EXECUTIVE INFORMATIONAL OVERVIEW® August 20, 2014

Truett-Hurst, Inc.
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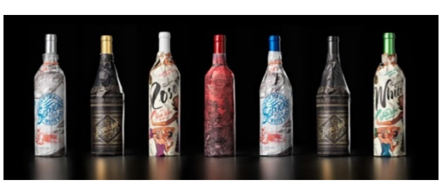
Ticker (Exchange)	THST (NASDAQ)
Recent Price (08/20/2014)	$4.29
52-week Range	$3.39 - $6.15
Shares Outstanding	~3.72 million
Market Capitalization	~$16 million
Average 3-month Volume	7,261
Insider Ownership +>5%	5.2%
Institutional Ownership	41.4%
EPS (Qtr. ended 03/31/2014)	($0.06)
Employees	~32

THST One-Year Stock Chart

PaperBoy®

California Square®

Evocative Wraps



Company Description

Truett-Hurst, Inc. ("Truett-Hurst" or "the Company") is a wine sales, marketing, and production company specializing in premium (below $7.00 per bottle retail price), **super-premium†** (between $7.00-$14.00 per bottle), **ultra-premium** (between $14.00-$25.00 per bottle), and luxury (over $25.00 per bottle) wines. The Company is known for its quality and packaging innovations. Based in the Dry Creek and Russian River Valleys of Sonoma County, California, the Company's product line includes over 30 wine brands. Truett-Hurst's largest business segment is its **retail exclusive label** partnerships with major retailers, including Trader Joe's, Safeway, and Total Wine & More. For retail exclusive label sales, the Company combines its competitive grape sourcing and skill in wine making and production with its understanding of consumer trends and unique approach to creating wine bottles that stand out on the retail shelf. These wines are then sold exclusively by a retailer (e.g., Safeway) under a retail exclusive brand. In addition, the Company produces four of its own wine brands, which are sold through U.S. and Canadian distributors. The Company further capitalizes on several direct-to-consumer sales channels, such as tasting rooms at its California wineries, wine clubs, and online sales through The Wine Spies, LLC (www.thewinespies.com) (an Internet wine retailer specializing in limited offerings and other online offerings as well as flash sales).

Key Points

- Truett-Hurst's winery operations and packaging are ecofriendly. For example, the bottle for one of the Company's retail exclusive labels, Safeway's *PaperBoy®*, is made of 100% recycled cardboard, reducing weight by 34% and considerably lowering transportation costs.
- Another retail exclusive label, *California Square®* (made for Total Wine & More), has a unique square glass bottle design—reducing shipping costs and creating storage space savings. After receiving several quality awards from Total Wine & More, and being showcased at the 65th Annual Emmy Awards in Los Angeles, the *California Square®* brand is now in the process of being launched at multiple large North American retailers.
- According to The Wine Institute, U.S. sales of California wines are $23 billion, with three of every five bottles being from California.
- The Truett-Hurst management team comes to the Company from senior-level positions in wine and beverage businesses, including Diageo plc (DEO-NYSE), Constellation Brands, Inc. (STZ-NYSE), the Brown-Forman Corp. (BFB-NYSE), Fetzer Vineyards, and Kendall-Jackson Wine Estates, among others.
- Truett-Hurst owns all of its brand names, trademarks, and most of its artwork. As of June 30, 2013, the Company had 21 registered, 16 published, and 6 pending material trademarks.
- In the nine months ended March 31, 2014, the Company reported net sales of $16.5 million, a 36% increase over the year-ago period, and an ending cash position of $5.1 million.

†**BOLD** WORDS IN CONTEXT ARE REFERENCED IN THE GLOSSARY ON PAGES 66-68. *See inside for applicable disclosures.*

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Investor Highlights

- Based in the Dry Creek and Russian River Valleys of Sonoma County, California, Truett-Hurst, Inc. and its subsidiaries, H.D.D. LLC (LLC) and its consolidated subsidiary The Wine Spies, LLC (Wine Spies)—(collectively, "Truett-Hurst" or "the Company")—specialize in premium (below $7.00 per bottle retail price), super-premium (between $7.00-$14.00 per bottle retail price), ultra-premium (over $14.00-$25.00 per bottle retail price), and luxury (over $25.00 per bottle retail price) wine sales, marketing, and production. The Company has a line of more than 30 brands of the following **varietals**: **Pinot Noir**, **Chardonnay**, **Sauvignon Blanc**, **Merlot**, **Cabernet Sauvignon**, **Zinfandel**, and **Syrah**. Truett-Hurst largely uses fruit from premium vineyards to produce its wines—where the grapes for the wines are grown primarily in steep, rocky, hillside vineyards that produce super concentrated, intense fruit flavors—as well as from spot purchases made from other wine-growing regions.

- Wines are sold to distributors with programs available to the broad market or on a retail exclusive basis via a **three-tier channel**. The Company's traditional three-tier distribution business consists of sales of *Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain* branded wines. Through the retail exclusive brand label model, the Company collaboratively works with its retail alliances to develop innovative brands, which resonate with their customers, increase consumer store traffic, and grow sales. Truett-Hurst's retail exclusive label model allows the Company to own the brands it creates, which is a differentiating factor versus the traditional private label model, and enables the Company to potentially expand its brands into national and international broad markets—further building its brand equity. The direct-to-consumer channel consists of sales through the Company's tasting rooms and wine clubs, which increases brand visibility and loyalty, and through the Company's 50% ownership interest in Wine Spies (an internet wine retailer specializing in limited offerings and other online offerings, as well as flash sales).

  - While the retail exclusive label business accounts for the majority of revenues, the traditional three-tier distribution and direct-to-consumer business contributes greatly to gross margins. By addressing the market in largely unconventional ways—direct-to-the-trade and -consumer versus through layers of sales entities and employees—Truett-Hurst is able to react quickly to the needs of consumers, retailers, and restaurateurs in a timely manner.

- A key benefit for Truett-Hurst in pursuing the retail exclusive label market is the innate advantage that retail exclusive label wines have over branded wines: unencumbered access to shelf space. The beverage alcohol industry is highly competitive with regard to shelf space at grocery, liquor, and convenience stores, among other retail outlets. However, by making custom wines specifically for sale under certain retailers' labels, Truett-Hurst's "retail exclusive" wines compete with other wine brands on the retailer's terms, which means these products frequently enjoy prominent shelf locations selected by the retailer working to promote its own labels.

- Importantly, the Company retains ownership of its retail exclusive label brands, enabling the marketing and distribution of these products into broader markets following the exclusivity periods with its partners. Truett-Hurst believes that a distinguishing factor of its business model is its wines' "stickiness" or staying power, as the creative bottle designs and wraps entice consumers to purchase the wines out of curiosity or for a gift, but the taste and quality of the wine is what keeps consumers coming back to re-purchase. For example, the Company's top-selling wrapped wine, *Curious Beasts*, is doing so well as a retail exclusive label at Safeway that it is now being "unwrapped" to sell around the country. Expanding the distribution points for its wines is the key growth driver for Truett-Hurst's business.

- With over 100 million wine drinkers, the U.S. is the world's largest wine market. The retail value of U.S. wine shipments was estimated at over $36 billion in 2013, part of a nearly $292 billion global industry. California is the predominant U.S. supplier, and is a major global supplier as well. Recently, the greatest growth by volume at California wineries has been in the premium and higher table wine sectors (priced at $10.00 or more per bottle), which account for nearly half of California winery revenues and had 2013 growth of 9% (Source: The Wine Institute, April 24, 2014).

- The industry's direct-to-consumer sales channels continue to expand, and are favored by many smaller wineries over traditional distributor relationships. In addition, the number of brick-and-mortar locations selling wine is also growing, up 12% over the past five years. Today, there are ~550,000 locations in the U.S. to buy wine.

Retail Exclusive Label Business Highlights

- Under its retail exclusive label partnerships (the leading source of revenues), Truett-Hurst works closely with partners and has a history of developing brands that contain "earth friendly" components, which can be sold to the discovery-oriented wine consumer. Part of the reason retailers choose to collaborate with Truett-Hurst is due to the Company's ability to quickly create new and unique products that match consumer tastes and market demand.

- In November 2013, Truett-Hurst and Safeway launched *PaperBoy®* (Figure 1) into U.S. markets. As the first of its kind, the *PaperBoy®* bottle is made of 100% recycled cardboard and has a plastic insert with proven "bag in a box" technology. The bottle's carbon footprint is significantly smaller than glass, and it is 85% lighter. In addition, due to the lack of glass, consumers can purchase the wine for situations where glass bottles are either inconvenient or prohibited. At $14.99/bottle, *PaperBoy®* is available in Safeway stores in 45 states.

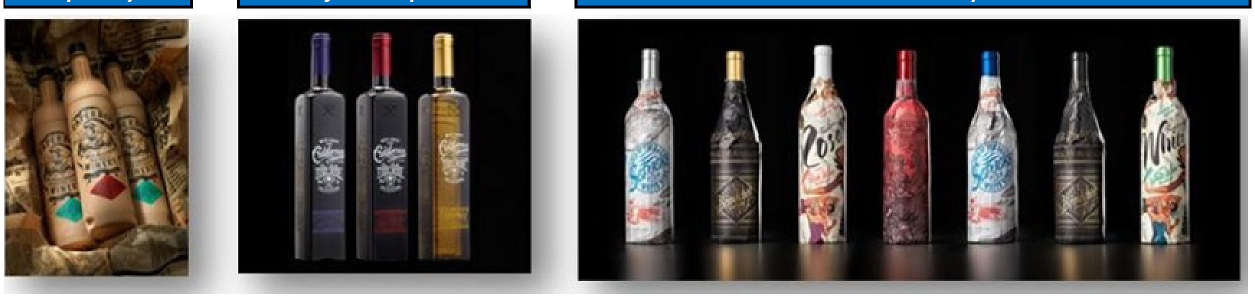
- In September 2013, Truett-Hurst and Total Wine & More launched a new line of eco-friendly wines, called *California Square®* (Figure 1), in a unique retro/chic square glass bottle. The 2012 vintage of *California Square®* includes *Russian River Valley Chardonnay*, a *Paso Robles Cabernet*, and a *Paso Robles Three Red Blend*. Available in stores across the U.S. and Canada, these wines retail for under $20.00.
    - The *California Square®* line was featured at a sneak preview prior to the 65th Annual Primetime Emmy Awards. Stars like *Modern Family's* Ed O'Neill, *The Good Wife's* Chris Noth, and Globe Nominee and Emmy Nominee, Dennis Quaid, promoted the wines during the event (Figure 21, page 29). As well, for the second year in a row, *California Square®* was in the Total Wine & More "March Madness Competition," having won the competition last year (2013) and coming in second place this year (2014).

- Truett-Hurst recently launched the *Evocative Wraps* (Figure 1) line of premium wines with creatively designed full-body paper wraps—printed with everything from quotes to recipes. The idea behind the wraps is to create wine bottles that stand out on the shelf by adding value, interest, and gifting opportunities.

Figure 1

RECENT BRAND INTRODUCTIONS AND PACKAGING INNOVATIONS

PaperBoy® | ***California Square®*** | ***Evocative Wraps***



Source: Truett-Hurst, Inc.

- Truett-Hurst has a Trademark Co-Ownership Agreement for *Colby Red* (a California **Cuvée** of Cabernet Sauvignon, Zinfandel, Shiraz, Merlot, and Petite Sirah that is owned 50% by Truett-Hurst) and anticipates near-term label launches of *Stonegate* (a Napa Valley Cabernet) and *Bewitched,* the **reserve** tier (a Russian River Valley Pinot Noir), among other wines.

Direct-to-Consumer Business Highlights

- The direct-to-consumer channel involves sales of four main brands—*Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain*—through Truett-Hurst's tasting rooms and wine clubs, strengthening brand visibility and customer loyalty and providing the highest gross margin component to the Company's business. The range of varietals sold exclusively through the tasting rooms includes Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah, and other red **blends**. Importantly, Truett-Hurst's two tasting rooms (one at the Company's VML winery in California's Russian River Valley and one at the Truett-Hurst winery in Dry Creek Valley [Figure 2]) each produce different varietals so as not to compete against one another.

- In August 2012, Truett-Hurst acquired a 50% ownership interest in The Wine Spies LLC (www.thewinespies.com), an Internet retailer specializing in limited offerings and other online offerings as well as "flash sales." In the world of Internet sales, from fashion to travel to wine, a flash sale is by nature a sale offered on a particular item for a short period of time. As of 2011, flash wine sales were estimated at approximately $100 million (Source: *Forbes*, October 13, 2011). The Company's Wine Spies website offers consumers one vetted and reviewed wine selection per day (flash sale), and offers higher priced limited production wine with an emphasis on quality, price, and finding uncommon wines from boutique producers.

Figure 2

DIRECT-TO-CONSUMER CHANNEL: TASTING ROOMS

Truett-Hurst Tasting Room

VML Tasting Room

Source: Truett-Hurst, Inc.

Traditional Brand Sales Highlights

- Truett-Hurst distributes its own wine under four fully-owned in-house labels (Figure 3):
  - *Truett-Hurst*;
  - *VML;*
  - *Healdsburg Ranches*; and
  - *Bradford Mountain*.

Figure 3
FOUR FULLY-OWNED LABELS OF TRUETT-HURST, INC.

Source: Truett-Hurst, Inc.

- The Company has major distribution partnerships with Southern Wines & Spirits (the single largest wine and spirits distributor in the U.S., with operations in 35 states) and Trialto Wine Group (Canada's leading national premium wine company).

- Truett-Hurst has received positive reviews from retailers, national publications, and newspapers for its wine quality and unique designs. In December 2013, Robert Parker, one of the industry's most highly regarded wine critics, evaluated and rated select Truett-Hurst VML wines (published in *Wine Advocate* #210), providing high scores and favorable commentary. As well, the Company's 2011 *VML Winery Pinot Noir Earth* received 92 points from *Wine Spectator.*

Skilled Leadership in Business Growth, Winemaking, and Beverage Alcohol Design

- Truett-Hurst is led by a team of industry veterans (biographies on pages 17-19), who have established a **biodynamic** winery—bringing an ecological approach to the business—via a commitment to the environment in conjunction with producing quality wines.
  - Truett-Hurst's founding team, Mr. Phil Hurst and Mr. Paul Dolan, hold decades of industry experience and have had past successes at building businesses to scale.
  - Director of winemaking, Ms. Virginia Marie Lambrix (for which the VML line is named), has experience in making wine for leading producers such as DeLoach Vineyards, La Follette Wines, and Hendry Ranch.
  - Truett-Hurst has an in-house designer who is also a shareholder of the Company. Mr. Kevin Shaw, owner of *Stranger & Stranger* (www.strangerandstranger.com) in New York, is believed to be one of the top designers in beverage alcohol. Mr. Shaw has been the designer of many of the Company's creative brands, beginning with *Dearly Beloved* (the skull-shaped label launched in Trader Joe's stores). He also designed the *Evocative Wraps* line as well as *California Square*® and *PaperBoy*®.

Quarterly Financial Highlights

- Truett-Hurst's most recent financial results for the third quarter fiscal 2014 were reported on May 6, 2014 (see pages 45-47 for Income Statements, Balance Sheets, and Statements of Cash Flows).

- Net sales for the third quarter fiscal 2014 ended March 31, 2014 were up 44% to nearly $5.2 million, and year-to-date sales were up 36% to $16.5 million.

- Wholesale net sales grew by 54% for the third quarter and 36% for the nine months ended March 31, 2014, versus the year-ago periods, driven by sales growth throughout the franchise and specifically from *California Square®*, *Colby Red*, and the line of *Evocative Wraps.*

- Direct-to-consumer net sales through Truett-Hurst and VML tasting rooms grew 17% for the third quarter and 28% for the nine months ended March 31, 2014, versus the year-ago period, driven by wine club sales and tasting room traffic.

- Internet sales increased 46% for the third quarter and 58% for the nine months ended March 31, 2014, versus the year-ago period (noting that The Wine Spies was acquired in August 2012). Growth was driven by increased website traffic and sales mix (higher priced, limited production wines).

- Sales and marketing expense as a percentage of net sales improved to 24.3% for the quarter from 28.1% in the year-ago quarter, and general and administrative expense as a percentage of net sales improved to 14.3% for the quarter from 16% in the year-ago period.

- Total assets increased $1.4 million from June 30, 2013, to $35.6 million at March 31, 2014. Cash decreased $6.3 million from the end of fiscal 2013 to March 31, 2014, having been principally utilized to finance an increase of $5.1 million in inventory (represented by a $3.9 million increase in finished goods and a $1.1 million increase in bulk wine, reflected as bulk wine deposits).

- As of March 31, 2014, Truett-Hurst's cash position was $5.1 million.

Executive Overview

Wineries and Brands

Figure 4

RUSSIAN RIVER VALLEY AND DRY CREEK VALLEY REGIONS OF SONOMA COUNTY, CALIFORNIA

Source: The Prince of Pinot.

Established in 2007, the Company's first winery, Truett-Hurst, is located in the Dry Creek Valley of Sonoma County, about six miles west of downtown Healdsburg, California. This super-premium winery focuses primarily on red varietals, with the indigenous Dry Creek variety Zinfandel as its lead product. Its prices range from $7.00 to $50.00 or more per bottle. As well, the winery makes a range of other varietals, which are sold exclusively from the Company's tasting room, and include Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Syrah, and other red blends.

The Company's second winery (a leased facility) and brand, VML, was established in 2011 and is located in the Russian River Valley, approximately five miles southwest of Healdsburg, California. VML are the initials of Truett-Hurst's director of winemaking, Ms. Virginia Marie Lambrix (biography on page 17), who specializes in Pinot Noir and Chardonnay. The VML winery produces super-premium wines from grapes purchased from local growers, including from Company founders and members of management (Figure 8, page 20). As well, VML produces ultra-premium wines made from the traditional varietals—Burgundy, France, Pinot Noir, and Chardonnay.

