 30, 2019 and 2018, and the consolidated Statements of Operations and Cash Flows for the fiscal years ended June 30, 2019 and 2018 are attached hereto as Exhibit A:

- A. Consolidated Balance Sheets
- B. Consolidated Statements of Operations
- C. Consolidated Statements of Cash Flows
- D. Notes to Consolidated Financial Statements

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below

N/A

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

5) Issuer's Business, Products and Services

⁴ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

- A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

We sell our wine into two primary categories: super Ultra-Premium and Luxury wine. We operate two tasting rooms and one winery where wine is produced from varieties of grapes grown or purchased in Sonoma County's Dry Creek Valley, and Russian River Valley.

Truett-Hurst, Inc. and its consolidated subsidiary HDD, LLC (the "Company") is a producer of super Ultra-Premium and Luxury wines. Prior to August 2018, the Company operated in the wholesale, retail and direct to consumer wine markets; however, on August 13, 2018, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with Precept Brands LLC, a Washington limited liability company ("Precept") pursuant to which the Company agreed to sell certain assets comprising its wholesale wine business (the "Wholesale Business") to Precept.

Following the sale of the Wholesale Business to Precept on August 13, 2018, we are now only operating our direct to consumer ("DTC") business based at our estate property in Healdsburg, California as well as the sale of our three brands to national retailers. We produce luxury tier Pinot Noir, Chardonnay, Sauvignon Blanc, Zinfandel, Petite Sirah, and Syrah for our three brands: Truett Hurst, VML and Svengali. We maintain a wine club for Truett Hurst and VML and we provide a premier experience leveraging our Creekside property, hospitality, customer service and award-winning wine quality. We continue to be headquartered in Sonoma County, California and lease space for wine production within a custom crush facility located in Santa Rosa, California. The direct to consumer channel consists of sales of products produced by us through our tasting rooms, wine clubs and our winery websites.

We operate two tasting rooms and lease a winery where wine is produced from many varieties of grapes principally grown or purchased in Sonoma County's Dry Creek Valley and Russian River Valley appellations. Established in 2007, Truett-Hurst was the first winery operation and brand that focuses on producing limited lots of super-premium wine from a range of varietals, including Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah, and other unique red blends from grapes sourced from local growers in the Dry Creek Valley. Established in 2011, VML was the second winery operation and brand that focuses on producing limited lots of super-premium and ultra-premium wines from grapes purchased from local growers in the Russian River Valley. The primary varietals include Pinot Noir, Chardonnay, Sauvignon Blanc, and Gewurztraminer. The Svengali brand was established most recently to focus entirely on a single Dry Creek Valley Syrah.

- B. Describe any subsidiaries, parents, or affiliated companies, if applicable, and a description of their business contact information for the business, officers, directors, managers or control persons. Subsidiary information may be included by reference

Truett-Hurst, Inc. (the "Company") is a holding company and its sole asset is a controlling equity interest in H.D.D. LLC (the "LLC"). 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 may exchange their LLC units for the shares of Class A common stock of the Company on a one-for-one basis. As of June 30, 2019, there were 5 shares of Class B common stock outstanding, which provided holders of LLC units with voting rights equivalent to 2,568,006 shares.

- C. Describe the issuers' principal products or services, and their markets

The Company's principal products are wine, as described in Section 5A above.

6) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

<u>Name of Asset</u>	<u>Description of Asset or Lease</u>	<u>Location</u>	<u>Ownership</u>	<u>Lease Terms</u>
25 acre property	15 acres used to grow grapes, the remainder of the property is used for the Truett-Hurst and VML tasting rooms, retail sales space and office space for support staff	5610 Dry Creek Road, Healdsburg, California	Truett-Hurst, Inc.	N/A
Wine production space	Used for a custom crush facility	Santa Rosa, California	Sugarloaf Operations LLC	Lease commenced on April 15, 2017 and ended June 15, 2018. The initial 14-month term has been renewed for an additional 12 months.
Executive office space	Office suite is used for administrative staff	125 Foss Creek Circle, Healdsburg, California	Eric Drew	Lease ends on November 1, 2021
Wine storage	A facility used to store of bottled wine	Healdsburg, California	Alexander Valley Cellars	Yearly contract expires September 31, 2019

7) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide information regarding any person or entity owning 5% of more of the issuer, as well as any officer, and any director of the company, regardless of the number of shares they own. If any listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information of an individual representing the corporation or entity in the note section.

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
<u>North Star Investment Management Corporation (i)</u>	<u>Investor</u>	<u>Chicago, Illinois</u>	<u>1,019,220</u>	<u>Class A Common Stock</u>	<u>27.10%</u>	_____
<u>1987-1988 Richard C. Blum Irrevocable Children's Trust (ii)</u>	<u>Investor</u>	<u>Washington D.C.</u>	<u>680,079</u>	<u>Class A Common Stock</u>	<u>18.08%</u>	_____
<u>Bard Associates, Inc.(iii)</u>	<u>Investor</u>	<u>Chicago, Illinois</u>	<u>553,099</u>	<u>Class A Common Stock</u>	<u>14.71%</u>	_____
<u>Paul E. Dolan III</u>	<u>CEO and Director</u>	<u>Healdsburg, California</u>	<u>4,600</u>	<u>Class A Common Stock</u>	<u>*</u> <u>-</u>	_____
<u>Paul E. Dolan III</u>	<u>CEO and Director</u>	<u>Healdsburg, California</u>	<u>1</u>	<u>Class B Common Stock</u>	<u>20.00%</u>	_____
<u>Karen K. Weaver</u>	<u>CFO</u>	<u>Novato, California</u>	<u>0</u>	<u>N/A</u>	<u>0%</u>	_____
<u>Phillip L. Hurst</u>	<u>Chairman of the Board</u>	<u>Healdsburg, California</u>	<u>440</u>	<u>Class A Common Stock</u>	<u>*</u> <u>-</u>	_____
<u>Phillip L. Hurst</u>	<u>Chairman of the Board</u>	<u>Healdsburg, California</u>	<u>1</u>	<u>Class B Common Stock</u>	<u>20.00%</u>	_____
<u>Heath E. Dolan</u>	<u>Investor</u>	<u>Ukiah, California</u>	<u>1</u>	<u>Class B Common Stock</u>	<u>20.00%</u>	_____