Ms. Lambrix has identified and contracted with vineyard lots from cool climates, Russian River vineyards, to craft these award-winning wines (described under Scores and Awards, page 39). VML wines are sold primarily through the direct-to-consumer channel (tasting rooms/wine club/flash sale website) and range in price from $30.00 for the Russian River Chardonnay and Pinot Noir to $75.00 for the top-end vineyard-designated Pinot Noirs. Other varietals that can be found in the Company's tasting rooms include Sauvignon Blanc, Gewurztraminer, and Rosé.

The VML winery can crush, ferment, and oak **barrel** age roughly 500 tons (35,000 cases) of grapes annually, with capacity to increase to 2,000 tons given additional capital improvements. For larger production capacities, Truett-Hurst outsources to a variety of specialist wineries and bottling facilities. Truett-Hurst's grape and wine sourcing strategy involves a combination of long-term contracts with sizeable partner-owned and managed vineyards (roughly 500 acres or 175,000 case equivalents), and multi-year contracts (one to four years) for grapes, bulk wine, and bottled goods. Total commitments made up roughly 300,000 cases per year or about 80% of total sourcing needs for fiscal year 2013.

Industry Overview and Trends

The global wine industry is on track to produce roughly $292 billion in revenues in 2014 (Source: MarketLine reports), with the top wine-producing countries accounting for over 80% of the world's supply, and the top four accounting for roughly 55% of all wine worldwide. For the first time in history, the U.S. has now become the world's largest wine market as of last year, relegating France to second place due to sliding consumption levels (despite the fact that France has always been widely viewed as the drink's natural home) (Source: "There's a new No. 1 wine market: (Hint: Not France)," *Reuters,* May 13, 2014). In terms of volume, the U.S. has about 100 million wine drinkers, which is driving a market of greater than $36 billion in sales and 370 million cases, as of 2013, up 2.7% and 5% respectively from 2012, including both domestic and imported wine (Source: Wine Market Council). This growth has been noteworthy since only 20 years ago (in 1994), 71% of drinkers under age 30 preferred beer over wine and liquor—with beer the preferred drink for only 41% of drinkers in that age group as of 2013.

California is the leading wine-producing state in the U.S., with the industry dominated by only a few producers that capture the bulk share of sales. Specifically, the top four wine producers in California control roughly 65% of California wines' unit shipments. If California were a country, it would be the fourth largest wine-producing nation behind France, Italy, and Spain. Not surprisingly, California also leads in terms of wine consumption. Specifically, Californians consume one-fifth of all U.S. bottles of wine.

Some interesting trends are setting the stage for the wine industry for the coming years, including the large percentage of California wine sales that are represented within the domestic market (roughly 57%), where shipments of California wines to domestic markets and abroad reached 258 million cases in 2013. Further driving the markets are some historically unconventional and perhaps even unlikely distribution points, such as Starbucks (SBUX-NASDAQ), which is now serving wine in select markets, as well as a greater number of online sources, which are making wine available for purchase over the Internet in the majority of states. There are also increasing numbers of liquor stores across the country that have worked to expand wine variety and volume as well as a greater availability of wine selections within grocery stores and pharmacies.

Management

Truett-Hurst is led by a team of industry veterans (biographies on pages 17-19), who have established a foundation of making world-class wines from a biodynamic winery—bringing an ecological approach to the business—via a commitment to the environment in conjunction with producing quality wines. Biodynamic farmers strive to create a diversified, balanced farm ecosystem that generates health and fertility as much as possible from within the farm itself. The Company was started seven years ago by co-owner Mr. Phil Hurst, a veteran of Golden State Vintners and co-founder of Novato-based Winery Exchange, and Mr. Paul Dolan, who built Fetzer Vineyards into a large environmentally sensitive vintner. Mr. Hurst, a graduate of the University of California-Davis Viticulture and **enology** program, brings his unique stamp to the winemaking process. The Company's lead **winemaker**, Ms. Virginia Marie Lambrix (biography on page 17), was the past understudy of Greg LaFollete of Tandem and Flowers winery, master of Pinot Noir and Chardonnay. As well, she worked for the Max Planck Institute for Chemical Ecology and was formerly at DeLoach Vineyards, La Follette Wines, and Hendry Ranch Winery.

Team Expansion

The Company continues to expand its team, bringing on individuals who are focused on facilitating sales growth and business execution. Truett-Hurst has recently hired a new chief financial officer (CFO); a director of reporting and finance; a vice president, controller and information technology; and an assistant controller. As well, the Company has hired a national sales manager, a sales coordinator, and an inventory control analyst.

Corporate Strategy

Truett-Hurst is capitalizing on a combination of fundamental changes to U.S. wine markets, as outlined below.

- *Steady growth.* The U.S. wine market has grown, on average, 5% per year over the past decade, with expansion coming largely from domestic brands, where from 2007 to 2011, imports increased by only 1.6% per year. Two of the three fastest-growing price points are the super-premium and ultra-premium segments—the categories in which Truett-Hurst primarily participates.

- *Retail exclusive label model.* According to Nielsen (a global information and measurement company), roughly 22% of consumer products sold by food and drug retailers in the U.S. are retail exclusive labels. Within the U.S. wine sector, 3.7% of sales are from retail exclusive labels. More established wine markets, such as exist in the UK and Australia, have much higher penetration of retail exclusive label wine sales. Given that the market for wine sales in the U.S. is currently approximately $36 billion, the retail exclusive label business represents a significant market opportunity and one which Truett-Hurst is aggressively addressing.

- *The market is ripe for a novel approach.* Food retailers account for roughly 65% of wine sales, with much of the market share concentrated among only a few major wine producers and distributors. Truett-Hurst is providing food and grocery retailers with a retail exclusive label program as a way of gaining margin, customer loyalty, category growth, and differentiation.

- *Innovation.* As retailers seek to increase customer traffic and grow same-store sales in the face of greater market competition, they are placing an emphasis on innovative wine packaging, specifically with "earth friendly" components. Accordingly, Truett-Hurst is aligned with its retail partners' initiatives (including consumer consciousness ideals) and is creating products that minimize waste and fossil fuel use as well as increase recyclability. One example of this is *PaperBoy*®, the world's first easily recyclable paper wine bottle. As well, the eco-friendly *California Square*® fine wines in a cleverly designed square bottle provide shipping and storage savings. Greater details of these innovations are provided on pages 27-31.

- *Upsurge in New Brands*. Along with its growth, the U.S. wine market has experienced an upsurge of new brands, driven by consumers' desires to sample new labels and varietals. For instance, in 2011, relatively new brands like *Cupcake® Vineyards*, *Ménage à Trois® Wines,* and E. & J. Gallo Winery's *Apothic®* grew by 55%, 18%, and 258%, respectively. Food retailers, such as those that Truett-Hurst has relationships with, are able to capitalize on promotion and brand position since they control the shelf space within their store.

Corporate History

Truett-Hurst, Inc. is a holding company that was incorporated as a Delaware corporation and its sole asset is the controlling equity interest in H.D.D. LLC. Prior to its 2013 IPO, the Company had not engaged in any business or other activities except in connection with its formation, issuance of restricted stock, and IPO. The LLC operated as a separate entity until the IPO was completed on June 25, 2013. As a result of the IPO and formation transactions, Truett-Hurst became the sole managing member of the LLC and its subsidiaries, with its existing owners retaining their equity ownership in the LLC in the form of LLC Units. All business activities and affairs are operated and controlled through the LLC along with the consolidated financial results of the LLC and its subsidiaries.

Initial Public Offering (IPO)

On June 25, 2013, Truett-Hurst, Inc. sold 2.7 million shares of its Class A common stock to the public at $6 per share, raising $14.1 million. The Company was taken public to provide funding for growth. This IPO represented the first for a North Coast wine company in 13 years to successfully launch on the NASDAQ. The architect of the Truett-Hurst IPO was Truett-Hurst LLC shareholder, Mr. Bill Hambrecht, an investment banker who facilitated Ravenswood Winery's IPO in 1999. Truett-Hurst's offering was led by W.R. Hambrecht + Co. using its **Open-IPO® process**, which allows individual and institutional investors to bid on shares in an auction. CSCA Capital Advisors LLC, Feltl and Co. Inc., and Sidoti & Co. LLC co-managed the offering.

Headquarters, Facilities, and Infrastructure

The Company owns a 26-acre facility—Dry Creek Valley—located at 5610 Dry Creek Road, Healdsburg, California (six miles west of Healdsburg), of which approximately 15 acres of vineyards are used for growing grapes. The remainder of the facility is used for a tasting room, retail sales space, and office space for support staff. Healdsburg was voted the number two best small town to visit by the *Smithsonian Magazine*. As well, a three-acre winery is leased by Truett-Hurst (which is VML Winery), is located at 4035 Westside Road, Healdsburg, California. The term of the lease is five years, which began March 1, 2011 and ends February 29, 2016, with a tenant option to extend for an additional five-year period. The Company's wine production operations and executive offices are located at this facility. Altogether, the Company employs approximately 32 individuals, and hires part time and seasonal help as needed. Figure 5 (page 11) shows the Company's two properties.

Figure 5

TRUETT-HURST PROPERTIES

Truett-Hurst	VML
	

Source: Truett Hurst, Inc.

Growth Strategy

Truett-Hurst has set forth the following strategies by which to grow each channel of its business.

Retail Exclusive Label

- *New brand launches via a retail exclusive label, which evolve into brands for the broader market, and are followed by expanded distribution points.* In addition to growing its direct-to-consumer sales (wine club/tasting rooms) and traditional brand sales, Truett-Hurst is focused on launching new brands via its retail exclusive label partnerships—responding to and acting upon specific reasons that individuals purchase wine.
    - The Company has developed a reputation for creating innovative brands by working closely with its retail partners to cultivate brands that cater to the retail customers' needs, which fosters retail alliances—all with a goal of increasing consumer (awareness) traffic. New brand introductions—*PaperBoy®* (Safeway), *California Square®* (Total Wine & More), and *Evocative Wraps* (Safeway)—are evolving toward being sold in the broader market on a non-retail exclusive basis. The validation (stickiness) of the Company's brands is the distinguishing factor of Truett-Hurst's business model, with expanding distribution points being the key growth driver. The cycle begins anew with the introduction of additional products, which is expected to further propel growth and expand Truett-Hurst's brands and market share within the wine retail environment.

- *Expand the retail base to include the top five U.S. and global retail chains*. The Company continues to pursue relationships with the largest retail chains in the U.S. and worldwide to further diversify its customer base and lessen the inherent risks of losing any individual retailer relationship. Ultimately, the Company seeks to expand its sales within existing retail partnerships, such as it has done with Trader Joe's, Safeway, and Total Wine & More, as well as new partnerships with leading retailers.

- *Expand strategically into international markets.* The launch of the "wrapped bottle project" has led to expanding demand internationally.

Direct-to-Consumer Channel

- *Increasing the direct-to-consumer business.* Truett-Hurst expects to continue to ramp up its direct-to-consumer business, including further expanding its wine clubs via targeted public relations and advertising; expanding its tasting rooms; and holding events at its wineries. Event calendars can be found at the Company's websites: www.vmlwine.com and www.truetthurst.com/events.htm. By addressing the market in largely unconventional ways—direct-to-the-trade and -consumer versus through layers of sales entities and employees (which has traditionally been the case)—Truett-Hurst is able to react quickly to the needs of consumers, retailers, and restaurateurs in a timely manner.

- *Continue to build its Internet customer base.* Having recently acquired a 50% interest in The Wine Spies (www.thewinespies.com), Truett-Hurst seeks to build and expand its e-commerce platform, benefitting from strong margins and a solid business foundation.

Traditional Brands

- *Build its national brands and increase distribution*. The Company is focused on strengthening its traditional brands—*Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain*—continuing to market and promote these products via its relationships. Truett-Hurst utilizes many of the largest and most successful wine and spirits distributors to hold inventory and stock its retailer partners. By leveraging the Company's retail exclusive label business with its traditional branded business, the Company negotiates favorable rates and is able to capture a greater level of attention from distributors' management/senior-level executives, as well as sales staff.
    - Major distribution partnerships are in place with Southern Wines and Spirits (the single largest wine and spirits distributor in the U.S. with operations in 35 states) and Trialto Wine Group (one of Canada's national premium wine companies with a well-recognized portfolio). Increased distribution points and thus a growing number of routes to market afford the Company a broader network for wine sales.

Figure 6 summarizes the Company's overall strategy as its positions itself to innovate as well as capture an increased presence within the wine industry.

Figure 6

POSITIONED FOR CONTINUED GROWTH

Innovation	Retail Exclusive	Broad Market	International
• Research and develop to identify consumer trends • Retailer seeking to differentiate • Design product packaging	• Top retailers seeking increased margin, exclusivity and first to market • Recognized as an industry leader • Ownership of intellectual property	• Proven brands with buyer awareness and high quality wine • Leverage distributor partners • National accounts need retail exclusives and brands • U.S./Abroad	• National Distribution Agreement in Canada • $0.7 million net sales for nine months • New listings in Canada • Exploring UK distribution

Source: Truett-Hurst, Inc.

Milestones

The Company is focused on expanding sales and marketing efforts, launching new products, and achieving growth—all while expanding margins. Significant milestones achieved by the Company over the past year are highlighted below.

- *Launched PaperBoy® (November 2013)*. As the first of its kind, the *PaperBoy®* bottle is made from 100% recycled cardboard and has a plastic insert with proven "bag in a box" technology. At $14.99/bottle, *PaperBoy®* is available in Safeway stores in 45 states.

- *Launched California Square® (August 2013).* An ultra-premium wine, *California Square®*—a distinctive square bottle with shipping and storage savings—was featured at the 65th Annual Emmy Awards Ceremony on September 21 and 22, 2013, as it was presented to celebrities and VIPs (a selection shown in Figure 21, page 29) throughout the awards weekend in Los Angeles, California.

- *Expanded retail exclusive label.* The Company is increasing points of distribution (U.S./Canada/Mexico) for *California Square®*, *PaperBoy®*, and the *Evocative Wraps* as it launches the brands onto broader markets.

    - Branching out from initial introductory retail exclusive programs to broader national and international distribution, products are making their way across the U.S. with authorizations from the top five retailers.

    - The Company is beginning to sell its top-selling *Evocative Wraps* wine, *Curious Beasts*, in an "unwrapped" version in both the U.S and Canada.

- *Entered agreement for Colby Red (October 2013).* Truett-Hurst established a co-ownership trademark agreement with wine industry veteran Daryl Groom for a 50% ownership in and all rights, titles, and interest in the *Colby Red* trademark. *Colby Red* can be purchased at any licensed Walgreens or online at www.colbyred.com for $12.99.

    - The Colby brand is proceeding according to Company expectations. Via increased points of distribution and a growing number of routes to market (including direct-to-consumer), Truett-Hurst is able to realize a broader means in which to sell its wine.

- *New Distribution Agreements.* In May 2014, the Company announced that it had formed a distribution agreement with Trialto Wine Group, Ltd., based in Vancouver, Canada. The agreement creates a national partnership to distribute the Truett-Hurst family of four fully-owned in-house labels—*Truett-Hurst*, *VML, Healdsburg Ranches*, and *Bradford Mountain*—throughout all the territories and provinces of Canada.

    - Truett-Hurst entered into a distribution agreement with Southern Wine and Spirits, which became fully effective in July 2013. Southern Wine and Spirits, the U.S.'s single largest wine and spirits distributor, has operations in 35 states.

- *Received Positive Reviews.* The Company continues to experience positive feedback from its retailer partners, national publications, and newspapers for its wine quality and packaging innovation.

    - In December 2013, Robert Parker, one of the industry's most highly regarded wine critics, evaluated and rated selected VML wines (published in *Wine Advocate* #210), providing not only high scores but also favorable commentary on the Company's innovative design and packaging.

    - The 2011 *VML Winery Pinot Noir Earth* received 92 points from *Wine Spectator*, with the publication noting the wine to be "Strikingly rich and pure, with a sumptuous push of dark berry, plum and blueberry flavors, gaining depth, nuance and length. Ends with an enticing note of minerally loamy earth. Drink now through 2021…"

- *Continued Media Attention.* The Company continues to experience a great amount of media attention, specifically surrounding the launch of some of its new brands.

  - Its innovations have been in a feature highlighted on the front cover of *Packaging World*. The article recognized the significance and innovative paper wine bottle, *PaperBoy®*. *Packaging World* is believed to be the best-read publication for professionals who use, recommend, and purchase packaging equipment and materials. *Packaging World* also mentioned Truett-Hurst's *California Square®*. Additional media highlights are provided on page 39.

- *Important New Hires.* The Company continues to expand its team, bringing on individuals who are focused on facilitating sales growth and business execution. From fourth quarter to date, Truett-Hurst has hired a new chief financial officer (CFO); a director of reporting and finance; a vice president, controller and information technology; and an assistant controller. As well, the Company has hired a national sales manager, a sales coordinator, and an inventory control analyst.

- *New Products/Brands and Customers.* The Company has products/brands under review with both existing customers and new customers. New customers could lower the Company's concentration risk.

Intellectual Property

Protecting the Company's intellectual property (IP) via trademarks is a critical component to Truett-Hurst's business—with the Company owning or licensing all its brand names and trademarking most of its artwork. In the case of the square bottle and wine wraps, Truett-Hurst has patents pending on all of the IP, as the Company created these in partnership with advertising firm, *Stranger & Stranger* (the firm of Mr. Kevin Shaw, biography on page 18), from the ground up. As it relates to *PaperBoy®*, Truett-Hurst owns the brand name and artwork, but does not own the IP for the actual bottle itself—that is owned by Ecologic Brands, Inc., an Oakland, California-based designer and manufacturer of paper bottles—where Truett-Hurst has an exclusivity arrangement and a long-term contract. As of June 30, 2013 (the most currently reported information), the Company had 21 registered, 16 published, and 6 pending material trademarks, as listed in Figure 7.