<u>Marcus Benedetti</u>	<u>Director</u>	<u>Petaluma, California</u>	<u>18,365</u>	<u>Class A Common Stock</u>	<u>*</u> <u>-</u>	<u> </u>
<u>Barrie Graham</u>	<u>Director</u>	<u>Los Alamos, New Mexico</u>	<u>39,859</u>	<u>Class A Common Stock</u>	<u>*</u> <u>-</u>	<u> </u>
<u>Barrie Graham</u>	<u>Director</u>	<u>Los Alamos, New Mexico</u>	<u>1</u>	<u>Class B common Stock</u>	<u>20.00%</u>	<u> </u>
<u>Daniel A. Carroll</u>	<u>Director</u>	<u>San Francisco, California</u>	<u>26,641</u>	<u>Class A Common Stock</u>	<u>*</u> <u>-</u>	<u> </u>
<u>Daniel A. Carroll</u>	<u>Director</u>	<u>San Francisco, California</u>	<u>1</u>	<u>Class B Common Stock</u>	<u>20.00%</u>	<u> </u>

*Less than 5%

- (i) Based on the Schedule 13G/A filed with the SEC on March 8, 2019, North Star Investment Management Corporation is wholly owned by North Star Financial Service Corporation located at 20 N. Wacker Drive, Suite 1416, Chicago, IL 60606.
- (ii) Based on a Schedule 13G filed with the SEC on July 1, 2014.
- (iii) Based on the Schedule 13G filed with the SEC on October 31, 2018, the individual representing the corporation is Timothy B. Johnson, President and the contact information is 135 South LaSalle Street, Suite 3700, Chicago, IL 60603.

8) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None with respect to officers and directors, unknown with respect to other 5% or greater holders.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None with respect to officers and directors, unknown with respect to other 5% or greater holders.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None with respect to officers and directors, unknown with respect to other 5% or greater holders.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None with respect to officers and directors, unknown with respect to other 5% or greater holders.

- B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

Securities Counsel

Name: David Makarechian, Esq
Firm: O'Melveny & Myers LLP
Address 1: 2765 Sand Hill Road, Menlo Park, CA 94025
Address 2: _____
Phone: (650) 473-2600
Email: dmakarechian@omm.com

Accountant or Auditor

Name: Michelle Ausburn
Firm: BPM LLP
Address 1: 110 Stony Point Road, Suite 210, Santa Rosa, CA 95401
Address 2: _____
Phone: (707) 544-4078
Email: MAusburn@bpmcpa.com

Investor Relations Consultant – N/A

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

Other Service Providers – N/A

Provide the name of any other service provider(s), including, counsel, advisor(s) or consultant(s) that assisted, advised, prepared or provided information with respect to this disclosure statement, or provided assistance or services to the issuer during the reporting period.

Name: _____
Firm: _____
Nature of Services: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities).

The certifications shall follow the format below:

I, Paul E. Dolan, III certify that:

1. I have reviewed this annual disclosure statement of Truett-Hurst, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: October 18, 2019

By: /s/ Paul E. Dolan, III

Name: Paul E. Dolan, III

Title: President and Chief Executive Officer

Principal Financial Officer:

I, Karen K. Weaver certify that:

1. I have reviewed this annual disclosure statement of Truett-Hurst, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: October 18, 2019

By: /s/ Karen K. Weaver

Name: Karen K. Weaver

Title: Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
of Truett-Hurst, Inc.

We have audited the accompanying consolidated financial statements of Truett-Hurst, Inc. and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truett-Hurst, Inc. and Subsidiary as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP
Santa Rosa, CA
October 18, 2019

EXHIBIT A

TRUETT-HURST, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS (In thousands, except share data)

	June 30, 2019	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,987	\$ 278
Accounts receivable	60	-
Related party receivable	451	-
Inventories	5,407	5,826
Other current assets	340	251
Assets of discontinued operations	-	18,396
Total current assets	9,245	24,751
Property and equipment, net	5,963	6,320
Intangible assets, net	29	38
Other assets, net	35	73
Total assets	<u>\$ 15,272</u>	<u>\$ 31,182</u>
Liabilities and Equity		
Current liabilities:		
Lines of credit	\$ 9	\$ 8,058
Accounts payable	397	409
Accrued expenses	365	237
Related party payable	152	-
Current maturities of capital lease obligation	13	11
Current maturities of long-term debt	84	3,235
Liabilities of discontinued operations	229	3,740
Total current liabilities	1,249	15,690
Long-term debt	4,396	-
Capital lease obligation	39	52
Total liabilities	5,684	15,742
Commitments and contingencies (Note 8)		
Equity		
Equity:		
Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized, none issued and outstanding at June 30, 2019 and 2018	-	-
Class A common stock, par value of \$0.001 per share, 15,000,000 shares authorized, 3,755,145 and 4,535,750 shares issued and outstanding at June 30, 2019 and 2018, respectively	4	4
Class B common stock, par value of \$0.001 per share, 1,000 shares authorized, 5 shares and 6 shares issued and outstanding at June 30, 2019 and 2018, respectively	-	-
Additional paid-in capital	14,215	16,527
Accumulated deficit	(8,105)	(6,299)
Total Truett-Hurst, Inc. equity	6,114	10,232
Noncontrolling interest	3,474	5,208
Total equity	9,588	15,440
Total liabilities and equity	<u>\$ 15,272</u>	<u>\$ 31,182</u>

See accompanying notes to consolidated financial statements

TRUETT-HURST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

	Fiscal Year Ended June 30,	
	2019	2018
Sales	\$ 6,599	\$ 6,483
Less excise tax	(31)	(12)
Net sales	6,568	6,471
Cost of sales	3,496	2,502
Gross profit	3,072	3,969
Operating expenses:		
Sales and marketing	3,002	1,509
General and administrative	5,296	2,338
Loss on disposal of assets	-	16
Impairment of other assets	46	-
Total operating expenses	8,344	3,863
(Loss) income from operations	(5,272)	106
Other income (expense):		
Interest expense, net	(190)	(102)
(Loss) income on fair value of interest rate swap	(14)	76
Gain on insurance settlement, net	469	1,879
Other (expense) income, net	(4)	11
Total other income, net	261	1,864
(Loss) income before income tax expense	(5,011)	1,970
Income tax expense	(2)	(2)
(Loss) income from continuing operations	(5,013)	1,968
Income (loss) from discontinued operations, net of tax	1,776	(3,049)
Net loss attributable to Truett-Hurst, Inc. and H.D.D. LLC	(3,237)	(1,081)
Net loss attributable to noncontrolling interest: H.D.D. LLC	(1,431)	(433)
Net loss attributable to Truett-Hurst, Inc.	\$ (1,806)	\$ (648)
Net (loss) income per share, basic and diluted:		
Continuing operations	\$ (1.16)	\$ 0.44
Discontinued operations	0.41	(0.68)
Attributable to noncontrolling interest	(0.33)	(0.10)
Attributable to Truett-Hurst, Inc.	\$ (0.42)	\$ (0.14)
Weighted average shares used in computing net loss per share:		
Basic weighted average shares	4,313,526	4,470,185
Diluted weighted average shares	4,313,526	4,470,185

See accompanying notes to consolidated financial statements

TRUETT-HURST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share data)