Figure 7
TRADEMARKS

Registered		Published	Pending
Bewitched	Healdsburg Ranches	California Square	Design (mohawk's skull)
Bradford Mountain	One Man Band	Cense	Fugitive
By Locals. For Locals.	Sauvignon Republic	Chateau Crisp	Juice Brothers
Candells	Shuck's	Dearly Beloved I Thee Red	MOFO
Dearly Beloved	Simply Pure	Back to the Very Earth	The Criminal
Dearly Beloved Forever Red	Stonegate	Inconspicuous	West Coast Original
Design (wild boar)	The County Fair	Mad Duck	
Eden Ridge	Truett Hurst	Natures Gate	
Fuchsia	Va•ri'e•tals	Paper Boy	
Fugitive	VML	Paso Ranches	
Harbor Front		Pino Republic	
		Sonoma Ranches	
		Sustainable Farm	
		Svengali	
		Sweet Evil	
		Unique Style, Unique Flavor, Anything But Square	
		Wonderland	

Source: Truett-Hurst, Inc.

Wine Wraps

In August 2012, the Company entered into an agreement with West Coast Paper Company (WCP) pursuant to which it was assigned all rights to a series of wine wraps jointly developed by Truett-Hurst and WCP in consideration for Truett-Hurst granting certain exclusive manufacturing rights to WCP. This assignment is perpetual and fully transferable. The exclusive manufacturing rights granted to WCP are for three years. Truett-Hurst has applied for a U.S. patent for the wine wraps, which is pending.

Leadership

Truett-Hurst is led by team of professionals with industry experience from senior-level positions in wine companies, including Diageo, Constellation Brands, Inc., the Brown-Forman Corporation, Fetzer Vineyards, Kendall-Jackson Wine Estates, DeLoach, and Rodney Strong. The Company seeks to expand its business by changing the way consumers purchase and consume wine. As well, Truett-Hurst seeks to build alliances by leveraging its core competencies. The founding team of Mr. Phil Hurst and Mr. Paul Dolan hold decades of industry experience and have proven successful at building businesses to scale. The Company has what it believes to be the “best of the best” talent in the industry—where management is focused on fostering an entrepreneurial spirit, believing that they can build a fast-growing business that can successfully change the way consumers purchase and enjoy wine.

Management

Phillip L. Hurst, Co-Founder, President, Chief Executive Officer, and Director

Mr. Hurst is the president, chief executive officer, co-founder, and director of Truett-Hurst, Inc. With a winemaking degree from University of California-Davis, Mr. Hurst began his career in the wine industry in 1985 at Fetzer Vineyards, when he was hired by Paul Dolan to help make premium wines as well as to build the brand. Fetzer Vineyards was sold to the Brown-Forman Corporation in 1992. In 1998, Mr. Hurst left to run international sales and marketing for Golden State Vintners, Inc., bolstering the senior management team for the launch of its initial public offering (IPO). During his time at Golden State Vintners, Inc. (1998-1999), Mr. Hurst met his future partners in what was to become one of the world’s retail exclusive label beer, wine, and spirits companies—Winery Exchange Inc. (profiled on page 41). As co-founder and senior vice president of sales and marketing from 1999 to 2007, Mr. Hurst sold his stake in the company to partner with his longtime friend and mentor, Paul Dolan. Mr. Hurst has served as president, chief executive officer, and a managing member of the LLC since 2007 and as president, chief executive officer, and director of Truett-Hurst, Inc. since 2012.

Paul Forgue, Chief Financial Officer and Chief Operations Officer

Mr. Forgue has been providing financial and operational leadership to companies since 1998 in advisor, interim-manager, and executive team member. He began his career in the Houston office of PricewaterhouseCoopers after graduating with a Master in Business Administration from Rice University’s Jones School of Management. In 2003, Mr. Forgue joined Alvarez & Marsal, which at the time was a boutique advisory firm, specializing in interim management. In the decade Mr. Forgue spent with Alvarez & Marsal, he worked with multiple companies in a broad variety of industries from healthcare to manufacturing, specialty retail, to luxury car distribution in China. In 2011 and 2012, Mr. Forgue lived with his family in Asia, where he successfully helped build Alvarez & Marsal’s China business and executed engagements throughout China and Southeast Asia. Mr. Forgue, who grew up in Oklahoma, has been a resident of Sonoma County since 2002 and currently serves as the co-chair of The Healdsburg School’s Board of Trustees.

Virginia Marie Lambrix, Director of Winemaking

Ms. Lambrix has been director of winemaking at Truett-Hurst, Inc., since 2012. She is an equity partner in the business and manages all of the vineyard and winemaking activities. Ms. Lambrix worked for the Max Planck Institute for Chemical Ecology, and went on to learn about the art of viticulture. Prior to joining La Follette Winegrowing in 2008, she worked for Hendry Ranch in Napa from 2002 to 2003, for Concha y Toro S.A. in Chile since 2004, and for Lynmar Winery since 2004 and DeLoach Vineyards from 2005 to 2008, both in the Russian River Valley of Sonoma County. At DeLoach Vineyards, she learned about biodynamic farming, and worked closely with her growers to move their estates to organic and biodynamic farming practices—improving quality and moderating farming costs. She studied horticulture and agronomy in the master’s program at the University of California-Davis, with a focus on viticulture and enology.

Heath E. Dolan, Director of Vineyard Operations and Director

Mr. Dolan has 16 years of experience in the wine business. In his past employment, he managed the cellar operations for Fetzer Vineyards (1996-2002), with 12 million gallons of wine storage and four million cases of bottling. He developed, implemented, and manages a wine storage partnership, Premium Wine Storage, in Santa Rosa, California (2001-present). Mr. Dolan is also a partner and manager of 210 acres of premium wine grapes in Mendocino (2000-present). He has a B.S. in enology from the University of California-Fresno and has served as a managing member of the LLC since 2010 and as a director of Truett-Hurst, Inc. since 2012. Mr. Dolan has extensive knowledge of Truett-Hurst's business, which was gained as one of its founders, with experience in growing grapes and wine storage techniques, and an educational background in enology. Mr. Dolan also serves on the Company's Nominating and Governance Committee.

Kevin Shaw, Independent Contractor/Creative Director

Mr. Shaw has close to two decades of designer experience. As proprietor and founder of *Stranger & Stranger* design agency, he received the 2012 *Harpers Wine & Spirit* magazine design award for "Best Design Agency." Mr. Shaw designs over 100 beverage brands every year in markets all around the world, including *Jack Daniels*, *Avion Tequila*, *Lillet*, and *The Kraken Spiced Rum*. Collectively, his brands sell over a billion bottles a year.

Board of Directors

Daniel A. Carroll, Director

Mr. Carroll served as a partner/managing director of TPG Capital L.P. from 1995 to 2010. He has served on the Board of Directors of Shenzhen Development Bank (China) (2005-2010), Myer Department Stores, Ltd (Australia) (2006-2009), Bank Thai, Ltd (Thailand) (2007-2009), and Healthscope Australia (2010-2011). He received a B.A. from Harvard University in 1982 and an MBA from Stanford University Graduate School of Business in 1986. He has served as a managing member of the LLC and a director of Truett-Hurst, Inc. since 2012. Mr. Carroll has extensive experience in executive management oversight, private equity, capital markets, and transactional matters. He also serves on Truett-Hurst's Audit Committee.

Heath E. Dolan, Director of Vineyard Operations and Director

Biography above.

Paul E. Dolan, III, Director

Mr. Dolan is a director of Truett-Hurst. He has been involved in the wine business since 1975 and is considered the founding father of organics and biodynamics in the California wine industry. He started his winemaking career with what was then a small winery in Mendocino, Fetzer Vineyards, in 1977 and then helped the Fetzer family grow to one of the premier California wineries—selling over three million cases. Mr. Dolan managed the company as president for the new owners, the Brown-Forman Corporation, from 1992 to 2002. He has served as chairman of the Wine Institute (1990-2012) and became the first chairman of the Sustainable Winegrowers Alliance (2002-2003). He holds a B.A. in finance from the University of Santa Clara and an M.S. in enology from the University of California-Fresno. He is also author of *True to Your Roots: Fermenting a Business Revolution*. Mr. Dolan has served as a managing member of the LLC since 2010 and a director of Truett-Hurst, Inc. since 2012.

John D. Fruth, Director

Mr. Fruth has worked in the healthcare industry for over 35 years. He founded Ocular Sciences in 1983 and served as the company's chairman and chief executive officer until 2002 and continued to serve as its chairman until the company's acquisition by The Cooper Companies in 2005. He then served on the Board of Directors and Compensation Committee of The Cooper Companies until 2007. Currently, Mr. Fruth serves on the Board of Directors and Compensation Committee of Nitinol Development Corporation (2008-present) and the Board of Directors of the Fruth Family Foundation (2004-present). Mr. Fruth has served as a director of Truett-Hurst, Inc. since 2013. He was selected to serve on the Company's Board of Directors due to his experience in executive management oversight, finance, and accounting matters and board practices of other corporations. Mr. Fruth also serves on the Company's Audit Committee.

Barrie Graham, Director

Mr. Graham has over 20 years of experience in commercial banking, having served as president, chief executive officer, and director of Exchange Bank (1995-2008), and as a senior manager at Wells Fargo (1985-1995). At Wells Fargo, Mr. Graham was the senior vice president responsible for business development for the Commercial Banking Group. He is a former director and past-chairman of the Pacific Coast Banking School at the University of Washington-Seattle (1998-2011, chairman 2009-2010) and a former director of the California Bankers Association (2004-2008). Prior to joining W.R. Hambrecht + Co. (2011-present), Mr. Graham was president and chief executive officer of hybridCore Homes (2009-2011). He is a director of Empire Law School (2004-present) and numerous nonprofits. Mr. Graham has a B.S. in industrial engineering from Clarkson University, an MBA in finance from Golden Gate University, and is a graduate of the executive management program at Harvard and the Pacific Coast Banking School. Mr. Graham is a former Marine Infantry Officer and has served as a managing member of the LLC since 2011 and a director of Truett-Hurst, Inc. since 2012. Mr. Graham was selected to serve on the Company's Board of Directors due to his experience in executive management oversight, accounting, and financial transactions. He also serves on the Company's compensation committee.

Phillip L. Hurst, Co-Founder, President, Chief Executive Officer, and Director

Biography on page 17.

James F. Verhey, Director

Mr. Verhey is the executive vice president and chief financial officer of Kaiser Ventures, LLC (1993-present), formerly the Kaiser Steel Corporation. He is also the founder and chief executive officer of Verhey Advisors (2001-present), and Premiere Viticultural Services (2001-present). Mr. Verhey was one of the original managing directors and directors of Silverado WineGrowers (1997-2012), which owned and operated 14 premium vineyards. He was a director of the Napa Valley Grapegrowers (2006-2011), and has served as chair of its Member Services Committee (2006-2010) and Industry Issues Committee (2010-2011). Mr. Verhey received a B.A. in math and economics from Stanford University in 1969 and an MBA from the University of California, Los Angeles in 1974. He has served as a director of Truett-Hurst, Inc. since 2013. Mr. Verhey was selected to serve on the Company's Board of Directors due to his experience in accounting, executive management oversight, and board practices of other corporations. He also serves on the Company's Audit, Compensation, and Nominating and Governance Committees.

Partner-Owned Vineyards

Beyond Truett-Hurst's 15 acres of Company-owned vineyards, the Company's founders, executive officers, and principal stockholders also own and operate vineyards (Figure 8), with the majority of grapes produced from these vineyards sold back to Truett-Hurst at market prices or slightly below market prices and the balances sold to other wineries.

Figure 8

PARTNER-OWNED VINEYARDS

- Ghianda Rose Vineyards, owned by the Dolan family, approximately 40 acres of Mendocino County Chardonnay, organic and biodynamic certified
- Gobbi Vineyards, owned by the Dolan family, approximately 40 acres of Mendocino County Chardonnay, organic certified
- Lovers Lane Vineyard, owned by Phil Hurst and the Dolan family, approximately 140 acres of Zinfandel, Cabernet Sauvignon and Petite Syrah
- Floodgate Vineyard, owned by the Hambrecht family, approximately 100 acres of Russian River Valley Pinot Noir and Chardonnay
- Grist Vineyards, owned by the Hambrecht family, approximately 100 acres of organically farmed Dry Creek Valley Zinfandel, Petite Syrah and Syrah on the historic Bradford Mountain
- Dark Horse Vineyard, owned by the Dolan family, approximately 120 acres of biodynamically farmed Zinfandel, Cabernet Sauvignon, Syrah and Petite Syrah located in Mendocino County
- Truett-Hurst Vineyard, Dry Creek Valley

Source: Truett-Hurst, Inc.

Core Story

INDUSTRY OVERVIEW

The global wine industry is expected to produce $292 billion in revenues in 2014 (Source: MarketLine reports), with the top 10 wine-producing countries creating over 80% of the world's supply and the top four countries accounting for 55% of all wine worldwide. Through 2015, global wine sales are expected to realize a compound annual growth rate (CAGR) of 3% due to growing markets and evolving consumer tastes (Source: Euromonitor).

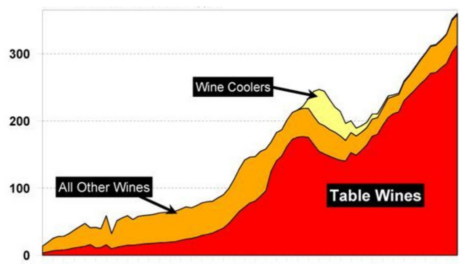
For U.S. markets, the estimated retail value of 2013 wine shipments was $36 billion, up 5% from 2012 (and making it the largest wine market in terms of revenues). This revenue came from 375.2 million cases of wine, which were shipped in 2013, a 3% increase from 2012, and included both domestic and imported wine. As U.S. wines are seeing growth both domestically and globally (with U.S. wine sales growing at a rate of 2% to 3% per year for the past 21 years, as shown in Figure 9), increasing exports in conjunction with domestic sales figures show this positive growth trend continuing. Wine exports from the U.S. totaled $1.55 billion in 2013, with the European Union being the top destination for U.S. wine exports, accounting for $617 million, up 31% compared to the previous year; followed by Canada, $454 million, up 12%; Japan, $102 million, down 7%; Hong Kong, $78 million, down 12%; China, $77 million, up 6%; Mexico, $22 million, up 21%; and South Korea, $18 million, up 16%.

Figure 9

U.S. WINE MARKET (1934-2012)

2012 SHIPMENTS INCREASED 2% (360 MILLION CASES)

(millions of nine-liter cases shipped)



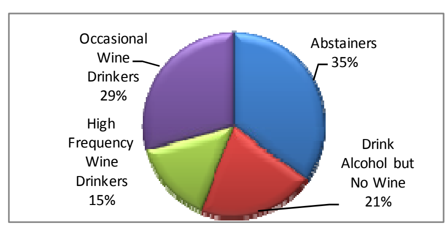
Source: Gomberg-Fredrikson & Associates Annual Wine Industry Review.

The influence of U.S. wines is increasingly edging into other wine markets, where the U.S. has, in a relatively short period of time, become an important market for wine—a trend which many believe is likely to continue for years to come. So much so that for the first time in history, the U.S. has now become the world's largest wine market, relegating France to second place due to sliding consumption levels (despite the fact that France has always been widely viewed as the drink's natural home (Source: "There's a new No. 1 wine market: (Hint: Not France)," *Reuters,* May 13, 2014). To put this into perspective, American consumers bought 29.1 million **hectoliters** of wine in 2013, or about 768.7 million gallons, up 0.5% over 2012. The French reported a drop of about 7% in consumption to 28.1 million hectoliters or 742.3 gallons. That said, U.S. drinkers are still behind France in terms of consumption per head, where the average French citizen consumes about 1.2 bottles per week, which is six times more than the average American (noting the differences in population sizes with France at 65.7 million and the U.S. at 313.9 million) (Source: "Congratulations, Everyone: U.S. Is Now The Top Wine Market In The World," *Consumerist*, May 13, 2014). The relatively quick expansion of the U.S. wine industry over the past several years has been driven by a combination of factors, including increased government support, online wine purchasing capabilities, and a growing population of young wine drinkers. This is evidenced by the number of retail outlets that sell wine, which have increased by 62,000 locations over the last five years to a total of 550,000 outlets.

In terms of volume, the U.S. has about 100 million wine drinkers (55% women, 45% men). Figure 10 summarizes the percentage of U.S. wine drinkers among all adults (with roughly 44% either occasional or high-frequency wine drinkers). This growth has been noteworthy since only 20 years ago, in 1994, 71% of drinkers under age 30 preferred beer over wine and liquor—with beer being the preferred drink for only 41% of drinkers in that age group in 2013. These trends are positive for the wine economy at large and point to an industry that is confident of future growth. Noteworthy is that during the recent economic recession, which was highly impactful on other industries, there was very little overall effect on the U.S. wine industry as consumers transitioned to lower-priced bottles as well as to wines by the glass.

Figure 10

U.S. WINE DRINKERS AMONG ALL ADULTS (2014)



Source: Wine Market Council.

Supply and Demand

The wine industry has been steadily growing in both developed and emerging economies, driven by increasing disposable incomes, rising awareness about the medical benefits of wine, and consumer shifts toward premium alcoholic beverages. Specifically in developed countries, wine consumption has surged, particularly in the U.S., Canada, Australia, and Chile. In 2000, the U.S. consumed 568 million gallons of wine; in 2012, consumption was 856 million gallons, an annualized increase of 3.9% per year, and an overall increase of 51% (Source: The Wine Institute and Gomberg-Fredrikson & Associates). Driving demand for wine are the restaurant and hotel industries, higher consumer incomes, and greater levels of business entertainment spending, with profitability largely dependent upon sales price and production volume, which can fluctuate from one year to the next.