	Class A Shares	Amount	Class B Shares	Amount	Add'l Paid- in Capital	Accumulated Deficit	Non Controlling Interest	Total Equity
Balance at July 1, 2017	4,426,789	\$ 4	7	\$ —	\$ 16,082	\$ (5,651)	\$ 5,711	\$ 16,146
Vesting of Class A restricted stock	95,966	—	—	—	—	—	—	—
Conversion of LLC Units for Class A common stock	33,628	—	(1)	—	70	—	(70)	—
Taxes paid related to net share settlement of equity awards	(20,633)	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	375	—	—	375
Net loss	—	—	—	—	—	(648)	(433)	(1,081)
Balance at June 30, 2018	4,535,750	4	6	—	16,527	(6,299)	5,208	15,440
Vesting of Class A common stock	185,086	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	193	—	—	193
Termination of stock-based compensation plan for cash settlement for unvested shares	(88,475)	—	—	—	—	—	—	—
Repurchase of previously vested and exercised shares	(35,696)	—	—	—	(69)	—	—	(69)
Conversion of LLC Units for Class A common stock	158,480	—	(1)	—	303	—	(303)	—
Retirement of Class A common stock	(1,000,000)	—	—	—	(2,400)	—	—	(2,400)
Capitalization of stock repurchase cost	—	—	—	—	(303)	—	—	(303)
Taxes paid related to net settlement of equity awards	—	—	—	—	(36)	—	—	(36)
Net loss	—	—	—	—	—	(1,806)	(1,431)	(3,237)
Balance at June 30, 2019	3,755,145	\$ 4	5	\$ —	\$ 14,215	\$ (8,105)	\$ 3,474	\$ 9,588

See accompanying notes to consolidated financial statements.

TRUETT-HURST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended June 30,	
	2019	2018
Cash flows from operating activities:		
(Loss) income from continuing operations	\$ (5,013)	\$ 1,968
Income (loss) from discontinued operations, net of tax	1,776	(3,049)
Net loss	(3,237)	(1,081)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	870	929
Stock-based compensation	193	375
Gain on insurance settlement	—	(1,879)
Loss on sale of bulk wine	—	22
Executive termination benefits	(36)	133
Loss (gain) on fair value of interest rate swap	14	(76)
Loss on disposal of assets	51	12
Impairment of intangibles	46	4
Changes in operating assets and liabilities, net		
Accounts receivable	(60)	—
Inventories	419	402
Other current assets	(103)	121
Accounts payable	(12)	(197)
Accrued expenses	128	(19)
Related party receivable	(451)	—
Related party payable	152	—
Net cash used in operating activities	(2,026)	(1,254)
Cash flows from investing activities:		
Acquisition of property and equipment	(474)	(1,910)
Acquisition of intangible and other assets	—	(14)
Proceeds from insurance settlement	—	1,906
Proceeds from sale of assets	—	100
Net cash (used in) provided by investing activities	(474)	82
Cash flows from financing activities:		
Net (payments on) proceeds from lines of credit	(8,049)	1,096
Proceeds from long term debt	4,500	—
Payments on long term debt	(3,255)	(585)
Repurchase of Class A common stock	(2,400)	—
Capitalized tender offer cost	(303)	—
Payments on cancelation of 2012 Stock Plan	(69)	—
Payments on capital lease obligation	(11)	(11)
Net cash (used in) provided by financing activities	(9,587)	500
Discontinued operations		
Net cash provided by operating activities	14,796	69
Net cash provided by investing activities	—	100
Net cash provided by discontinued operations	14,796	169
Net change in cash and cash equivalents	2,709	(503)
Cash and cash equivalents at beginning of year	278	783
Cash and cash equivalents at end of year	<u>\$ 2,987</u>	<u>\$ 278</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 173	\$ 470
Cash paid for income taxes	1	1

See accompanying notes to consolidated financial statements.

**TRUETT-HURST, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 – BASIS OF BUSINESS PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business

Truett-Hurst, Inc. (“Truett-Hurst”, the “Company”, or “THI”) is a holding company formed in Delaware and its sole asset is a controlling interest in H.D.D. LLC (the “LLC”), a California limited liability company.

The Company is a producer of super Ultra-Premium and Luxury wines and operates two wine tasting rooms and leases a winery where wine is produced from many varieties of grapes principally grown or purchased in Sonoma County’s Dry Creek Valley and Russian River Valley appellations. The Company is headquartered in Sonoma County, California and leases space for wine production within a custom crush facility located in Santa Rosa, California.

The Company operated in the wholesale, retail and direct to consumer wine markets until August 13, 2018. The Company entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Precept Brands LLC, a Washington limited liability company (“Precept”) pursuant to which the Company agreed to sell certain assets comprising its wholesale wine business (the “Wholesale Business”) to Precept on August 13, 2018.

Following the sale of the Wholesale Business to Precept, the Company is now only operating its direct to consumer (the “DTC”) business based in Healdsburg, California. The DTC channel consists of sales of products produced by the Company through its own tasting rooms, wine clubs and websites.

Basis of Presentation

The audited consolidated financial statements as of and for the fiscal years ended June 30, 2019 and June 30, 2018 consolidate the results of Truett-Hurst and its subsidiary, the LLC, and record a noncontrolling interest for the economic interest in the LLC that is not attributable to Truett-Hurst, Inc.

Capital Structure

The Company has two classes of stock with shares outstanding: Class A common stock and Class B common stock. As of June 30, 2019, there were 3,755,145 shares of Class A common stock and 5 shares of Class B common stock outstanding. One share of Class B common stock is issued to each holder of LLC units which, on matters presented for shareholder vote, provides its owner one vote for each LLC unit held. The 5 shares of Class B common stock were associated with 2,568,006 LLC units (the entire amount of LLC units held by parties other than THI) and represents 44.3% of the voting power of the combined outstanding Class A and Class B common stock.

The Company maintains an exchange agreement with holders of LLC units, several of whom are directors and/or officers, under which each LLC member may exchange their LLC units for shares of Class A common stock on a one-to-one basis.

Tax Receivable Agreement

Prior to the completion of the Company's initial public offering, the Company entered into a tax receivable agreement 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 the exchange of LLC Units (current and future) and certain other tax benefits related to the Company entering into the agreement. These payment obligations are obligations of the corporate taxpayer and not of the LLC.

NOTE 2 – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP" or "GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities. Estimates are based on historical experience and on various other assumptions that management believes are reasonable under the given circumstances. These estimates could be materially different under different conditions and assumptions. Additionally, the actual amounts could differ from the estimates made. The Company periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness and prospectively applies appropriate adjustments, if any, to these estimates. Such estimates primarily relate to the determination of net realizable value of inventories and the allowance for doubtful accounts.

The Company's critical accounting policies include:

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an original maturity date when purchased of three months or less stated at cost, which approximates fair value. The Company places the majority of its cash deposits in noninterest-bearing accounts. The concentration of such deposits is not deemed to create a significant risk to the Company and the deposits are insured up to \$250,000.