Historically, stronger distribution channels were influenced by large companies, which could have the benefit of significant economies of scale in production—this is largely changing. Through the production of superior-class wines that can be sold at a premium price, small wineries are now challenging large-volume producers for market share, particularly in the super-premium brand category of $15.00 per bottle and above. In tandem with growing demand, the wine production supply side has contracted over the last several years, both domestically as well as internationally, creating a decline in wine supply over the last six years in California. Due to this supply shortage, many wine producers (including Truett-Hurst) have sought to lock up bulk supplies, which, in turn has driven up the price of grapes in these regions.

A Fragmented Market

Figure 11
BONDED AND VIRTUAL WINERIES

Type of Winery	Number of Wineries
U.S. Bonded	6,565
U.S. Virtual	1,197
U.S. Total	7,762
Canada/Mexico	629
Total	8,391

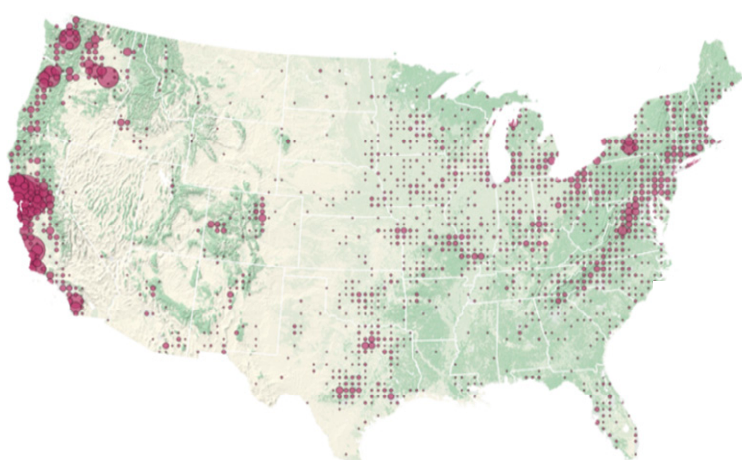
Source: Wines and Vines Analytics, January 27, 2014.

Though the global wine market is characterized by a handful of large producers (each producing over one million cases per year), the market is highly fragmented. There are thousands of smaller producers who each make less than 25,000 cases per year. The world's three leading winemakers combined have slightly over 8% of market share in terms of volume (Source: Marketline).

Similarly, the U.S. has several major wineries—E. & J. Gallo, Constellation Brands, and Jackson Family Wines, among others—but is also highly fragmented, consisting of 7,762 wineries, including California's 3,674.

Figure 12
U.S. WINERIES AS OF 2013

The larger the circle, the more wineries that are located in that zip code.



Source: The New York Times Company, July 5, 2013 <www.nytimes.com/interactive/2013/07/07/business/a-nation-of-wineries.html>.

Trends

There are some interesting trends that are setting the stage for the coming years in the wine industry. One being the large percentage of California wine sales represented within the domestic market (roughly 60%), as shipments of California wines go to both domestic markets and abroad. This may, in fact, be attributed to changing demographic trends in conjunction with the growing consumer base. Further driving the markets are some historically unconventional and perhaps even unlikely distribution points, such as Starbucks, which is serving wine in select markets, as well as a greater number of online sources that are making wine available for purchase via the Internet (in the majority of states). Also driving growth in the wine industry, and in particular, growth and popularity among domestic wines, is an increasing number of liquor stores across the country that have worked to expand their variety and volume, as well as the greater availability of wine selections within grocery stores and pharmacies. Another factor is the emergence of more signature stores in select city areas like malls, airports, etc. For example, New York now has 1,368 wine and liquor stores, up 14% from 2010. Stores are also creating their own sales niches (i.e., female winemakers, music and wine enthusiasts, educating drinkers on how to pair food with the right wine perfectly, wine bars, and so on) to further differentiate themselves within the market.

The California Wine Industry

With approximately half of all wineries in the U.S. located in California, this state reports about 90% of U.S. wine production in terms of gallons. According to the San Francisco-based Wine Institute, a total of 215 million cases of wine produced in California were shipped within the U.S. in 2013, up 3% by volume, with an estimated retail value of $23 billion (Figure 14), up 5% by value—with three of every five bottles sold in the U.S. being a California wine. New York, Washington, and Oregon are other top wine-producing states (Figure 13).

Figure 13

STATES WITH 100-PLUS WINERIES

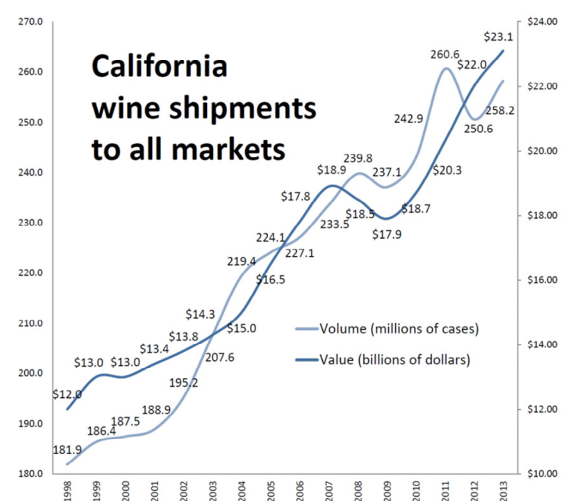
State or Province	Number of Wineries
California	3,674
Washington	689
Oregon	566
New York	320
British Columbia	257
Virginia	223
Texas	208
Ontario	192
Pennsylvania	174
Ohio	144
Michigan	136
North Carolina	130
Missouri	122
Colorado	106
Illinois	100

Note: Two western states and two mid-Atlantic states had the fastest growth rates. Arizona counted 14.3% more wineries, Maryland 11.1%, Colorado 7.1%, and Pennsylvania 4.8%.

Source: Wines and Vines Analytics, January 27, 2014.

Figure 14

CALIFORNIA WINE TRENDS



Source: Gomberg, Fredrikson & Associates, Wine Institute.

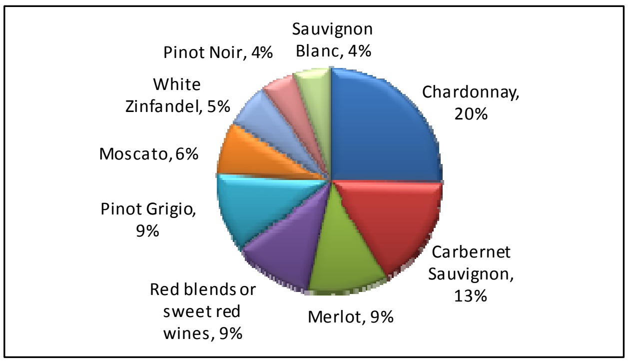
While seeing some dips around the recession in 2008-2009 and then again in the calendar year 2012-2013 due to short harvests, California wines have been growing stronger over the past two decades (Figure 14). Additionally, U.S. wine exports, specifically from California, reached $1.55 billion, up 16.4%, with the European Union being a top destination for U.S. wines, followed by Canada.

Differences in Varietals

Many wines are named after the primary grape used in the wine—these are called varietals. Most New World wines, meaning wines from Australia, New Zealand, North America, South Africa, and South America, use varietals for the title of their wines. For instance, a wine labeled as a California Chardonnay is made from Chardonnay grapes, while a wine labeled New Zealand Sauvignon Blanc is made from Sauvignon Blanc grapes.

Winemakers in Europe believe that the land on which the grapes are grown is the most important feature of their wine. Thus, instead of naming their wines after the grape, they name their wines after the region in which the grapes are grown. For example, a wine produced in the Chianti region of Tuscany, Italy is called Chianti, while a wine produced in the Chablis region of Burgundy, France is called Chablis. Therefore, it is up to the consumer to know what grapes are grown in each region.

Figure 15
MOST POPULAR WINE VARIETALS



Source: Moreaboutwine.com.

The most popular varieties (Figure 15) include the following: Chardonnay, with a 20% share of sales; Cabernet Sauvignon, 13%; Merlot, 9%; red blends or sweet red wines 9%, **Pinot Grigio**, 9%; followed by Moscato, 6%; White Zinfandel, 5%; Pinot Noir, 4%; and Sauvignon Blanc, 4%. It is worth noting that the varietal makeup of the U.S. wine industry has stayed somewhat consistent, though there has been significant growth in red blends, which now account for 9% of the market. Chardonnay remains the number one most popular varietal, with Cabernet being the second most popular. Truett-Hurst is well-positioned among each of these categories, as its line of more than 30 brands includes Pinot Noir, Chardonnay, Sauvignon Blanc, Merlot, Cabernet Sauvignon, and Zinfandel.

Wine Pricing Structure

Figure 16 shows the price breakdown terminology for U.S. wine sales, with Truett-Hurst specializing in the premium, super-premium, ultra-premium, and luxury sectors.

Figure 16
PRICING TERMINOLOGY

Super Value (sometimes referred to as *Jug Wines* or *Ultra Value*)	wines priced at $1.99 or under per 750-ml bottle
Value	wines priced between $2.00-$5.99 per 750-ml bottle
Fighting Varietal (sometimes referred to as *Economy*)	$6.00-$8.99 per 750-ml bottle
Popular Premium	wines priced bewteen $9.00-$11.99 per 750-ml bottle
Premium	wines priced between $12.00-$14.99 per 750-ml bottle
Super Premium	wines priced between $15.00-$24.99 per 750-ml bottle
Ultra Premium	wines priced between $25.00-$49.99 per 750-ml bottle
Luxury	wines priced $50.00 and over per 750-ml bottle

A category in which Truett-Hurst participates. The Company's "premium" wines may be priced as low as the $7.00/bottle range, since these pricing definitions may vary among producers.

Source: Tincknell & Tincknell, Wine Sales and Marketing Consultants.

COMPANY OVERVIEW

Truett-Hurst, Inc. and its subsidiaries: H.D.D. LLC (LLC) and its consolidated subsidiary, The Wine Spies, LLC (Wine Spies) (collectively, "Truett-Hurst" or "the Company"), is a wine innovator distinguished by its world-class packaging and label designs, and dedicated to producing and marketing high-quality, premium, super-premium, ultra-premium, and luxury wines. Based in the Dry Creek and Russian River Valleys of Sonoma County, California, the Company has a diverse product line of more than 30 brands, some in partnership with major retailers via its retail exclusive label channel (or "custom label" partnerships), and some independently via its traditional distribution channel and direct-to-consumer channels. It is this diversification to the Company's business that offsets any potential downward pressure from one channel that the Company may experience.

Business Model

Truett-Hurst is focused on providing quality wine at a practical cost, in part, by circumventing a costly and competitive distribution system—with a goal of disrupting the current oligopoly system in place. Similarly, the Company's grocery partners, in seeking to increase margin, have turned to retail exclusive label products to compete with larger more commanding producers and suppliers. Via this "custom label" model, Truett-Hurst works with its retail partners to develop brands that target the discovery-oriented wine consumer, while retaining ownership of these brands to launch into broader markets following exclusivity periods. The Company's retail partners value their relationships with the Company as they collaborate in developing products and ultimately benefit from the higher margins. Partners benefit from the Company's rapid brand development cycles, its skill in adjusting to market demand, and its ability to bypass many traditional distribution layers to be able to offer higher-margin products to targeted customers.

Beyond its retail exclusive label channel, the Company markets its brands through direct-to-consumer and traditional distribution channels. The direct-to-consumer channel involves sales through Truett-Hurst's two tasting rooms and wine clubs, which strengthen brand visibility and customer loyalty. As well, the Company holds an ownership interest in The Wine Spies, an Internet wine retailer specializing in limited offerings and other online offerings, as well as "flash sale." The range of varietals sold includes Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah, and other red blends. Through the more traditional route of distributor channels, Truett-Hurst distributes its wine under four fully-owned labels: *Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain*. Greater details of the Company's traditional distribution system are on pages 35-37.

Product Line

Truett-Hurst produces an extensive range of varietals, including Pinot Noir, Chardonnay, Sauvignon Blanc, Merlot, Cabernet Sauvignon, and Zinfandel (Figure 17), across a number of premium price points for three distinct channels of distribution—(1) retail exclusive label partnerships; (2) three-tier distributors; and (3) direct-to-consumer. The following table lists the Company's wine brands within its product line, along with the price range, key varietal, and distribution channel.

Figure 17
PRODUCT LINE

Product	Price Range	Key Varietals	Distribution Channel
Truett Hurst	$20-$50	Zinfandel	Direct to Consumer/Three-Tier
VML	$20-$50	Pinot Noir/Chardonnay	Direct to Consumer/Three-Tier
Bradford Mountain	$20-$40	Zinfandel/Syrah	Direct to Consumer/Three-Tier
Healdsburg Ranches	$10-$20	Chardonnay/Pinot Noir/Zinfandel	Three-Tier
PaperBoy	$13-$14	Red Blend/Chardonnay/	Private Label
California Square	$20	Chardonnay/Cabernet Sauvignon/Red Blend	Private Label
Evocative Wraps	$12-$50	Various	Private Label
The Fugitive	$25	Red Blend	Private Label
Dearly Beloved	$8	Red Blend	Private Label
Sauvignon Republic	$8	Sauvignon Blanc	Private Label
Harbor Front	$10-$15	Chardonnay/ Cabernet Sauvignon/Merlot/ Pinot Noir	Private Label
Kiarna	$10-$20	Chardonnay/ Cabernet Sauvignon/Merlot/	Private Label
Hobson Estate	$10-$20	Chardonnay/ Cabernet Sauvignon/Merlot/	Private Label
Bewitched	$20-$40	Chardonnay/Pinot Noir	Private Label
Curious Beasts	$15	Red Blend	Private Label
Fuchsia	$13	Rose/White Blend	Private Label
Schuck's	$14	Sauvignon Blanc/Chardonnay/Pinot Noir	Private Label
Candell's	$50-$60	Sparkling	Private Label
Eden Ridge	$11	Chardonnay	Private Label
Chateau Crisp	$12-$15	Sauvignon Blanc	Private Label
The Supper Club	$13-$14	Chardonnay/Cabernet Sauvignon	Private Label
The Criminal	$20	Red Blend	Private Label

Source: Truett-Hurst, Inc.

Retail Exclusive Label Channel

In the majority of retailer departments, retail exclusive label products are easily identifiable since they take on the retail exclusive label name(s) adopted by the retailer across the store. This, however, is not generally the case in the wine category, and thus a consumer may not even be aware that they are purchasing a "retail exclusive label" or the retailer's exclusive label. That said, retail exclusive label sales continue to expand and boom, regardless of the product category, as more consumers are viewing retail exclusive label brands positively, with the category expected to represent a significant portion of the wine market in the future.

Fueling this growth is the fact that retail exclusive label brands create the opportunity for a retailer to build trust and loyalty with a consumer, where the retailer creates a retail exclusive label brand that consumers feel over-delivers on quality at an attractive price point. Ultimately, this results in a consumer seeking out the same brand when making future purchases. Retailers benefit due to the positive experience and association that consumers make not only with the brand but with the retailer itself. As well, retail exclusive labels carry an innate advantage over branded wines—having unencumbered access to shelf space as they compete on the retailers' terms with other wine brands. Retailers are able to place their own products on the shelf in a desirable location to promote their own labels.

PaperBoy®

Introduced with limited exclusivity by Truett-Hurst's partner Safeway in September 2013, *PaperBoy®* was launched as the first paper wine bottle to reach the market in the U.S. (Figure 18). As the first of its kind, the *PaperBoy®* bottle is made from 100% recycled cardboard and has a plastic insert with proven "bag in a box" technology (Figure 18). The bottle's carbon footprint is significantly smaller than glass and provides an easy alternative to enjoying wine outdoors, where glass may be prohibited—with the package being 85% lighter than a glass bottle and easily recyclable. *PaperBoy®* is available in Safeway stores in 45 states, which carry *PaperBoy® Paso Robles Red Blend 2012* (retails for $14.99) and *PaperBoy® Mendocino County Chardonnay 2012* (retails for $13.99).

Figure 18

PAPERBOY® BRAND

PaperBoy®

Initial Launch in Safeway Stores; Broader Launch Underway

Source: Truett-Hurst, Inc.

The *PaperBoy®* bottle's cardboard outer packaging can go into mainstream recycling collection, noting that the cap and neck assembly pieces are also recyclable, and the plastic liner is suitable for "waste to energy" programs. Widespread testing has shown the *PaperBoy®* bottle to be a superior alternative to a traditional glass bottle—as it insulates better, can be recycled more readily, and is lighter and more transportable—without losing the look and feel of a customary glass bottle.

The front and back of the *PaperBoy®* bottle are decorated in **Kraft**-colored, recycled-paper labels, printed with water-soluble inks, and applied using a natural rubber adhesive. The bottle's graphics (left side of Figure 19), which were created by Mr. Kevin Shaw of *Stranger & Stranger*, include a twenties era-styled cartoon drawing of a paperboy with newspaper in hand. Each *PaperBoy®* bottle comes with instructions for how to break the bottle down for disposal (right side on Figure 19). The practicality of this packing stems from the fact that wines that are almost immediately consumed need not carry a heavy, environmentally, and economically expensive glass bottle and cork.

Figure 19

PAPERBOY®: BOTTLE AND LABEL DESIGN

Source: Truett-Hurst, Inc.

Environmental Impact and Savings

Packaging waste is an enormous and mounting problem, specifically in the wine industry. According wrap.org.uk, 17.5 billion bottles of wine are consumed annually worldwide, producing 8.75 billion tons of glass waste, which is a greater amount of packaging waste than any other product in the food or drink sector. Case weight for normal glass bottles with liquid is 36 lbs. versus the paper bottle at 23.6 lbs. A pallet of 56 cases prepared for shipping is reduced from 2,000 lbs. to 1,322 lbs.—a weight reduction of 34% and a savings of more than seven tons per truckload of wine shipped. Net net, the overall carbon footprint of *PaperBoy®*—from production to shipping to recycling—is substantially lower than glass.