Accounts Receivable

Accounts receivable consists primarily of trade receivables from the DTC customers. Accounts receivable are reviewed regularly and estimates are made for allowance for doubtful accounts when there is doubt as to the collectability of individual balances. No allowance for doubtful accounts was considered necessary as of June 30, 2019 and June 30, 2018.

Inventories

Inventories consist primarily of bulk and bottled wine and purchased grapes valued at the lower of cost or net realizable value using the first-in, first-out or specific identification method. In accordance with general wine industry practice, bulk and bottled wine inventories are included in current assets, although a portion of such inventories may be aged for a period longer than one year. Costs associated with winemaking and the production of wine are reflected in inventories as bulk wine until the wine has been bottled and is available for sale. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the forecasted usage to their estimated net realizable value. Net realizable value of such inventories is estimated based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of sales.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the useful lives of the asset, principally twenty to forty years for building and improvements, five years for machinery and equipment, seven to fifteen years for vineyard development, ten to twenty years for vineyard equipment, five to ten years for furniture and fixtures, the shorter of estimated useful life or lease term, generally five years for leasehold improvements and five years for vehicles. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Gains and losses from disposition of property and equipment are included as a component of (loss) income from operations.

Impairment of Long-lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted cash flows, an impairment loss is recognized to the extent of such difference.

Intangible Assets

Indefinite lived intangible assets consist of trademarks and were reviewed for impairment during the fourth fiscal quarter of each year, or sooner, if events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Finite lived intangible assets that existed as of June 30, 2018 consisted of patents and were written off in August 2018 as the Company no longer operates the wholesale segment to which they were related.

Discontinued Operations

In determining whether a group of assets that is disposed (or to be disposed) should be presented as a discontinued operation, we analyze whether the group of assets being disposed represents a component of our Company; that is, whether it had historic operations and cash flows that were clearly distinguished, both operationally and for financial reporting purposes. In addition, we consider whether the disposal represents a strategic shift that has or will have a major effect on our operations and financial results. The results of discontinued operations, as well as any gain or loss on the disposal, if applicable, are aggregated and separately presented in our consolidated statements of operations, net of income taxes.

Revenue Recognition

Revenue is recognized once performance obligations under the terms of the Company's contracts with its customers have been satisfied; this occurs at a point in time when control of the promised product or service is transferred to customers. Generally, all of the Company's contracts with its customers have a single performance obligation and are short term in nature. Revenue is measured in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. The Company accounts for shipping and handling activities as costs to fulfill its promise to transfer the associated products. Accordingly, the Company records amounts billed for shipping and handling costs as a component of net sales, and classifies such costs as a component of costs of sales.

The Company's products are generally not sold with a right of return unless the product is spoiled or damaged. Historically, returns have not been material to the Company.

Wine club membership sales are made under contracts with customers, which specify the quantity and timing of future wine shipments. Customer credit cards are charged in advance of quarterly wine shipments in accordance with each contract. The Company transfers control and recognizes revenue for these contracts upon shipment of the wine to the customer.

Tasting room and internet wine sales are paid for at the time of sale. The Company transfers control and recognizes revenue for this wine when the product is either received by the customer (on-site tasting room sales) or upon shipment to the customer (website/internet sales).

We hold various public and private events for customers and their wine club members. Upfront consideration received from the sale of tickets or under private event contracts for future events is recorded as deferred revenue. The balance of payments is due on the date of the event. The Company recognizes event revenue on the date the event is held.

Other revenue also includes tasting fees and retail sales, which are paid for and received or consumed at the time of sale. The Company transfers control and recognizes revenue at the time of sale.

Sales Discounts

Sales discounts are recorded as a reduction of sales at the time of the sale. For FY19 and FY18, sales discounts totaled \$2.5 million and \$3.1 million, respectively.

Cost of Sales

Cost of sales includes costs associated with grape growing, grapes purchased from vineyards not owned by the Company, bulk wine and finished goods purchases, packaging materials, winemaking and production costs, vineyard and production administrative support and overhead costs, purchasing and receiving costs and certain warehousing costs. No further costs are allocated to inventory once the product is bottled and available for sale. Inventory reserves and provisions are included in cost of sales.

Expense Allocation

The LLC Operating Agreement provides that substantially all expenses incurred by or attributable to the Company are borne by the LLC, except the Company's income tax payments.

Sales and Marketing Expense

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. For FY19 and FY18, advertising expense totaled approximately \$0.7 million and \$1.5 million, respectively.

General and Administrative Expenses

General and administrative expenses include the costs associated with personnel, professional fees, insurance and other expenses related to administrative and compliance functions. For FY19 and FY18, total general and administrative expenses totaled approximately \$5.3 million and \$2.3 million, respectively.

Shipping and Handling Fees and Costs

Amounts billed to customers for shipping and handling are recorded as sales, and the costs incurred for shipping and handling are recorded as a sales and marketing expense. Gross margins may not be comparable to other companies in the same industry as other companies may record shipping and handling costs as cost of sales. For FY19 and FY18, shipping costs were \$0.6 million and \$0.5 million, respectively.

Income Taxes and Deferred Tax Asset Valuation

Truett-Hurst, Inc. is subject to U.S. federal, state, and local taxes with respect to its allocable share of any taxable income of the LLC and will be taxed at the prevailing corporate rates. The LLC is treated as a partnership under the Internal Revenue Code of 1986, as amended (the "Code"). The members separately account for their pro-rata share of income, deductions, losses, and credits. Therefore, no provision is made for the LLC's share of net income (loss) in the consolidated financial statements for liabilities for federal, state, or local income taxes which liabilities are the responsibility of the individual members. The LLC is subject to entity level taxation in the state of California. As a result, the accompanying consolidated statements of operations include tax expense related to this state.

The provision for income taxes is calculated using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing net deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The net deferred tax asset is evaluated at the end of each year considering all available positive and negative evidence, including reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. When the Company does not believe the realization of a deferred tax asset is likely, a valuation allowance is recorded.

Stock-Based Compensation

Stock-based compensation is recognized based on the estimated fair values at the grant date for equity classified awards and the recognition of the related compensation expense over the appropriate vesting period. Compensation expense is based on, among other things, (i) the classification of an award, (ii) assumptions relating to fair value measurement such as the value of the stock of Truett-Hurst and its volatility, the expected term of the award and forfeiture rates, and (iii) whether performance criteria, if any, have been met. Both internal and external data is used to assess compensation expense. Changes in these estimates could significantly impact stock-based compensation expense in the future. The expected term of the option is based upon the contractual term, expected employee exercise and expected post-vesting employment termination behavior. Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic market adjustments as the underlying equity instruments vest.

Earnings per Share

Basic earnings per share is computed by dividing the earnings attributable to the Company by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by giving effect to all potential dilutive common shares, including convertible LLC units and restricted stock

unless this calculation would have an anti-dilutive effect in which case basic and diluted earnings per share are calculated similarly.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09: *Revenue from Contracts with Customers* (“Topic 606”), a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (“Topic 606”): *Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to reporting periods beginning after December 15, 2017.

Effective July 1, 2018, we adopted the FASB amended guidance regarding the recognition of revenue from contracts with customers using the modified retrospective application method. The new revenue standard is required to be applied retrospectively to each prior reporting period presented or prospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company has evaluated the effect of the standard and concluded it will not be material to the Company’s financial reporting. Additionally, the Company has concluded that the application of the standard does not have a material effect that would require a retrospective adjustment. Our revenue consists primarily of the sale of wine through our DTC activities. Revenues consist of sales of products produced by us through our tasting rooms, wine clubs and our winery websites.

We have evaluated our business activities in an attempt to identify any other revenue generating activities under the disaggregation disclosure criteria outlined within the amended guidance and concluded that any other revenue generating activities are immaterial for separate disclosure.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (“Topic 230”): *Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted the provisions of ASU 2016-15 effective July 1, 2018, and the adoption of this standard had no impact the Company’s consolidated statement of cash flows.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation* (“Topic 718”): *Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Changes to the terms or conditions of a share-based payment award that do not impact the fair value of the award, vesting conditions, and the classification as an equity or liability instrument will not need to be assessed under modification accounting. The Company adopted the provisions of ASU 2017-09 effective July 1, 2018. The adoption of this standard did not impact the Company’s accounting for its stock-based compensation.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). This update requires that lessees recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative information. The effective date for ASU 2016-02 is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier adoption permitted. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial position and results of operations.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share* (“Topic 260”); *Distinguishing Liabilities from Equity* (“Topic 480”); *Derivatives and Hedging* (“Topic 815”), which changes the classification analysis of certain equity-linked financial instruments with down round features. Under

current U.S. GAAP, an equity-linked financial instrument with a down round feature that otherwise is not required to be classified as a liability under ASC 480 is evaluated under the ASC 815, Derivatives and Hedging, to determine whether it meets the definition of a derivative (and is therefore measured at fair value at each reporting period). Under ASU 2017-11, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock under ASC 815. Accordingly, these financial instruments are no longer measured at fair value at each reporting period. ASU 2017-11 also requires entities that calculate earnings per share to recognize the effect of the down round feature when it is triggered (at this time, the effect is treated as a dividend and as a reduction of income available to common stockholders in basic earnings per share). It is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements and disclosures.

The accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

NOTE 3 – DISCONTINUED OPERATIONS

During the fourth quarter of fiscal year 2018, the Company determined to discontinue operations of our wholesale wine business (the "Wholesale Business"). The Company decided to sell all assets and liabilities directly related to those assets associated with the Wholesale Business due to the sustained losses incurred. Further, the Company determined that the discontinued operations represented a strategic shift that will have a major effect on the Company's operations and financial results since it represented a complete exit from the wholesale business and, therefore, classified the disposal group as held for sale as of June 30, 2018. On August 13, 2018, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with Precept Brands LLC, a Washington limited liability company ("Precept") pursuant to which the Company agreed to sell the Wholesale Business to Precept. The Company received aggregate consideration of \$18.3 million in cash and future royalty payments in exchange for the Wholesale Business which consisted of the sale of certain assets, primarily inventory and related intangibles. Pursuant to the terms of the Purchase Agreement, the Company also entered into a Royalty Payment Agreement and Transition Services Agreement.

A portion of the purchase price is based on Precept's sales of the Wholesale Business brands and royalties, which will be paid over time pursuant to a Royalty Payment Agreement. If Precept fails to sell sufficient amounts of such brands or the market for the Wholesale Business brands deteriorates, such royalty amounts may not be realized in full or at all.

Under the Transition Services Agreement, the Company is providing winemaking and other services to Precept over a nine-month period following the closing.

After the estimated transaction-related costs and expenses of approximately \$0.9 million, the Company used a portion of the remaining proceeds to pay off secured and unsecured debt of \$12.0 million. The Company also recorded a gain on sale of discontinued operations of approximately \$2.6 million.

In accordance with ASC 205-20-45-1E, the results of discontinued operations were aggregated and separately presented in our consolidated statements of operations, net of income taxes. The assets and liabilities of the discontinued operations are presented separately under the captions "Assets of discontinued operations" and "Liabilities of discontinued operations," respectively, within the accompanying consolidated balance sheets at June 30, 2019 and June 30, 2018 and consist of the following:

Assets and Liabilities of Discontinued Operations:

	June 30, 2019	June 30, 2018
	(In thousands)	
Carrying amounts of assets included in discontinued operations		
Accounts receivable	\$ -	\$ 3,031
Inventories	-	14,151
Bulk wine deposits	-	629
Property, plant and equipment, net	-	26
Intangible assets, net	-	219
Other current assets, net	-	340
Total current assets	<u>\$ -</u>	<u>\$ 18,396</u>
Carrying amounts of liabilities included in discontinued operations		
Accounts payable	\$ -	\$ 936
Accrued expenses	-	2,164
Depletion allowance and accrual for sales returns	229	640
Total current liabilities	<u>\$ 229</u>	<u>\$ 3,740</u>

Operating Results of Discontinued Operations:

	Fiscal Year Ended June 30, (In thousands)	
	2019	2018
Sales		
Total sales less excise tax	\$ 1,845	\$ 17,282
Cost of sales	1,754	13,468
Operating costs and expenses		
Selling, general and administrative expenses	873	6,863
Gain on sale of discontinued operations	2,558	-
Income (loss) attributable to Truett-Hurst, Inc. and H.D.D. LLC from discontinued operations	1,776	(3,049)
Net income (loss) attributable to noncontrolling interest:		
H.D.D. LLC	787	(1,221)
Net income (loss) attributable to Truett-Hurst, Inc.	989	(1,828)
Net income (loss) per share from discontinued operations basic and diluted	0.41	(0.68)

Cash Flow from Discontinued Operations:

	Fiscal Year Ended (In thousands)	
	June 30, 2019	June 30, 2018
Net cash provided by operating activities	\$ 14,796	\$ 69
Net cash provided by investing activities	-	100
Net cash provided by discontinued operations	\$ 14,796	\$ 169

On August 13, 2018, pursuant to the terms of the Purchase Agreement of the same date, the LLC sold the Wholesale Business. As a part of this agreement, the Company will maintain a continuing relationship with Precept as noted in the Royalty Payment Agreement and the Transition Services Agreement.