Supply Agreement

In April 2014, Truett-Hurst announced that it had completed a three-year general supply agreement (with a potential two-year extension) with Ecologic Brands, Inc. (www.ecologicbrands.com), a designer and manufacturer of paper bottles. The agreement is for Ecologic Brands to produce paper bottles for Truett-Hurst's *PaperBoy®* brand. Ecologic Brand's 60,000 square foot facility in Manteca, California, is anticipated to enable Truett-Hurst to meet the increased demand for *PaperBoy®* wine while providing management and transportation efficiencies. Ecologic Brands has been recognized for making America's first recycled paper bottles, offering consumers a choice in packaging beyond plastic or glass. Its award-winning eco.bottle® is made from recycled cardboard and provides a more ecologically favored choice in packaging.

California Square®

Launched in October 2013, the line of *California Square®* fine wines comes in three varieties of super-premium **appellation**-based wines—a 2012 *Russian River Valley Chardonnay*, a *Paso Robles Cabernet*, and a unique *Paso Robles Three Red Blend*. *California Square®* is crafted by winemaker Virginia Marie Lambrix, the winemaker for VML and Truett-Hurst wineries (biography on page 17). The bottle's distinctive square shape (Figure 20), which provides shipping and storage savings, was created by design firm *Stranger & Stranger's* Mr. Kevin Shaw and features embossing, vintage graphics, and lush deep shades of gold, burgundy, and cobalt blue. As well, each side provides a different tactile impression. As a side note, the empty bottles can be repurposed and filled with such things as olive oils or infused vinegars, or used as flower vases or candleholders. The Company has further published additional ideas for repurposing on the California Square® website: www.casquarewines.com.

Figure 20

CALIFORNIA SQUARE® BOTTLE DESIGN

Source: Truett-Hurst, Inc.

Available in stores throughout the U.S. and Canada, the wines retail for under $20.00. In the U.S., *California Square®* is available in Total Wine & More stores and online at www.totalwine.com. Total Wine & More is a wine supercenter, with approximately 100 stores and revenues of $1.5 billion (predicted to double over the next three years). Following nine months of retailer exclusivity with Total Wine & More, *California Square®* is now being launched into broader markets in both the U.S. and Canada—with initial indications showing high interest from large national retailers.

Worth noting is that for the second year in a row, *California Square®* was in the Total Wine & More "March Madness Competition," having won it last year and coming in second place this year. As well, on September 21 and 22, 2013, *California Square®* was presented to celebrities and VIPs (a selection shown in Figure 21) at the 65th Annual Emmy Awards Ceremony throughout the awards weekend in Los Angeles, California.

Figure 21

CALIFORNIA SQUARE INTRODUCTION AT 65TH ANNUAL EMMY AWARDS

Dennis Quaid	Chris Noth	Ed O'Neill	Eric Szmanda

Source: Truett-Hurst, Inc.

Evocative Wraps

The Company's uniquely designed *Evocative Wraps* are a line of premium wine packaged in bottles with creatively designed full-body paper wraps (Figure 22). The idea came about when *Stranger & Stranger*'s Mr. Kevin Shaw teamed up with winemaker and retailer, Safeway, to launch this innovative initiative aimed at "spicing up" wine shelves. *Stranger* identified 22 niches and buying occasions that could benefit from enhanced packaging and developed a unique and patented bottle sleeve that contains everything from quotes to recipes. The idea was to create brands in a packaging format that stood out and added value, interest, as well as provided gifting opportunities—providing a tool to engage with people and attract attention in such a way that they want to pick up and read these wraps.

Figure 22

LINE OF *EVOCATIVE WINE* WRAPS

Source: Truett-Hurst, Inc.

Figure 23

CURIOUS BEASTS WINE: WRAPPED AND UNWRAPPED

Source: Truett-Hurst, Inc.

The Company's most popular selling brand under the line of *Evocative Wraps*, *Curious Beasts*, has been sold in the U.S. for approximately a year and a half. Currently, this brand is now the top-selling wrapped wine in both the U.S. and Canada. The brand is doing so well that Truett-Hurst's retail partner, Safeway, has asked for the bottle to be "unwrapped" so that it can be sold nationally around the country (Figure 23), with bottling expected to occur in June 2014 followed by a July 2014 launch. The brand will therefore ultimately be available as a "wrapped" and "unwrapped" version. Such success provides evidence that the "wrap" works well as a product launch mechanism. Launch of this Chardonnay in this category is expected to bode well as Chardonnay is the leading varietal in the marketplace.

In early August 2014, the Company announced that it was adding to its existing line of wrapped wines at Safeway, which now includes the *Bewitched Reserve Pinot Noir*, a reserve-level Russian River Valley (RRV) Pinot Noir. This supplements the current listings for the wrapped RRV Pinot Noir and Chardonnay.

Colby Red

In October 2013, Truett-Hurst entered into a co-ownership trademark agreement with wine industry veteran Daryl Groom (one of the top wines in Australia for many years), for a 50% ownership in and all rights, titles, and interest in the *Colby Red* trademark. *Colby Red* (Figure 24) is a California Cuvée of Cabernet Sauvignon, Zinfandel, Shiraz, Merlot, and Petite Sirah. In honor of heart month (February 2014), Truett-Hurst, in conjunction with Hershey Brookside Chocolate, launched a promotion where *Colby Red* could be purchased at any licensed Walgreens Co. (WAG-NYSE) or online at www.colbyred.com for $12.99. The Company has stated that it realized significant sales prior to the promotion, during the promotion, and has reported that it is generating some follow-up sales as well. Truett-Hurst is focused on expanding its partnership with *Colby Red*.

Figure 24

COLBY RED: SUPPORTING CHARITIES THAT PROMOTE HEART HEALTH

Every Bottle Sold Supports Heart Health

Colby Red

National Campaign Run With Hershey's Chocolate Across the U.S. in Walgreens During Heart Month (February 2014)

Source: Truett-Hurst, Inc.

Upcoming Expected Retail Exclusive Label Launches

Truett-Hurst recently received approval from Safeway to launch *Stonegate* (Figure 25), a Napa Valley Cabernet-Rutherford Appellation (target $34.99 MSRP). Established back in 1973 as one of the top cabernets in Napa Valley, the Company is bringing *Stonegate* back to its roots.

As well, *Bewitched,* a Russian River Valley Pinot Noir single vineyard, is a wrap that was created and successfully launched earlier in 2014. The Company is extending this line, which is expected to be launched in October 2014 (target $39.99 MSRP).

Figure 25

ADDITIONAL RETAIL EXCLUSIVE LAUNCHED EXPECTED

Stonegate

Bewitched

Source: Truett-Hurst, Inc.

Distribution

In order to compete with larger more influential producers and suppliers in an expanding market, grocery retailers have turned to retail exclusive labels in an effort to gain margin, customer loyalty, and differentiation. The Company creates and sells brands to leading wine retailers, such as Safeway, Trader Joe's, and Total Wine & More (Figure 26), which work to promote and advertise these product lines of wines. In a unique fashion, Truett-Hurst custom-develops brands for retailers and retains ownership of the brands it creates. This is in contrast to what is typical, where most wine makers assign the trademarks to the retailers after they have created and/or developed the retail exclusive label. Importantly, retention of ownership affords Truett-Hurst the capacity to move its retail exclusive label brands into broad market distribution following an exclusivity period or once a brand becomes successful. The validation (stickiness) of the Company's brands is the distinguishing factor of Truett-Hurst's business model and the expanded distribution points are the key growth driver. The cycle begins anew with the introduction of novel innovations, which is designed to further propel growth.

Figure 26

RETAIL EXCLUSIVE BRAND LABELS (PRIVATE LABEL)

Source: Truett-Hurst, Inc.

A majority of retailers have established distribution relationships across the country, providing the ability to leverage regular branded business along with retail exclusive label business. Through these relationships, retailers have negotiated below-market rates to achieve higher margins and provide better customer value. Brands developed for retailers are created specifically to address the needs and requests of the Company's retail partners. Wine brands in this segment, as listed in Figure 27, represent the fastest growing of Truett-Hurst's business.

Figure 27

RETAIL EXCLUSIVE BRAND LABELS

PaperBoy	The Supper Club
California Square	The Wine with No Name
Sauvignon Republic	Curious Beasts
Dearly Beloved	Candell's
The Fugitive	Schuck's
Harbor Front	The Criminal
Eden Ridge	Hobson Estate
Bewitched	Kiarna
Fuchsia	
Chateau Crisp	

Source: Truett-Hurst, Inc.

Direct-to-Consumer Channel

Through the direct-to-consumer channel, Truett-Hurst is focused on its tasting room and wine clubs. While Truett-Hurst and VML tasting rooms initially provided a means to build brand awareness and create customer loyalty, they now provide significant revenue and profit centers for the Company (where they are the highest gross margin business) as well as provide credibility among the Company's retail exclusive label customers. The Company's experience has demonstrated that the best ways to build consumer relationships are through the physical experience of visiting a winery. Importantly, while Truett-Hurst does have two wine properties with tasting rooms (Truett-Hurst and VML, Figure 29, page 34), each produce unique varietals so as not to compete against one another. As well, Truett-Hurst's business is bolstered by its wine clubs along with winery-hosted events at its tasting rooms. For the wine clubs, the Company ships via UPS directly to its customers around the country who live in states permitting direct shipping.

In August 2012, the Company purchased 50% of the outstanding membership interests in The Wine Spies LLC (www.thewinespies.com, Figure 28) for $325,000. The membership interest purchase agreement entitles Truett-Hurst to a 50% allocation of Wine Spies gains and losses (the remaining 50% membership interest is held by founder and current chief executive officer of the Wine Spies [Jason Seeber]). As well, Truett-Hurst was granted all right, title, and interest in The Wine Spies trademark. The Wine Spies is managed by a Board of four managers, with the Company reserving the right to name three managers (and the founder having the right to name one manager).

Figure 28
THE WINE SPIES

Source: Truett Hurst, Inc.

The Wine Spies, LLC offers consumers one vetted and reviewed wine selection per day ("flash sale"), and offers higher priced limited production wine with an emphasis on quality, price, and finding uncommon wines from boutique producers. Potential customers register as members of the deal-a-day website and receive online offers and invitations by email or social networks. The relationship with The Wine Spies enables Truett-Hurst to sell into the Internet segment, with the site now hosting up to six wines on an ongoing basis (when it runs through an allocation, it gets the next one). Worth noting is that while retail store sales still account for the majority of wine sales, online wine sales have emerged into a fairly significant component to overall wine sales. As of 2011, flash wine sales were estimated at approximately $100 million (Source: *Forbes*, October 13, 2011).

Figure 29

TRUETT-HURST AND VML ESTATES (INCLUDING GARDENS AND TASTING ROOMS)

TRUETT-HURST

VML

Source: Truett-Hurst, Inc.

Traditional Brand (Fully-Owned) Channel

The traditional distribution channel consists of four fully-owned in-house labels: *Truett-Hurst*; *VML*; *Healdsburg Ranches*; and *Bradford Mountain*, as described below.

- *Truett-Hurst.* Established in 2007 and located in the Dry Creek Valley of Sonoma County, Truett-Hurst was the Company's first winery operation and brand. This super-premium wine in a range of varietals (Figure 30)—including Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah, and other red blends—sells for between $20.00 to $50.00 or more per bottle.

Figure 30

TRUETT-HURST FLAGSHIP BRAND

Source: Truett-Hurst, Inc.

- *VML.* Established in 2011, the second winery operation and brand, VML, is located in the Russian River appellation of Sonoma County, with a focus on producing super-premium wines from grapes purchased from local growers, including vineyards owned by the Company's founders as well as members of its management team. VML also produces ultra-premium wines made from traditional varietals. VML wines are sold primarily through the Company's direct-to-consumer channel and range in price from $30.00 for the Russian River Chardonnay to $50.00 for the vineyard designated Pinot Noirs (Figure 31). Also offered through the Company's tasting room are other varietals, including Sauvignon Blanc, Gewurztraminer, and Rosé.

Figure 31

VML PINOT NOIR AND ROSÉ OF PINOT NOIR

Source: Truett-Hurst, Inc.

- *Healdsburg Ranches.* In 2011, the Hambrecht Wine Group purchased a 27.23% Class A Membership Interest in the LLC of *Healdsburg Ranches* for an aggregate purchase price of $2.8 million. Pursuant to the Membership Interest Purchase Agreement dated as of February 8, 2011, by and between the LLC and Hambrecht Wine Group, Hambrecht Wine Group's payment included transfer to the LLC of certain bulk wine and case goods and assignment to the LLC of the *Healdsburg Ranches* and *Bradford Mountain* trademarks. Early on in the California wine industry, Healdsburg was the center of the North Coast, a small farm town where the ranchers and farmers would come to get the tools, equipment, and supplies. They would also buy the local wines, labeled by variety, reasonably priced, and of good quality. Figure 32 illustrates Truett-Hurst's *Healdsburg Ranches* line of wines.

Figure 32

HEALDSBURG RANCHES

Source: Truett-Hurst, Inc.

- *Bradford Mountain.* Also acquired from the Hambrecht family in 2011, the *Bradford Mountain* brand is a historic and award-winning brand sold in the VML tasting room and through the Company's traditional distribution model (described on page 37). *Bradford Mountain* wines are made entirely from grapes grown in Dry Creek Valley and highlight wine from the Hambrecht-owned Grist Vineyard—a 1,200 foot elevation vineyard located in the western foothills of the Dry Creek valley. This mountain range has a southern exposure and ideal conditions in which to ripen grapes due to elevation and proximity to the Pacific Ocean. The *Bradford Mountain* brand is being launched in China where there are currently only two major California Zinfandel brands in existence—Seghesio and Ridge Vineyards.

Figure 33

BRADFORD MOUNTAIN

Source: Truett-Hurst, Inc.

Distribution

In addition to its wine clubs and tasting rooms, the Company's brands are sold through traditional distribution channels, where these wines are sold at a wholesale price directly to distributors (who operate state-wide or regionally). The distributor marks up the wine and sells it to various wine stores and restaurants and these outlets then sell to retail customers. Truett-Hurst utilizes the largest and most successful wine and spirits distributors to hold inventory and stock its retailer partners, as listed in Figure 34 and described below.

Figure 34
KEY DISTRIBUTORS

Trialto	Southern Wine & Spirits
All territories and provinces of Canada	35 U.S. states

Source: Truett-Hurst, Inc.

In June 2013, the Company signed a distribution agreement with Southern Wine and Spirits, which became fully effective in July 2013. Southern Wine and Spirits of America, Inc. is the country's largest wine and spirits distributor with operations in 35 states. Importantly, Southern Wine and Spirits identified Truett-Hurst as a leader in innovation, and sought the Company out.

In its most recently signed distribution agreement in May 2014, Truett formed a partnership with Trialto Wine Group, Ltd., based in Vancouver, Canada, to distribute the Truett-Hurst family of brands throughout all the territories and provinces of Canada. Trialto Wine Group, Ltd. is Canada's leading national premium wine company with a well-recognized portfolio signature "Wines of People, Place and Time"®. Trialto works exclusively with premium wines, representing prestigious premium wines from around the world and serving the Canadian market by facilitating the sourcing, selling, and marketing of premium wines to liquor boards, retailers, and restaurants.

Supply Agreement with Houdini (A Catalog and Online Storefront)

In April 2014, the Company announced that it was awarded a $750,000 wine supply agreement with Houdini Inc., a catalog and online storefront of Wine Country Gift Baskets (www.winecountrygiftbaskets.com). Headquartered in Fullerton, California, Houdini has sold more than 50 million gift baskets at warehouse clubs, mass merchandisers, liquor retailers, specialty stores, catalog companies, and Internet sites in the U.S. and in over 30 countries since 1984.

Wine Supply and Production

Truett-Hurst operates two wineries, with wine produced from many varieties of grapes grown largely in the Russian River Valley and Dry Creek Valley regions of California (Figure 35). The Russian River and Dry Creek Valley regions are among the top grape-growing regions in the U.S. The VML winery can crush, ferment, and oak barrel age roughly 500 tons (35,000 cases) of ultra-premium grapes annually, with capacity to increase to 2,000 tons with additional capital improvements. For larger production capacities, Truett-Hurst outsources to a variety of specialist wineries and bottling facilities, as described below.

Figure 35

RUSSIAN RIVER VALLEY AND DRY CREEK VALLEY REGIONS OF SONOMA COUNTY, CALIFORNIA

Source: The Prince of Pinot.

Driven by higher rates of consumption and stronger global economies for the past several years, worldwide supplies of wine and grapes have tightened significantly, which has led to shortages and consequently higher prices for premium wines. Recognizing this situation early on, the Company has been targeting new sourcing opportunities at pre-market prices, where the sourcing of quality grapes from noted regions around the world has become a crucial component to the Company's growth strategy.

Truett-Hurst's grape and wine sourcing strategy involves a combination of long-term contracts with sizeable partner-owned and managed vineyards (roughly 500 acres or 175,000 case equivalents), and multi-year contracts (one to four years) for grapes, bulk wine, and bottled goods. Total commitments make up roughly 300,000 cases per year or about 80% of total sourcing needs for fiscal year 2013. Specifically, wine production is outsourced to the Sonoma County winery, Owl Ridge; the Mendocino outsourcing specialist winery, Rack and Riddle; and state-of-the art Paso Robles winery, Robert Hall. Globally, Truett-Hurst is partnered with Wairau Vineyards in New Zealand to produce the 90 point *Wine Spectator*-rated *Sauvignon Republic Marlborough Sauvignon Blanc*.