The Company received proceeds of \$18.3 million. After the estimated transaction-related costs and expenses of approximately \$0.9 million, the Company used the remaining proceeds to pay off secured debt first with any residual proceeds used to pay unsecured debt and repurchase of 1,000,000 shares of Class A common stock in the open market for \$2.4 million as further discussed in Note 9.

NOTE 4 – INVENTORIES

Inventories comprise:

	June 30, 2019	June 30, 2018
	(in thousands)	
Grapes and bulk wine	\$ 1,390	\$ 2,412
Bottled wine	3,931	3,315
Bottling materials and other	86	99
Total inventories	\$ 5,407	\$ 5,826

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment, net comprise:

	June 30, 2019	June 30, 2018
	(in thousands)	
Land and land improvements	\$ 3,260	\$ 3,260
Building and improvements	1,854	1,854
Machinery and equipment	3,116	3,437
Vineyard development	554	554
Vineyard equipment	53	53
Furniture and fixtures	467	391
Leasehold improvements	28	28
Vehicles	119	119
Construction-in-progress	149	-
	9,600	9,696
Less: accumulated depreciation and amortization	(3,637)	(3,376)
Total property and equipment, net	\$ 5,963	\$ 6,320

Total depreciation and amortization expense for the fiscal years ended June 30, 2019 and 2018 was \$0.8 million and \$0.9 million, respectively.

NOTE 6 – BORROWINGS

On December 21, 2018, the LLC entered into a Master Loan and Membership Agreement and a Supplemental Loan Agreement (the “Loan Agreement”) with American AgCredit, FLCA (the “Lender”). In connection with and pursuant to the terms and conditions of the Loan Agreement, the LLC issued the following notes from the Lender (the Master Loan and Membership Agreement, Supplemental Loan Agreement, the Promissory Notes, Security Agreements, and any and all other agreements, instruments and documents executed by the Company and/or the Lender related to the Loan Agreement or the notes, collectively, the “Loan Documents”, and the transactions reflected by the Loan Documents, the “American AgCredit Loan”):

- **\$3,000,000 Revolving Line of Credit Note.** The LLC received an asset-based revolving line of credit from the Lender in the principal amount of up to \$3,000,000 which expires on January 1, 2021 and is to be used for general operating purposes. All outstanding principal and interest under such line of credit is due on or before January 1, 2021. Amounts repaid by us to the Lender thereunder prior to January 1, 2021 may be reborrowed. The aggregate principal balance outstanding pursuant to such line of credit bears interest at the Association Variable Rate equal to the Association Reference Rate (the rate announced from time to time by the Lender) plus the Applicable Margin (the Lender has a differential interest rate program calculated by adding a certain spread). The initial interest per annum rate is 5.25% but is subject to change whenever the Association Reference Rate or the Applicable Margin changes. Outstanding balance is \$8,590 as of June 30, 2019.
- **\$695,500 Equipment Loan.** The LLC received a working capital loan for the primary purpose of reimbursement of working capital. All outstanding principal and interest under this loan is due on or before January 1, 2029. The aggregate principal balance outstanding pursuant to such loan bears interest at the Association Variable Rate equal to the Association Reference Rate (the rate announced from time to time by the Lender) plus the Applicable Margin (the Lender has a differential interest rate program calculated by adding a certain spread). The initial interest per annum rate is 5.75% but is subject to change whenever the Association Reference Rate or the Applicable Margin changes. Outstanding balance is \$0 as of June 30, 2019. The Company cancelled the loan on September 3, 2019 for non-use.
- **\$4,500,000 Real Estate Note.** The LLC received a working capital loan for the primary purpose of reimbursement of working capital. All outstanding principal and interest under this loan is due on or before March 1, 2044. The aggregate principal balance outstanding pursuant to such loan bears interest at the Association Variable Rate equal to the Association Reference Rate (the rate announced from time to time by the Lender) plus the Applicable Margin (the Lender has a differential interest rate program calculated by adding a certain spread). The initial interest per annum rate is 5.77% but is subject to change whenever the Association Reference Rate or the Applicable Margin changes. Outstanding balance is \$4,479,723 as of June 30, 2019.

The Loan Documents contain usual and customary covenants, financial covenants, including, without limitation, maximum leverage ratio, and maximum net loss for the fiscal year ended June 30, 2019. The Company was out of compliance with the maximum net loss of covenant of \$3 million for the fiscal year ended June 30, 2019, but received waivers for the year from the Company's lender.

Lines of Credit

During the first quarter of fiscal 2019, the Company paid off all obligations to Bank of the West pursuant to its lines of credit, and terminated its obligations thereunder. Balances outstanding under the lines of credit totaled \$0.01 million and \$8.1 million as of June 30, 2019 and 2018, respectively.

Long Term Debt

Long term debt comprises:

	June 30, 2019	June 30, 2018
	(in thousands except payment information)	
Long term debt:		
Note 1	(1) \$ -	\$ 2,581
Note 2	(2) -	69
Note 3	(3) -	143
Note 4	(4) -	209
Note 5	(5) -	233
Note 6	(6) 4,480	-
Total notes payable	4,480	3,235
Less: current maturities	(84)	(3,235)
Total long-term debt	\$ 4,396	\$ -

- (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. All obligations to Bank of the West were paid off as of June 30, 2019.
- (2) Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$7,783, matured March 15, 2019, at 3.75% interest. All obligations to Bank of the West were paid off as of June 30, 2019.
- (3) Note payable to a bank, secured by equipment, payable monthly with principal and interest payments of \$11,267, matured July 1, 2019, at 3.90% interest. All obligations to Bank of the West were paid off as of June 30, 2019.
- (4) 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. All obligations to Bank of the West were paid off as of June 30, 2019.
- (5) 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. All obligations to Bank of the West were paid off as of June 30, 2019.
- (6) Note payable to a bank, payable monthly with principal and interest at the Association Variable Rate equal to the Association Reference Rate plus the Applicable Margin, matures on or before March 1, 2044. The initial interest per annum rate is 5.77% but is subject to change when the Association Reference Rate or the Applicable Margin changes. The loan contains customary and financial covenants, including, without limitation, a debt service coverage ratio, maximum leverage ratio, and maximum net loss for the fiscal year ended 2019. Outstanding balance at June 30, 2019 was \$4,479,723.

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 \$0.02 million per year for fiscal years 2019 through 2023.

NOTE 7 – RELATED PARTY TRANSACTIONS

Under the terms of the Purchase Agreement, the Company's President and Chief Executive Officer, Phillip Hurst, transitioned to Precept in the capacity of Chief Innovation Officer who continues in his capacity as the Company's chairman of the board. As a part of transition plan, the Company agreed to provide winemaking consulting and other services to Precept over a nine-month period following the closing of the Purchase Agreement, which ended on May 31, 2019. This original transition services agreement was subsequently extended through May 31, 2020.