The Company is diversified with regard to where it is sources its grapes, working to achieve certain price points. Therefore, when meeting with a retailer to develop a specific program, what is first determined is the price point. Truett-Hurst then works backward to reverse engineer where this program is going to be sourced. Some wines will have a California appellation, where the fruit can be sourced for any appellation, and some wines may list Dry Creek or Russian River Valley (Sonoma), which means that 85% of the fruit must come from that region.

Scores and Awards

The Company continues to experience positive feedback from retailers, national publications, and newspapers for its wine quality and packaging innovation. In December 2013, Robert Parker, one of the industry's most highly regarded wine critics, evaluated and rated selected VML wines (published in *Wine Advocate* #210), providing not only high scores but also favorable commentary on the Company's innovative design and packaging (Figure 36). As well, the 2011 *VML Winery Pinot Noir Earth* received 92 points from *Wine Spectator*, with the publication noting the wine to be "Strikingly rich and pure, with a sumptuous push of dark berry, plum and blueberry flavors, gaining depth, nuance and length. Ends with an enticing note of minerally loamy earth. Drink now through 2021…"

Figure 36

ROBERT PARKER EVALUATION, DECEMBER 2013

eRobertParker.com

91 points

Drink: 2013-2018

2011 Vml Winery Pinot Noir Floodgate

The three Pinot Noirs include the 2011 Pinot Noir Floodgate (14.9% alcohol),which possesses a dark plum/ruby color as well as a big, sweet nose of black cherry jam, plum and Asian spice notes. Broad, savory, rich, medium to full-bodied and velvety textured, this complex beauty should drink nicely for 4-5 years.

This publication does not give awards for label design, but I must say that the intricate and creative labels of VML Winery were fascinating to study. By the way, the VML stands for Virginia Marie Lambrix. With labels such as these, one hopes that the quality in the bottle matches the brilliance of the artistic design on the outside. These are the most individually crafted and designed wines I have seen since I first encountered the meticulous craftsmanship and artwork of Manfred Krankl at Sine Qua Non. However, but the real t...

- Robert Parker (December, 2013)

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eRobertParker.com

91 points

Drink: 2013-2019

2011 Vml Winery Pinot Noir Earth

The 2011 Pinot Noir Earth (14.3% alcohol), a cuvee culled out from their finest barrels, boasts a sexy, up-front style offering notes of plum sauce, kirsch, wild strawberries and spice. Medium to full-bodied, fleshy, elegant and pure, this beauty reminds me of a top-class premier cru from Burgundy's Cote de Beaune. Drink it over the next 5-6 years.

This publication does not give awards for label design, but I must say that the intricate and creative labels of VML Winery were fascinating to study. By the way, the VML stands for Virginia Marie Lambrix. With labels such as these, one hopes that the quality in the bottle matches the brilliance of the artistic design on the outside. These are the most individually crafted and designed wines I have seen since I first encountered the meticulous craftsmanship and artwork of Manfred Krankl at ...

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Source: The Wine Advocate, Inc.

Media Attention

The Company continues to experience a high degree of media attention (Figure 37), specifically surrounding the launch of some of its new brands.

Figure 37

MEDIA ATTENTION

Source: Truett Hurst, Inc.

Potential Competition

There are over 8,800 individual bonded wineries in the U.S. alone, with more than half of these started within the past decade. Today there are wineries in all 50 states, as shown in Figure 12 (page 22) (Alaska and Hawaii not shown but they do have winery locations); although California has retained its dominance in the domestic winemaking industry. With over 3,700 wineries and many large wine corporations, California companies and vineyards still account for 90% of the U.S.'s wine exports and 57% of the domestic wine market (Sources: the *New York Times*, July 6, 2013; Wine Institute, April 24, 2014). Beyond U.S. producers, there is a vast array of global winemakers also selling products into the North American markets. Wine Institute reports that the U.S. Tax and Trade Bureau approved nearly 99,000 wine label registrations—mostly from foreign producers—in 2013.

For the most part, the wine industry in the U.S. is highly fragmented and highly competitive due to the number of entities vying for shelf space at restaurants and retailers. There are, however, several well-known brands and companies in this market, as described below. A select number of producers, such as E. & J. Gallo Winery, one of the largest wineries in the world, tend to dominate the wine industry due to their extremely high-volume production. E. & J. for instance owns over 16,000 acres of California vineyards, which is estimated to be four times as much land as the entire state of Virginia has allocated for vineyards (Source: the *New York Times*, July 5, 2013).

The companies listed on pages 40-43 are not intended to be an exhaustive collection of potential competitors to Truett-Hurst; however, they are believed to be representative of the type of competition the Company may encounter as it seeks to further expand distribution and sales of its wine brands. Truett-Hurst is typically positioned in the up to $50.00/bottle price point range, where the Company may compete for shelf space against large beverage companies like Constellation Brands and Diageo (both of which have several wineries under their umbrella) in terms of product quality, price, label recognition, and product supply. In addition, the Company's primary retail exclusive label business model and innovative branding strategies serve as points of differentiation for Truett-Hurst in this expanding market.

High-Volume Wine Producers

E. & J. Gallo Winery
http://gallo.com/index.html

E. & J. Gallo is a family-owned winery headquartered in Modesto, California. Its website states that E. & J. is the largest winery in the world, with over 5,000 global employees and products being sold into more than 90 countries. The company was founded in 1933 and today offers approximately 60 different brands of wine (table wine, sparkling wine, and dessert wine) as well as distilled spirits and other beverage products. E. & J. operates multiple winery and vineyard locations across California and Washington State as well as maintains contracts with other growers to ensure a yearly supply and imports several of its brands from other countries in South America, Europe, and Australia/New Zealand. E. & J. is ISO 14001 certified, which implies an adherence to quality standards for environmental management systems.

Jackson Family Wines
www.jacksonfamilywines.com

Jackson Family Wines is a family-owned business that incorporates a large collection of wineries around the world on a total of roughly 35,000 acres (Source: *Wall Street Journal*, May 10, 2013). The company is based in Sonoma County, California, and operates across the U.S., Italy, France, Australia, and Chile. The Jackson Family Wines collection includes 20 brands/wineries under its portfolio, such as Kendall-Jackson®, Cambria®, Hartford Family Winery®, Matanzas Creek Winery®, and the Yangarra® Estate Vineyard. In addition, the company's Spire collection includes another 13 wineries. Jackson Family Wines has added over 14 properties to its portfolio in the past three years alone.

The Wine Group
http://thewinegroup.com/

California's The Wine Group (TWG) was once part of the Coca-Cola Company (KO-NYSE). It was founded in 1981 as part of an initiative to purchase several wine brands, including Franzia® and Mogen David. TWG has continued to acquire wineries since then, and today, is among the world's largest wine producers, by volume. The company is closely held and management owned, and encompasses approximately 25 wine brands. These brands are sold into the North American, Western European, and Asian markets. TWG's flagship winery is the Concannon® Vineyard in Livermore, California, which dates back to the 1880s. The company's brands also include Cupcake® Vineyards, Fisheye® Winery, flipflop® Wines, Almaden® Vineyards, and the Las Moras brand, among many others.

Constellation Brands, Inc. (STZ-NYSE)
http://www.cbrands.com/

Headquartered in New York, Constellation Brands is a global provider of wine, beer, and spirits. The company has facilities throughout the U.S., Canada, Mexico, and New Zealand. It sells well-known brands like Corona, Modelo Especial, SVEDKA Vodka, and many more that altogether comprise a portfolio of over 100 brands, which are sold in approximately 100 countries. Constellation has two primary divisions: (1) Wine and Spirits and (2) Beer. The company states on its website that it is the number one producer of premium wine worldwide as well as is the top wine company in Canada. Constellation has an estimated 19,000 acres of vineyards, which include but are not limited to the following wineries: Arbor Mist, Blackstone, Clos du Bois, Kim Crawford, and Robert Mondavi.

Diageo plc (DEO-NYSE)
http://www.diageo.com/

Global alcoholic beverage company Diageo (beer, wine, and spirits) is headquartered in London with offices, production, or manufacturing facilities in over 80 countries. Diageo sells its products in virtually every country in the world. Its primary brands include Johnnie Walker scotch whisky, Crown Royal Canadian whisky, Smirnoff and Ketel One vodkas, Captain Morgan rum, Baileys liqueur, and Guiness stout beer, among many others. Diageo's wine business only represents approximately 4% of the company's net sales, but includes notable brands like Sterling Vineyards, Rosenblum Cellers, and Chalone Vineyard. The company's champagne brands are Dom Pérignon and Moët & Chandon. Diageo's portfolio also includes Justerini & Brooks, a fine wine business selling exclusive wines to prestige merchants, restaurants, hotels, and a global base of private clients. Justerini & Brooks was established in 1749 and its top market is Great Britain.

Potential Competition to Truett-Hurst's Retail Exclusive Label Business

Winery Exchange Inc.
www.wineryexchange.com

Founded in 1999, Winery Exchange is a venture-backed beer, wine, and spirits company with headquarters in California and offices elsewhere in the U.S., London, New Zealand, and Spain. The company specializes in developing retail exclusive label brands for retailers, which have included Supervalu, Kroger, Costco, Delhaize Group, Tesco, Fresh & Easy, Cost Plus, Whole Foods, BEK, H-E-B, and Sainsbury. Winery Exchange's 300 beverage alcohol products are sold to retailers and consumers in 16 countries across North America, Europe, Asia, and Australasia. Winery Exchange introduced its first certified organic wine brands, Our Daily Red and Orleans Hill, in 2013. The company manages the entire retail exclusive label development process, from concept creation to product launch, which includes working with retailers and industry experts to identify suitable target markets and category opportunities. Winery Exchange works to aid decision making on product types, target price points, target packaging, and levels of brand support required before engaging graphic designers to work on branding and packaging.

Vintage Wine Estates
www.vintagewineestates.com

California-based Vintage Wine Estates represents a collection of eight family wineries from the Sonoma and Napa areas: Cartlidge and Browne, Clos Pegase, Cosentino Winery, Girard Winery, Ray's Station, Sonoma Coast Vineyards, Viansa Winery, and Windsor Vineyards. In addition to sales of its proprietary wines from these vineyards, the company is active in retail exclusive labeling and other custom wine development services. Vintage Wine Estates believes that its retail exclusive label efforts are competitive due to a speed-to-market time of under five days from order request to shipment, in-house graphic design staff who develop custom wine labels, and on-demand, low-minimum ordering, which may help retailers reduce inventory risks. The company also offers custom etchings on wine bottles for business or special occasions that might not want a fully retail exclusive label product. Customers can choose wines from any of the company's wineries (e.g., Sonoma Coast, Windsor, Cosentino) and have them etched with their own artwork or logo.

DFV Wines
www.dfvwines.com

DFV Wines, formerly the "Delicato Family Vineyards," is based in Napa, and Manteca, California, and has been a family-run business since the early 1900s. The company's 10,000-plus acres of vineyards includes the San Bernabe and Clay Station Vineyards, as well as supply from partner vineyards (i.e., contract growers). DFV Wines has over 12 wine brands, which include Gnarly Head and Bota Box. The company is also active in retail exclusive label and custom wine efforts. As far back as the 1950s, it has farmed grapes for other wineries and made custom wines for other California vintners, which DFV reports earned it a nickname of "The winemakers' winemaker." DFV recently purchased Napa's Black Stallion Estate Winery and has begun distribution of these wines previously sold only in the tasting room. In addition, in 2012 the company moved into a 107,000-square foot bottling facility in Napa to support the Black Stallion and other local brands, as well as support bottling for the company's retail exclusive labels. This was part of an ongoing five-year plan to significantly expand crush capacity and wine production (Source: the *North Bay Business Journal*, August 20, 2012).

Bronco Wine Company
http://classicwinesofcalifornia.com/

California winemaker Bronco Wine has a variety of wine brands sold in over 65 countries, and states on its website that it is the fourth largest winery in the U.S. Bronco Wine's portfolio of over 50 wines brands include Rutherford Vintners, Hacienda, Fox Hollow, Quail Ridge, and Napa Ridge, among others. In addition to making its own branded wines, Bronco Wine is a custom bottler for several national wineries and has a retail exclusive label winemaking business. Because it is a large grower with capacity for over 100 million gallons, the company can produce bulk wine for other wineries in addition to bottling millions of cases for other wine companies. The most well-known of the company's retail exclusive label offerings is likely to be Charles Shaw, or "Two-Buck Chuck," sold at Trader Joe's grocery stores.

"Flash Sale" Wine Websites

There are a number of established websites devoted to offering subscribers special "daily deals" on wines or significant discounts on particular brands or wine quantities. These sites only offer a limited inventory, for a limited amount of time, which is typically available first-come-first-serve to registered consumers. They typically compete on the basis of wine quality, quantity, and discount. As detailed on page 33, Truett-Hurst has an ownership stake in The Wine Spies (www.thewinespies.com), which competes for sales and page views against the websites listed in Figure 38 (page 43). This is not an exhaustive listing but is representative of the other online avenues where consumers can try out new wines at a discount.

Figure 38

WEBSITES OFFERING FLASH WINE SALES

Site Name	Web Address
The Wine Spies	http://www.thewinespies.com
Cinderella Wine	http://cinderellawine.com/
invino	https://www.invino.com/
Last Bottle	http://www.lastbottlewines.com/
Last Call Wines	https://lastcallwines.com/
Lot 18	http://www.lot18.com
Vitis®	http://www.vitis.com
wine woot!	http://wine.woot.com/
WineShopper™	https://www.wineshopper.com/
WinesTilSoldOut®	http://www.winestilsoldout.com/

50% ownership by Truett-Hurst

Sources: Forbes, March 30, 2012; Flash Wine Websites; and Crystal Research Associates, LLC.

Truett-Hurst's Competitive Advantages

Truett-Hurst has developed a business strategy based on the foundations summarized below.

- *Model scalability to drive growth.* The Company combines experience in the wine industry with the speed and swiftness of a start-up, and has demonstrated that it can work with both retailers and distributors in developing and marketing new wine brands. The Company's size is relatively small versus its peers (see Competition, pages 40-43), which affords it the ability to be more agile and less prone to layers of decision making. With its in-house world-class brand development/creative team (biographies on pages 17-19), Truett-Hurst is able to launch its new brands faster and more economically, which enables the Company and its partners to respond rapidly to market opportunities.

- *Collaborative channel partnerships.* The support of multiple entities inside the distribution system is critical for defending sustainable market position—i.e., a solid collaboration with well-known and reputable retailers seeking to market innovative, higher-margin brands. Truett-Hurst's standing continues to improve driven by the Company's success with its channel partners, which has led to new opportunities in brand development, such as selling some of its brands by means of traditional distribution at a lower price. The Company currently holds a small share of a sizeable market. Ultimately, Truett-Hurst seeks to expand its sales within its existing retailer partnerships, including with large businesses like Trader Joe's, Safeway, and Total Wine & More, as well as ramp up the number of new partnerships with additional retailers.

- *Collaborative and rapid brand development.* The Company's development process with its partners is highly collaborative, with the products developed based on partners' market data and a thorough understanding of the needs of a partner's customers. Rather than developing a brand and bringing it to market based on the input from consultants, Truett-Hurst is unique in that it exploits quantitative data from its retail partners with regard to brands, price points, packaging, and varietals purchased by customers. Truett-Hurst's partnerships typically involve providing a retailer with numerous concepts, including multiple brands, varietals, and price points that get launched collectively—a method which has demonstrated success as it allows the retailer to test various concepts—with the expectancy that roughly half of the brands will prove successful and go on to be further developed while the other half will be scaled back or discontinued. A typical timeframe is about six months from the initial conversations with a retailer until a product reaches the retailer's shelves.

- *Quality-focused within the premium sector.* Historically, the retail exclusive label business was focused on the generic, sub-premium category (a retail price of less than $7.00 per bottle), where the wine quality was consistent with such a price point. Seeing the growth within this category, Truett-Hurst has positioned itself mainly within the super-premium and ultra-premium segments. To support this "premium" strategy, the Company has identified and contracted with premium grape sources from Paso Robles, Sonoma, and Mendocino counties in California. Benefitting from the founders' industry-specific experience, the Company is able to leverage longstanding relationships with California growers—an increasingly important advantage as grape supplies around the world tighten. Truett-Hurst is also able to source grapes on a priority basis from its founders as well as members of its management team, who collectively control 500 acres of vineyards in Sonoma and Mendocino counties. Furthermore, the Company employs top-quality winemaking staff and has invested in state-of-the-art equipment.

- *Unique packaging and label designs.* With the explosion of wine brands and a need to stand out, innovative labeling and packaging has become a key factor to successfully launching new wine brands around the world. Truett-Hurst's founders along with independent contractor, Mr. Kevin Shaw (biography on page 18), who serves as the Company's creative director, have first-rate experience in this area. Accordingly, they are gaining a reputation as market leaders with fresh, new packaging designs—e.g., evocative paper-wrapping, unique bottle shapes, and the world's first paper-based bottles (*PaperBoy®*, described on pages 27-28).

Historical Financial Results

Figures 39, 40, and 41 summarize Truett-Hurst's key historical financial statements: the Condensed Consolidated Statements of Operations, Balance Sheets, and Statements of Cash Flows, as presented in the Company's Form 10-Q filed with the U.S. Securities and Exchange Commission (SEC) on May 6, 2014.