The terms of the extended transition agreement include payments for winemaking, exclusive grape sourcing, production and storage, and consultation services for the 2019 harvest for three equal periodic payments of \$25,000; and cost reimbursements for grapes to be used in the production Precept's wine which are purchased by the Company in connection with existing grape purchase agreements. All other third-party out-of-pocket expenses incurred by the Company in connection with the transition agreement is due monthly at cost. All fermenting and fermented wine and cased wines are stored at a location chosen by Precept. Precept is responsible for maintaining insurance coverages and in compliance with its federal bond and taxes. Precept subleases one furnished office at the Company's main administrative office located at 125 Foss Creek Circle, Healdsburg, California 95448 for use Phillip Hurst for \$540.00 per month from June 1, 2019 to May 31, 2020.

The related party receivable of \$0.5 million and payable of \$0.2 million as of June 30, 2019 represent both a receivable and a payable from and to Precept, respectively. The related party receivable represents the amount Precept owes the Company for winemaking consulting fees and cost reimbursements. The Company received \$1.1 million for such payments during the fiscal year 2019. The related party payable represents the amount the Company owes to Precept for depletion allowances paid on behalf of the Company. The Company paid \$0.3 million for such payments during the fiscal year 2019.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases

The Company leases space for wine production within a custom crush facility located in Santa Rosa, California. The initial lease term commenced April 15, 2017 and ended on June 15, 2018. The initial 14-month term has been extended through February 28, 2020 as agreed to by both parties.

The Company leases approximately 2,500 square feet for administrative offices at 125 Foss Creek Circle, Healdsburg, California. In June 2019, the Company renewed the lease for an additional two years. The renewed lease term is November 1, 2019 through November 1, 2021. The Company also leased approximately 1,600 square feet for executive and administrative offices at 165 Foss Creek Circle, Healdsburg, California. The lease commenced on September 1, 2016 and terminated on June 3, 2019.

Lease payments for these facilities were \$0.5 million for the fiscal years ended June 30, 2019 and June 30, 2018.

The future lease commitments as presented below include amounts for these leases.

Fiscal Years Ending June 30, (in thousands)	
2020	\$ 287
2021	60
2022	26
Total future rent payments	<u>\$ 373</u>

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 requirements.

Future minimum grape purchase commitments are as:

Fiscal Years Ending June 30,	Third- Parties	Related Parties	Total
	(in thousands)		
2020	\$ 1,038	\$ 59	\$ 1,097
2021	157	60	217
2022	51	61	112
2023	—	62	62
Total	\$ 1,246	\$ 242	\$ 1,488

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 2018 harvest.

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 consolidated financial position, results of operations, or cash flows.

The Company received a letter dated October 12, 2018 from a law firm representing one of our design firms alleging we had not paid the full value of the services provided during the last seven years for creative design and marketing services. The Company settled the dispute in January 2019 by paying \$0.5 million and receiving a full release of claims. The settlement is reported in general and administrative on the accompanying consolidated statements of operations during the fiscal year ended June 30, 2019.

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 entered into a tax receivable agreement ("TRA") with the LLC members. The TRA 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 TRA will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayer exercises its right to terminate the TRA for an amount based on the agreed payments remaining to be made under the TRA or the corporate taxpayer breaches any of its material obligations under the TRA in which case all obligations will generally be accelerated and due as if the corporate taxpayer had exercised its

right to terminate the TRA. In addition, the TRA provides that upon certain mergers, asset sales, or other forms of business combinations, substantial payment obligations to the LLC members 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 June 30, 2019 and June 30, 2018 for these obligations on the consolidated balance sheets.

NOTE 9 – EQUITY

Equity Incentive Plan

In 2012, the Board of Directors (the “Board”) approved and adopted the 2012 Stock Incentive Plan (the “Plan”). The Plan allowed for the granting of restricted stock units, restricted stock awards and stock options to employees, directors and non-employees. In March 2019, the Board decided to terminate the Plan effective March 11, 2019 and to cancel all outstanding awards under the Plan in exchange for a cash payment. Awards covering an aggregate of 120,274 shares were canceled and repurchased by the Company at \$2.13 per share. This cancellation resulted reversal of stock-based compensation of \$75,870.

As of June 30, 2019, the 2012 Plan has zero shares reserved for issuance and available to be issued.

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

	Number of Shares	Weighted Avg Grant Date Fair Value per Share	Weighted Avg Contractual Term in Years
Outstanding at June 30, 2017	2,631	3.80	0.49
Exercised	(2,631)	(3.80)	(0.49)
Outstanding at June 30, 2018	—	—	—
Outstanding at June 30, 2019	—	—	—
Expected to vest at June 30, 2019	—	—	—

The Company’s vesting period for restricted stock awards varied from immediate vesting upon issuance to ratably over a four-year period. The Company had \$0 unrecognized expenses related to unvested restricted stock grants at June 30, 2019 and 2018.

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

	Number of Shares	Weighted Avg Grant Date Fair Value per Share	Weighted Avg Contractual Term in Years
Outstanding at June 30, 2017	33,334	\$ 2.25	0.50
Granted	172,184	1.86	—
Vested	(93,334)	(1.98)	—
Forfeited, cancelled or expired	(16,990)	—	—
Outstanding at June 30, 2018	95,194	\$ 1.86	0.52
Granted	83,820	1.49	—
Vested	(95,539)	(1.84)	—
Forfeited, cancelled or expired	(83,475)	(1.49)	—
Outstanding at June 30, 2019	—	\$ —	—
Expected to vest at June 30, 2019	—	\$ —	—

The restricted stock units vested predominantly over four years. The Company had an unrecognized expense of \$0 and \$58,559 at June 30, 2019 and 2018, respectively, related to unvested restricted stock units which will be recognized over the remaining weighted average service periods of 0 years and 0.3 years, respectively. As of June 30, 2019, the Company had no issued or outstanding restricted stock awards.

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

	Number of Shares	Weighted Avg Grant Date Fair Value per Share	Weighted Avg Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2017	215,000	\$ 1.67	9.04	\$ —
Options Vested	50,000	1.61	8.90	—
Options Non-Vested	165,000	1.69	9.07	—
Options Exercisable	50,000	1.61	8.90	—
Granted	50,000	\$ 1.35	—	—
Forfeited, cancelled or expired	(155,000)	\$ (1.27)	—	\$ —
Outstanding at June 30, 2018	110,000	\$ 1.09	8.18	\$ (109)
Options Vested	55,000	\$ 1.09	8.33	(78.8)
Options Non-Vested	55,000	1.09	7.72	(30)
Options Exercisable	55,000	1.09	8.33	(78.8)
Exercised	(105,000)	(1.09)	8.18	(109)
Forfeited, cancelled or expired	(5,000)	(1.12)	—	—
Outstanding at June 30, 2019	—	\$ —	—	\$ —
Options Vested	—	\$ —	—	—
Options Non-Vested	—	\$ —	—	\$ —
Options Exercisable	—	\$ —	—	—

Stock options vest predominantly over four years. As of June 30, 2019, and 2018, unrecognized expense associated with unvested stock options totaled \$0 and \$29,452, respectively. These expenses will be recognized over the remained weighted average service periods of 0 and 0.4 years, respectively.