Figure 39
TRUETT-HURST INC. AND SUBSIDIARIES
(Prior to June 26, 2013, H.D.D. LLC and Subsidiary)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(unaudited)

	Quarters Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	**2013**	**2014**	**2013**
Sales	$ 5,280	3,666	$ 16,957	12,477
Less excise tax	(120)	(92)	(415)	(342)
Net sales	5,160	3,574	16,542	12,135
Cost of sales	3,408	2,242	10,880	8,057
Gross profit	1,752	1,332	5,662	4,078
Operating expenses:				
Sales and marketing	1,252	1,005	3,582	2,653
General and administrative	738	571	2,285	1,677
Provision for loss of deposit	400	—	400	—
Bulk wine sales, net (gain) loss	—	—	(1)	—
Total operating expenses	2,390	1,576	6,266	4,330
Loss from operations	(638)	(244)	(604)	(252)
Other income (expense):				
Interest expense	(42)	(73)	(123)	(253)
Other	(56)	58	(26)	(17)
Total other income (expense)	(98)	(15)	(149)	(270)
Loss before income taxes	(736)	(259)	(753)	(522)
Income tax (benefit) expense	(111)	—	(100)	2
Net loss before non-controlling interests	(625)	(259)	(653)	(524)
Less: Net income (loss) attributable to non-controlling interest: The Wine Spies, LLC	(13)	4	(74)	(44)
Net loss attributable to Truett-Hurst, Inc. and H.D.D. LLC	(612)	$ (263)	(579)	(480)
Less: Net loss attributable to non-controlling interest: H.D.D. LLC	(428)		(402)	
Net loss attributable to Truett-Hurst, Inc.	$ (184)		$ (177)	
Net earnings per share:				
Basic and diluted	$ (0.06)		$ (0.07)	
Weighted average shares used in computing net loss per share:				
Basic and diluted	2,936,894		2,704,752	

Source: Truett-Hurst, Inc.

Figure 40

TRUETT-HURST INC. AND SUBSIDIARIES

(Prior to June 26, 2013, H.D.D. LLC and Subsidiary)

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(unaudited)

	March 31, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash	$ 5,117	$ 11,367
Accounts receivable	2,523	2,816
Inventories	17,184	13,222
Bulk wine deposit	1,125	—
Other current assets	205	245
Total current assets	26,154	27,650
Property and equipment, net	5,575	5,383
Goodwill	134	134
Intangible assets, net	659	706
Deferred tax asset, net	2,669	—
Other assets, net	369	259
Total assets	$ 35,560	$ 34,132
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	$ 6,582	$ 6,887
Accounts payable	2,020	2,123
Accrued expenses	933	1,710
Due to related parties	331	71
Current portion of deferred taxes	—	96
Current maturities of related party notes	73	70
Current maturities of long-term debt	332	250
Total current liabilities	10,271	11,207
Long-term debt, net of current maturities	3,611	3,454
Due to related parties pursuant to tax receivable agreement	2,512	—
Deferred taxes, net of current portion	—	127
Deferred rent liability	51	53
Related party notes, net of current maturities	12	67
Total liabilities	16,457	14,908
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value of $0.001 per share, 5,000,000 shares authorized and zero issued and outstanding	—	—
Class A common stock, par value of $0.001 per share, 7,000,000 authorized and 3,599,778 issued and outstanding at March 31, 2014 and 2,700,000 at June 30, 2013	4	3
Class B common stock, par value of $0.001 per share,1,000 authorized and 10 issued and outstanding	—	—
Additional paid-in capital	13,786	10,977
Accumulated deficit	(3,645)	(3,467)
Total Truett-Hurst, Inc. equity	10,145	7,513
Non-controlling interests	8,958	11,711
Total equity	19,103	19,224
Total liabilities and stockholders' equity	$ 35,560	$ 34,132

Source: Truett-Hurst, Inc.

Figure 41

TRUETT-HURST INC. AND SUBSIDIARIES

(Prior to June 26, 2013, H.D.D. LLC and Subsidiary)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (unaudited)

	Nine-Month Periods Ended March 31, 2014	2013
Cash flows from operating activities:		
Net loss	$ (653)	$ (524)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	394	256
Stock-based compensation	253	56
Deferred taxes	(100)	—
Loss (gain) on fair value of warrant and interest rate swap	(3)	18
Deferred rent	(2)	(3)
Contributed rent	—	35
Changes in operating assets and liabilities, net		
Accounts receivable	293	(87)
Inventories	(3,962)	(4,749)
Bulk wine deposit	(1,125)	(486)
Other current assets	44	(664)
Accounts payable and accrued expenses	(880)	1,367
Net cash used in operating activities	(5,741)	(4,781)
Cash flows from investing activities:		
Acquisition of property and equipment	(472)	(725)
Acquisition of intangible and other assets	(180)	(52)
Acquisition of The Wine Spies, LLC	—	(325)
Proceeds from sale of assets	1	—
Net cash used in investing activities	(651)	(1,102)
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	(305)	5,415
Advances from related parties	—	683
Net proceeds (payments to) related parties	260	(77)
Proceeds from related party notes	—	350
Payments on related party notes	(52)	(450)
Proceeds from long-term debt	425	3,881
Payments on long-term debt	(186)	(3,544)
Payments on amount due factor	—	(869)
Proceeds from exercise of warrant	—	498
Net cash provided by financing activities	142	5,887
Net increase (decrease) in cash	(6,250)	4
Cash at beginning of period	11,367	167
Cash at end of period	$ 5,117	$ 171
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 125	—
Cash paid for income taxes	$ 2	$ 1
Supplemental disclosure of non-cash transactions		
Contributed rent for membership interest	$ —	$ 36
Deferred tax asset arising from LLC unit exchange	2,791	$ —
Due to related parties pursuant to tax receivable agreement	2,512	$ —
Equity benefit on LLC unit exchange	$ 279	$ —

Source: Truett-Hurst, Inc.

Recent Events

08/04/2014—Truett-Hurst announced that, beginning September 2014, national Safeway stores were adding several Truett-Hurst wines to their listings.

06/13/2014—Announced the appointment of Paul A. Forgue as chief financial officer and chief operating officer, effective June 16, 2014.

06/03/2014—Announced that the Company has partnered with Trialto Wine Group Ltd to bring its unique wine lines to retail shelves in Canada. *California Square®* was launched in Ontario on May 29, 2014.

05/06/2014—Reported fiscal year 2014 financial results for its third quarter and nine months ended March 31, 2014. Net sales continued to grow, increasing 44% for the quarter and 36% year-to-date compared to the same periods last year. Margins held steady at 34%, representing a slight improvement year over year. New brand introductions—the *Evocative Wraps*, *California Square®*, and *PaperBoy®*—are gaining traction in the marketplace and evolving from an introductory retail exclusive program to national and international distribution in the broad market. These brands, in conjunction with expanded new retail exclusive listings, Truett-Hurst's broader portfolio, and future innovations, are expected to continue to drive Company growth.

05/02/2014—Announced that it has formed a distribution agreement with Trialto Wine Group, Ltd., based in Vancouver, Canada. This agreement creates a national partnership with Trialto to distribute the Truett-Hurst family of brands throughout all the territories and provinces of Canada.

04/10/2014—Announced the completion of a general supply agreement with Ecologic Brands, Inc. ("Ecologic") to produce paper bottles for the Company's *PaperBoy®* brand. Ecologic Brands, an Oakland, California-based designer and manufacturer of paper bottles, has been recognized for making America's first recycled paper bottles, offering consumers a choice in packaging beyond plastic or glass. The award-winning eco.bottle®, made from recycled cardboard, provides a more ecologically favored choice in packaging.

04/03/2014—Announced that it has concluded a wine supply agreement with Houdini Inc., a company known for its catalog and online storefront, Wine Country Gift Baskets. Houdini has sold more than 50 million gift baskets at warehouse clubs, mass merchandisers, liquor retailers, specialty stores, catalog companies, and Internet sites in the U.S. and in over 30 countries. Truett-Hurst has been selected by Houdini to create a range of wines under three unique brands for distribution in its gift baskets for the upcoming holiday season.

03/31/2014—Announced that its innovations have been in a feature highlighted on the front cover of *Packaging World*. The article recognized the significance and innovative paper wine bottle, *PaperBoy®*. *Packaging World* is among the best read publications for professionals who use, recommend, and purchase packaging equipment and materials. *PaperBoy®* is packaged in a molded paper outer shell in the shape of a traditional wine bottle with a plastic liner inside. Decorating the front and back of the *PaperBoy®* bottle are Kraft-colored, recycled-paper labels, printed with water-soluble inks and applied using a natural rubber adhesive. *Packaging World* also mentioned Truett-Hurst's *California Square®*, a premium wine in an elegant retro embossed square glass bottle that provides shipping and storage savings, and the *Evocative Wraps*, a premium wine packaged in bottles with cleverly designed full-body paper wraps for almost every occasion.

03/06/2014—Announced that it had revised guidance furnished in connection with its earnings release and subsequent conference call. The Company's then paper bottle supplier for its *PaperBoy®* brand had been placed into administration in the United Kingdom (a process similar to the bankruptcy process in the U.S.). As a result of the supplier's failure, the Company now relies on a new supplier in the U.S., with which it has negotiated a multi-year supply arrangement. The Company's anticipates that it will recognize a one-time provision for loss on deposit of approximately $0.4 million relating to amounts previously paid in advance to the supplier. The loss will negatively impact the Company's operating expense for the third quarter and nine months ended March 31, 2014.

02/06/2014—Reported fiscal year 2014 financial results for its second quarter and six months ended December 31, 2013. Second quarter sales were up 76%, gross margins were up 8% compared to the same prior year's period, and the Company was profitable for the quarter and first half.

11/12/2013—Announced the release of the first paper wine bottle in the U.S., branded *PaperBoy®*, as a molded outer shell in the shape of a wine bottle, made from recycled cardboard with a plastic liner. The entire package is 85% lighter than a glass bottle and is easily recyclable. From production to shipping to recycling, *PaperBoy®* proves the wine business can operate with a significantly reduced carbon footprint. Also announced was that Pleasanton, California–based Safeway Inc. is partnering with Truett-Hurst in the initial release of *PaperBoy®* nationwide. *PaperBoy®* contains appellation-based, super-premium wines sourced from the Mendocino and Paso Robles growing regions and crafted by winemaker Virginia Marie Lambrix, also the winemaker for VML. *PaperBoy®* provides a responsible way to carry wine outdoors.

11/06/2013—Reported financial results for its first quarter of fiscal 2014 ended September 30, 2013.

10/20/2013—Announced that the Company released the first retro/chic square wine bottle in national distribution through Total Wine & More in October 2013. The ultra-premium bottle also made a pre-release debut at festivities planned around the 65th Annual Emmy Awards September 21st and 22nd, where *California Square®* was presented to celebrities and VIPs throughout the weekend as they circulate through the legendary W Hotel in Hollywood. *California Square®*, created by design firm *Stranger & Stranger's* Kevin Shaw, is an elegant package that harkens back to classic spirit bottles with their square shape and memorable art. The entire line of *California Square®* wines, crafted by winemaker Virginia Marie Lambrix, was featured during the Emmy Awards weekend.

10/14/2013—Announced the launch of its all-new line of eco-friendly *California Square®* fine wines. *California Square®* comes in three varieties of super-premium appellation-based wines, each offered in a striking, retro/chic bottle. The 2012 vintage of *California Square®* includes a Russian River Valley Chardonnay, a Paso Robles Cabernet, and a Paso Robles Three Red Blend. Available in stores throughout the U.S. and Canada, the wines retail for under $20.00. In the U.S., *California Square®* is available in Total Wine & More stores and online at www.totalwine.com.

Risks and Disclosures

This Executive Informational Overview® (EIO) has been prepared by Truett-Hurst, Inc. ("Truett-Hurst" or "the Company") with the assistance of Crystal Research Associates, LLC ("CRA") based upon information provided by the Company. CRA has not independently verified such information. Some of the information in this EIO relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in Truett-Hurst's statements on Forms 10-K, 10-Q, and 8-K, as well as other forms filed from time to time.

The content of this report with respect to Truett-Hurst has been compiled primarily from information available to the public released by the Company through news releases, Annual Reports, and U.S. Securities and Exchange Commission (SEC) filings. Truett-Hurst is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by Truett-Hurst or CRA. Certain summaries of activities and outcomes have been condensed to aid the reader in gaining a general understanding. CRA assumes no responsibility to update the information contained in this report. In addition, CRA's compensation by a third party is a cash amount of thirty thousand U.S. dollars for its services in creating this report and for updates. For more complete information about the risks involved in an investment in the Company, please see Truett-Hurst's most recently filed Annual Report on Form 10-K for the year ended December 31, 2013.

Investors should carefully consider risks and information about Truett-Hurst's business. Investors should not interpret the order in which considerations are presented in this EIO or the Company's other filings as an indication of their relative importance. Additional risks and uncertainties not presently known to Truett-Hurst or that it currently believes to be immaterial may also adversely affect its business. If any of such risks and uncertainties develops into an actual event, Truett-Hurst's business, financial condition, and results of operations could be materially adversely affected, and the trading price of the Company's shares could decline.

This report is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state. Past performance does not guarantee future performance. Additional information about Truett-Hurst and its public filings, as well as copies of this report, can be obtained by calling (707) 431-4436.

Risks Related to the Business

A reduction in the supply of grapes and bulk wine available to the Company from the independent grape growers and bulk wine suppliers could reduce Truett-Hurst's annual production of wine.

The Company relies on annual contracts with independent growers to purchase substantially all of the grapes used in its wine production. Truett-Hurst's business would be harmed if it were unable to contract for the purchase of grapes at acceptable prices from these or other suppliers in the future. The terms of many of Truett-Hurst's purchase agreements also constrain the Company's ability to discontinue purchasing grapes in circumstances where it might want to do so. Some of these agreements provide that either party may terminate the agreement prior to the beginning of each harvest year.

Truett-Hurst depends on bulk wine suppliers for the production of several of its wines, particularly its direct-to-retailer designated labels. The Company has contracts with some wineries to provide it with bulk wine for a four-year term at specified prices and terms. These contracts provide Truett-Hurst with limited growth opportunities for the next two years. Further growth beyond the Company's grape and wine contracts depends on the availability of bulk wine at the right price and quality for the Company's labels. The price, quality, and available quantity of bulk wine has fluctuated in the past.

It is possible that Truett-Hurst will not be able to purchase bulk wine of acceptable quality at acceptable prices and quantities in the future, which could increase the cost or reduce the amount of wine produced for sale, which could reduce the Company's sales and profits. Two vendors are considered Truett-Hurst's largest suppliers of bulk wine and it is possible that the Company will not be able to source wine from these or comparable suppliers in the future, which could reduce the Company's annual production of wine and harm its sales and profits.

Truett-Hurst has a history of losses, and the Company may not achieve or maintain profitability in the future.

The Company has had a limited number of quarters or years of profitability and has historically raised additional capital to meet its growth needs. Truett-Hurst expects to make significant future investment in order to develop and expand its business, which will result in additional sales, marketing, and general and administrative expenses that will require increased sales to recover these additional costs. As a public company, Truett-Hurst expects to incur legal, accounting, and other administrative expenses that it did not incur as a private company. As a result of its sales and marketing expenses as well as these increased expenditures, the Company must generate and sustain increased revenue to achieve and maintain future profitability. While Company revenue has grown in recent periods, this growth may not be sustainable.

Truett-Hurst may not generate sufficient revenue to achieve or maintain profitability. The Company may incur significant losses in the future for a number of reasons, including slowing demand for its products and increasing competition, as well as the other risks described in the Company's Annual Report on Form 10-K, and the Company may encounter unforeseen expenses, difficulties, complications, and delays, and other unknown factors in the expansion of its business. Accordingly, Truett-Hurst may not be able to achieve or maintain profitability and it may incur significant losses in the future, which could cause the price of its stock to decline.

The Company faces significant competition, which could adversely affect its profitability.

The wine industry is intensely competitive. Truett-Hurst's wines compete in several super-premium and ultra-premium wine market segments with many other super-premium and ultra-premium domestic and foreign wines, with imported wines coming from the Burgundy and Bordeaux regions of France, as well as Italy, Chile, Argentina, South Africa, and Australia. The Company's wines also compete with other alcoholic and, to a lesser degree, non-alcoholic beverages, for shelf space in retail stores and for marketing focus by its independent distributors—many of which carry extensive brand portfolios.

A result of this, intense competition has been and may continue to be upward pressure on the Company's selling and promotional expenses. In addition, the wine industry has experienced significant consolidation. Many of Truett-Hurst's competitors have greater financial, technical, marketing, and public relations resources than the Company. Its sales may be harmed to the extent that it is not able to compete successfully against such wine or alternative beverage producers' costs. There can be no assurance that in the future the Company will be able to successfully compete with its current competitors or that the Company will not face greater competition from other wineries and beverage manufacturers.

Because a significant amount of Truett-Hurst's business is made through its direct-to-retailer alliances, any change in the Company's relationship with them could harm Truett-Hurst's business.

As of fiscal years ended June 30, 2013 and 2012, sales by the Company's top two direct retailers totaled approximately 63% and 84% of retail sales, respectively. Truett-Hurst's agreements with its direct retail alliances are informal and therefore subject to change. If one or more of its direct retail alliances chose to purchase fewer of the Company's products, or Truett-Hurst were forced to reduce the prices at which it sells its products to these alliances, sales and profits would be reduced and the Company's business would be harmed.

The loss of key employees or personnel could damage the Company's reputation and its business.

The Company believes that its success largely depends on the continued employment of a number of its key employees, including Phil Hurst, chief executive office, Virginia Lambrix, the Company's winemaker, Paul Dolan, one of its co-founders, and Kevin Shaw, an independent contractor who serves as the Company's Creative Director. Any inability or unwillingness of Mr. Hurst, Ms. Lambrix, Mr. Dolan, Mr. Shaw, or other key management team members to continue in their present capacities could harm Truett-Hurst's business and its reputation.

A reduction in the Company's access to or an increase in the cost of, the third-party services Truett-Hurst uses to produce the Company's wine could harm its business.

The Company utilizes several third-party facilities, of which there is a limited supply, for the production of its wines. An inability in the future to use these or alternative facilities, at reasonable prices or at all, could increase the cost or reduce the amount of the Company's production, which could reduce its sales and profits. Truett-Hurst does not have long-term agreements with any of these facilities, and they may provide services to the Company's competitors at a price above what Truett-Hurst is willing to pay. The activities conducted at outside facilities include crushing, fermentation, storage, blending, and bottling. The Company's reliance on these third parties varies according to the type of production activity. As production increases, Truett-Hurst must increasingly rely upon these third-party production facilities. Reliance on third parties will also vary with annual harvest volumes.