The following table summarizes the Company's stock-based compensation included in the consolidated statements of operations for the fiscal year ended June 30, 2019 and 2018:

	Fiscal Year Ended June 30, (In thousands)	
	2019	2018
Discontinued operations	\$ 154	\$ —
Sales and marketing	—	21
General and administrative	39	354
Total stock-based compensation	\$ 193	\$ 375

On August 31, 2018, as part of the sale of the Wholesale Business, the Company terminated the Company's former Vice President of Sales. In connection with his termination, the Company entered into a separation agreement providing for a cash severance payment of \$0.05 million inclusive of payment for severance, annual bonus amounts owed and a portion of his COBRA premiums for continuation of health benefits. In addition, 60,000 of RSUs and 35,000 ISOs outstanding equity-based awards granted which were unvested on the date of his termination became fully vested and exercisable. The Company recorded \$0.05 million in general and administrative expense associated with the separation agreement as a severance expense and \$0.2 million in expense associated with the acceleration of stock options and restricted stock units.

Share Repurchase

On January 14, 2019, the Company commenced the tender offer to purchase up to 1,000,000 shares of Class A common stock, including shares issued upon exchange of limited liability company interests of its subsidiary H.D.D., LLC at a price of \$2.40 per share (the "Tender Offer"). The Tender Offer was conducted primarily to distribute a portion of the proceeds from the sale of Wholesale Business. The Tender Offer expired on February 22, 2019. The Company purchased a total of 1,000,000 shares of Class A common stock in the Tender Offer for an aggregate purchase price of \$2,400,000. The shares repurchased in the Tender Offer represent approximately 22% of the Company's outstanding Class A common stock. The 1,000,000 repurchased shares were retired upon completion of the Tender Offer.

NOTE 10 – 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 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 consolidated balance sheets. Changes in the fair value of this instrument have been recognized in the consolidated statements of operations in other expense. The maturity date of the swap is May 31, 2022. At June 30, 2018 the interest rate swap balance and derived Level 2 fair value equaled \$0.1 million. In connection with the sale of the Wholesale Business on August 13, 2018, the Company repaid all obligations pursuant to its outstanding interest rate swap, and terminated its obligations thereunder.

NOTE 11 – INCOME TAXES

THI is subject to entity level taxation in certain states and is subject to U.S. Federal and state income taxes with respect to its allocable share of any taxable income of the LLC. THI will be taxed at the prevailing corporate tax rates.

All income before taxes is recognized domestically. Income tax expense for FY19 and FY18 consists of:

	Fiscal Year Ended June 30, 2019		
	(in thousands)		
	Current	Deferred	Total
U.S. Federal	\$ —	\$ —	\$ —
State and Local	2	—	2
	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>

	Fiscal Year Ended June 30, 2018		
	(in thousands)		
	Current	Deferred	Total
U.S. Federal	\$ —	\$ —	\$ —
State and Local	2	—	2
	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>

The difference between income taxes computed using the statutory federal income tax rate and the Company's effective tax rate are summarized as follows:

	June 30, 2019	June 30, 2018
	(in thousands)	
Computed tax at statutory rate	\$ (1,053)	\$ 336
State taxes, net of federal benefit	(350)	112
Income (loss) from discontinued operations	497	(750)
Rate benefit as a LLC	301	91
Meals and entertainment	9	16
Stock-based compensation	5	32
Other permanent differences	41	10
Tax Cuts and Jobs Act Impact	-	1,480
Valuation allowance	552	(1,325)
Income tax expense	<u>\$ 2</u>	<u>\$ 2</u>

Components of deferred tax assets (liabilities) consist of the following:

	June 30, 2019	June 30, 2018
	(in thousands)	
Deferred tax assets:		
Accrued compensation	\$ 8	\$ 18
Stock-based compensation	-	39
Intangible assets	1,474	1,397
Net operating losses	1,714	1,101
Inventories	104	67
Other	-	6
Gross deferred tax assets	3,300	2,628
Valuation allowance	(3,210)	(2,542)
Total deferred tax assets, net of valuation allowance	90	86
Deferred tax liabilities:		
Unrealized gain	-	(14)
Property and equipment	(90)	(72)
Total deferred tax liability	(90)	(86)
Net deferred taxes	\$ —	\$ —

Under Section 382 of the Internal Revenue Code of 1986, as amended ("Code"), our ability to utilize net operating loss ("NOL") carryforwards or other tax attributes, such as federal tax credits, in any taxable year may be limited if we have experienced an "ownership change." Generally, a Section 382 ownership change occurs if one or more stockholders or groups of stockholders who owns at least 5% of a corporation's stock increases its ownership by more than 50 percentage points over its lowest ownership percentage within a specified testing period. Similar rules may apply under state tax laws. We believe that we may have experienced an ownership change under Section 382, which will result in limitations in our ability to utilize NOLs. In addition, we may experience future ownership changes as a result of future offerings or other changes in the ownership of our stock. As a result, the amount of the NOLs in our financial statements could be limited and may expire unutilized.

For Truett-Hurst, Inc., and the LLC, U.S. federal tax returns associated with fiscal years 2016 through 2018 are currently open for examination. The state tax returns for both Truett-Hurst, Inc. and the LLC, associated with fiscal years 2015 through 2018 are currently open for examination. There were no material uncertain tax positions and the Company does not expect major changes in the next twelve months.

In FY18, a valuation allowance of \$2.5 million was recorded after assessing all the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. The assessment of future income of the Company did not change in FY19 and a valuation allowance continues to be recorded on the deferred tax assets in the amount of \$3.2 million. The Company's possible liability associated with the tax receivable agreement will not be recognized until the valuation allowance is partially or fully reversed.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Among other changes is a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the reduction in the corporate income tax rate, the Company has revalued its net deferred tax asset at December 31, 2017. The revaluation resulted in a reduction of our net deferred tax asset by \$1.1 million, which was offset by a change in the valuation allowance of \$1.1 million. Many of the Act's

provisions became effective in our fiscal 2019, and the Company does not expect that the Act will have a significant impact on the results of operations.

THI and the LLC are subject to annual California franchise tax. Truett-Hurst, Inc. files U.S. Federal and California income tax returns. The Company has gross federal and state net operating losses of approximately \$5.9 million and \$6.1 million, respectively. Both jurisdictions have expiration dates beginning in 2035. Federal net operating losses incurred in tax years beginning after December 31, 2017 do not expire, but have their utilization limited to 80% of taxable income.

NOTE 12 – SUBSEQUENT EVENTS

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