Truett-Hurst has limited control over the quality control and quality assurance of these third-party manufacturers. If its suppliers are not able to deliver products that satisfy the Company's requirements, Truett-Hurst may be forced to seek alternative providers for these goods and services, which may not be available at the same price, or at all, which would harm Truett-Hurst's financial results.

The terms of Truett-Hurst's credit facility with Bank of the West may restrict its current and future operations, which could adversely affect the Company's ability to respond to changes in its business and to manage its operations.

The Company's senior credit facility includes a number of customary restrictive covenants that could impair its financing and operational flexibility and make it difficult for Truett-Hurst to react to market conditions and satisfy its ongoing capital needs and unanticipated cash requirements. The credit facility contains usual and customary covenants, including, without limitation:

- limitation on incurring senior indebtedness;
- limitation on making loans and advances;
- limitation on investments, acquisitions, and capital expenditures;
- limitation on liens, mergers, and sales of assets; and
- limitations on activities of Truett-Hurst.

In addition, the credit facility contains negative and financial covenants, including, without limitation, a minimum current assets to current liabilities ratio (measured quarterly), debt to effective tangible net worth ratio (measured quarterly), and debt service coverage ratio (measured annually).

The Company was not in compliance with the minimum current assets to current liabilities ratio at September 30, 2012, December 31, 2012, or March 31, 2013. Truett-Hurst was not in compliance with the debt to effective tangible net worth at December 31, 2012 or March 31, 2013. In March 2013 and again in May 2013, as a condition to receiving waivers from Bank of the West, Truett-Hurst entered into certain transactions with its members. The Company's ability to comply with the covenants and other terms of its senior credit facility will depend on its future operating performance and, in addition, may be affected by events beyond its control, and Truett-Hurst may not meet them. If the Company fails to comply with such covenants and terms, it would be required to obtain waivers from its lenders or agree with its lenders to an amendment of the facility's terms to maintain compliance under such facility. If the Company was unable to obtain any necessary waivers and the debt under its senior credit facility is accelerated, it would have a material adverse effect on the Company's financial condition and future operating performance, and Truett-Hurst may be required to limit its activities.

Because the Company's existing owners retain significant control over Truett-Hurst, new investors will not have as much influence on corporate decisions as they would if control were less concentrated.

Truett-Hurst's existing owners at June 30, 2013, controlled 61% of the voting power of its outstanding Class A common stock and 100% of the voting power of its outstanding Class B common stock. Prior to conversion of their LLC Units, each holder of LLC Units holds a single share of the Company's Class B common stock. Although these shares have no economic rights, they allow the Company's existing owners to exercise voting power over Truett-Hurst, Inc., the managing member of the LLC, at a level that is consistent with their overall equity ownership of its business. As a result, existing owners and their respective affiliates have significant influence in the election of directors and the approval of corporate actions that must be submitted for a vote of stockholders. In addition, certain existing owners, as well as certain trusts and other entities under their control, have entered into guarantee agreements in connection with the Company's credit facility with Bank of the West. The interests of these affiliates may conflict with the interests of other stockholders, and the actions they take or approve may be contrary to those desired by the other stockholders. This concentration of ownership may also have the effect of delaying, preventing, or deterring an acquisition of Truett-Hurst by a third party.

Many of Truett-Hurst's transactions are with related parties, including the Company's founders, executive officers, and other related parties, and present conflicts of interest.

The Company routinely sources bulk wine and grapes for its products from vineyards owned by Truett-Hurst's founders, executive officers, and principal stockholders. The Company also engages in other transactions with affiliates. The interests of these affiliates in such transactions may be contrary to those desired by stockholders. Although the Company intends to put in place policies related to mitigating the risk associated with such transactions, stockholders may be harmed by self-dealing with affiliates and the Company's loss of corporate opportunity.

In addition, from time to time, Truett-Hurst enters into transactions for goods and services with entities in which its executive officers, directors, and/or affiliates have interests. For example, the Company leases its VML Winery facility, including all of the buildings, grounds, parking areas, and other facilities and equipment located at VML Winery, from Hambrecht Wine Group, a member of the LLC.

The Company also enters into grape and bulk wine purchase agreements from time to time with entities in which its executives and/or founders have financial interests. Truett-Hurst has entered into such arrangements with those listed below and on page 54:

- Hambrecht Vineyards, which is owned by the Hambrecht 1980 Revocable Trust, of which William R. Hambrecht, a director of the LLC and Truett-Hurst, Inc., serves as trustee. The manager of Hambrecht Vineyards is Forrester R. Hambrecht, a member of the LLC and the grandson of William R. Hambrecht.

- Ghianda Rose Vineyard, which is owned by Diana Fetzer, wife of Paul E. Dolan, III a member of the Company's board of directors.

- Gobbi Street Vineyards, which is partly owned by Diana Fetzer, and Paul E. Dolan, III's daughter, Nya Kusakabe.

- Mendo Farming Company, which is managed by Heath E. Dolan and owned by the following members: (i) Phillip L. Hurst and Sylvia M. Hurst as trustees of The Hurst Family Revocable Trust Dated April 5, 1996 (33.333% interest); (ii) Paul E. Dolan III, as trustee of The Dolan 2003 Family Trust Dated June 5, 2003 (30.334% interest); (iii) Peter E. Dolan (17.333% interest); (iv) Heath E. Dolan and Robin A. Dolan, as trustees of The Dolan 2005 Family Trust Dated August 24, 2005 (9.500% interest); and (v) Zachary Y. Schat and Melissa Schat, as trustees of The Zachary Schat Trust U/D/T Dated September 1, 2004 (9.500% interest). Peter E. Dolan is the brother of Paul E. Dolan, III.

- Dark Horse Farming Company, which is owned Paul E. Dolan III (50%), Heath E. Dolan (25%), and Jason Dolan (25%). Paul E. Dolan III and Heath E. Dolan are directors of the LLC and Truett-Hurst, Inc. Jason Dolan is the brother of Heath E. Dolan.

The Company believes that these arrangements reflect substantially the same market terms it would receive in transactions with unaffiliated third parties. However, if Truett-Hurst should fail to receive market terms for these transactions or other similar transactions in the future, Company profits could be reduced.

If Truett-Hurst is unable to implement and maintain effective internal control over financial reporting in the future, the accuracy, and timeliness of its financial reporting may be adversely affected.

Truett-Hurst's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the audits of the Company's consolidated financial statements as of June 30, 2011 and 2012 and for each of the years in the two-year period ended June 30, 2012, a material weakness in the internal control over financial reporting was identified. The material weakness pertains to deficiencies in accounting research and reporting functions and the closing and reporting process due to a lack of accounting documentation and procedures, lack of segregation of duties, potential for management override of controls, and lack of current expertise in reporting requirements.

The internal weakness described above continued into the Company's fiscal 2013. With the oversight of senior management, Truett-Hurst has begun taking steps and plans to take additional measures to remediate the underlying causes of the material weakness, primarily through the development and implementation of formal policies, improved processes and documented procedures, as well as the hiring of additional finance personnel. In particular, in July 2012, the Company hired a CFO; in October 2012, a controller; and in April 2013, a director of reporting and finance to assist with the development and monitoring of internal controls. Apart from the identified material weakness, management believes the consolidated financial statements for the most recently issued 10-K fairly represent in all material respects the Company's financial condition, results of operations, and cash flows at and for the periods presented in accordance with GAAP.

The Company has not performed an evaluation of its internal control over financial reporting, such as required by Section 404 of the Sarbanes-Oxley Act, nor has it engaged its independent registered public accounting firm to perform an audit of the Company's internal control over financial reporting as of any balance sheet date or for any period reported in its financial statements. Had Truett-Hurst performed such an evaluation or had its independent registered public accounting firm performed an audit of its internal control over financial reporting, control deficiencies, including material weaknesses and significant deficiencies, in addition to those discussed above, may have been identified.

The SEC rules implementing Section 404 of the Sarbanes-Oxley Act do not require Company management to provide an annual management report on the effectiveness of its internal control over financial reporting until the second annual report after becoming a public company. If Truett-Hurst is not able to adequately assess the effectiveness of its internal controls, the Company may not be able to correct the material weakness discussed above or detect other weaknesses or deficiencies.

In addition, Truett-Hurst is an "emerging growth company" as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and as such the Company may elect to avail itself of the certain exemptions from various reporting requirements of public companies that are not "emerging growth companies," including, but not limited to, an exemption from complying with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, which is referred to as the "Sarbanes-Oxley Act," and reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements.

Several of the Company's executive officers and key team members have outside business interests that may create conflicts of interest.

Several of the Company's executive officers and affiliates have their own vineyards or wineries. Although these executives and key team members are committed to devoting their attention to Truett-Hurst's business, they may devote time to outside interests that do not benefit Truett-Hurst stockholders. If Company executives and key team members fail to devote sufficient time to the management of the Company's business, Truett-Hurst's sales and profits could be reduced.

The Company depends upon its trademarks and proprietary rights, and any failure to protect its intellectual property rights or any claims that the Company is infringing upon the rights of others may adversely affect its competitive position and brand equity.

The future success depends significantly on the Company's ability to protect its current and future brands and products and to defend its intellectual property rights. Truett-Hurst has staked out a reputation for innovation and has introduced new product innovations, including, for example, the evocative wine wraps, the world's first paper bottle, and the proprietary square bottle. The Company has been granted numerous trademark registrations covering its brands and products and has filed, and expects to continue to file, trademark applications seeking to protect newly-developed brands and products. Truett-Hurst cannot be sure that trademark registrations will be issued with respect to any of its trademark applications. There is also a risk that the Company could, by omission, fail to timely renew or protect a trademark or that its competitors will challenge, invalidate, or circumvent any existing or future trademarks issued to, or licensed by, Truett-Hurst.

A reduction in consumer demand for premium wines could harm the Company's business.

There have been periods in the past in which there were substantial declines in the overall per capita consumption of alcoholic beverages in the U.S. and other markets in which the Company participates. A limited or general decline in consumption in one or more of Truett-Hurst's product categories could occur in the future due to a variety of factors, including a general decline in economic conditions, increased concern about the health consequences of consuming beverage alcohol product and about drinking and driving, a trend toward a healthier diet including lighter, lower calorie beverages such as diet soft drinks, juices, and water products, the increased activity of anti-alcohol consumer groups and increased federal, state, or foreign excise and other taxes on alcoholic beverage products. The competitive position of Truett-Hurst's products could also be affected adversely by any failure to achieve consistent, reliable quality in the product or service levels to customers.

Changes in consumer spending could have a negative impact on the Company's financial condition and business results.

Wine sales depend upon a number of factors related to the level of consumer spending, including the general state of the economy, federal and state income tax rates, deductibility of business entertainment expenses under federal and state tax laws, and consumer confidence in future economic conditions. Changes in consumer spending in these and other areas can affect both the quantity and the price of wines that customers are willing to purchase at restaurants or through retail outlets. Reduced consumer confidence and spending may result in reduced demand for Truett-Hurst's products, limitations on the Company's ability to increase prices, and increased levels of selling and promotional expenses. This, in turn, may have a considerable negative impact upon Company sales and profit margins.

The market price of Truett-Hurst's stock may fluctuate due to seasonal fluctuations in the Company's wine sales, operating expenses, and net income.

The Company experiences seasonal and quarterly fluctuations in sales, operating expenses, and net income. Generally, the second and third quarters of its fiscal year have lower sales volumes than the first and fourth quarters. The Company has managed, and will continue to manage, its business to achieve long-term objectives. In doing so, it may make decisions that it believes will enhance the Company's long-term profitability, even if these decisions may reduce quarterly earnings. These decisions include the timing of the release of its wines for sale, its wines' competitive positioning, and the grape and bulk wine sources used to produce Truett-Hurst's wines.

Bad weather, plant diseases, and other factors could reduce the amount or quality of the grapes available to produce Truett-Hurst's wines.

A shortage in the supply of quality grapes may result from the occurrence of any number of factors, which determine the quality and quantity of grape supply, such as weather conditions, pruning methods, the existence of diseases and pests, and the number of vines producing grapes, as well as the level of consumer demand for wine. Any shortage could cause an increase in the price of some or all of the grape varieties required for the Company's wine production and/or a reduction in the amount of wine the Company is able to produce, which could harm the business and reduce its sales and profits. The California wine industry is currently experiencing a shortage of grapes due to the fact that grapes were in oversupply in the early 2000s and the industry is just now starting to replant. Recent examples of events affecting supply include the frost in 2008 that significantly impacted the amount of grapes harvested in Mendocino County, and the frost of 2011 which had a significant impact on the crop size in Paso Robles. Factors that reduce the quantity of grapes may also reduce their quality, which in turn could reduce the quality or amount of wine produced by Truett-Hurst. Deterioration in the quality of the Company's wines could harm its brand name and a decrease in its production could reduce sales and profits.

Adverse public opinion about alcohol may harm the Company's business.

While a number of research studies suggest that moderate alcohol consumption may provide various health benefits, other studies conclude or suggest that alcohol consumption has no health benefits and may increase the risk of stroke, cancer, and other illnesses. An unfavorable report on the health effects of alcohol consumption could significantly reduce the demand for wine, which could harm Truett-Hurst's business and reduce its sales and profits.

In recent years, activist groups have used advertising and other methods to inform the public about the societal harms associated with the consumption of alcoholic beverages. These groups have also sought, and continue to seek, legislation to reduce the availability of alcoholic beverages, to increase the penalties associated with the misuse of alcoholic beverages, or to increase the costs associated with the production of alcoholic beverages. Over time, these efforts could cause a reduction in the consumption of alcoholic beverages generally, which could harm the Company's business and reduce its sales and profits.

Contamination of Truett-Hurst's wines would harm the Company's business.

Because Truett-Hurst's products are designed for human consumption, its business is subject to hazards and liabilities related to food products, such as contamination. A discovery of contamination in any of the Company's wines, through tampering or otherwise, could result in a recall of its products. Any recall would significantly damage the Company's reputation for product quality, which Truett-Hurst believes to be one of its principal competitive assets, and could seriously harm its business and sales. Although the Company maintains insurance to protect against these risks, it may not be able to maintain insurance on acceptable terms, and this insurance may not be adequate to cover any resulting liability.

Increased regulatory costs or taxes would harm Truett-Hurst's financial performance.

The wine industry is regulated extensively by the Federal Tax and Trade Bureau and state and local liquor authorities and State of California environmental agencies. These regulations and laws dictate various matters, including:

- Excise taxes;
- Licensing requirements;
- Trade and pricing practices;
- Permitted distribution channels;
- Permitted and required labeling;
- Advertising;
- Relationships with distributors and retailers; and
- Air quality, storm water, and irrigation use.

Recent and future zoning ordinances, environmental restrictions, and other legal requirements may limit the Company's plans to expand production capacity, as well as any future development of new vineyards and wineries. In addition, federal legislation has been proposed that could significantly increase excise taxes on wine. Other federal legislation has been proposed, which would prevent the Company from selling wine directly through the mail. This proposed legislation, or other new regulations, requirements, or taxes, could harm Truett-Hurst's business and operating results. Future legal or regulatory challenges to the wine industry could also harm its business and impact operating results.

Prompted by growing government budget shortfalls and public reaction against alcohol abuse, Congress and many state legislatures are considering various proposals to impose additional excise taxes on the production and sale of alcoholic beverages, including table wines. Some of the excise tax rates being considered are substantial. The ultimate effects of such legislation, if passed, cannot be assessed accurately since the proposals are still in the discussion stage. Any increase in the taxes imposed on table wines can be expected to have a potentially adverse impact on overall sales of such products. However, the impact may not be proportionate to that experienced by producers of other alcoholic beverages and may not be the same in every state.

An increase in the cost of energy or the cost of environmental regulatory compliance could affect the Company's profitability.

Truett-Hurst has experienced increases in energy costs, and energy costs could continue to rise, which would result in higher transportation, freight, and other operating costs. The Company may experience significant future increases in the costs associated with environmental regulatory compliance, including fees, licenses, and the cost of capital improvements to its operating facilities in order to meet environmental regulatory requirements. The Company's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Truett-Hurst cannot guarantee that it will be able to pass along increased energy costs or increased costs associated with environmental regulatory compliance to its customers through increased prices.

In addition, the Company may be party to various environmental remediation obligations arising in the normal course of its business or in connection with historical activities of businesses it acquires. Due to regulatory complexities, uncertainties inherent in litigation, and the risk of unidentified contaminants in its current and former properties, the potential exists for remediation, liability, and indemnification costs to differ materially from the costs that have been estimated. The Company cannot assure investors that its costs in relation to these matters will not exceed its projections or otherwise have an adverse effect upon its business reputation, financial condition, or results of operations.

Climate change, or legal, regulatory, or market measures to address climate change, may negatively affect Truett-Hurst's business, operations, or financial performance, and water scarcity or poor water quality could negatively impact production costs and capacity.

The Company's business depends upon agricultural activity and natural resources. There has been much public discussion related to concerns that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. Severe weather events and climate change may negatively affect agricultural productivity in the regions from which the Company presently sources its agricultural raw materials, such as grapes. Decreased availability of raw materials may increase the cost of goods for the Company's products. Severe weather events or changes in the frequency or intensity of weather events may also disrupt Truett-Hurst's supply chain, which may affect production operations, insurance cost and coverage, as well as delivery of the Company's products to wholesalers, retailers, and consumers.

Water is essential in the production of the Company's products. The quality and quantity of water available for use is important to the supply of grapes and Truett-Hurst's ability to operate its business. Water is a limited resource in many parts of the world and if climate patterns change and droughts become more severe, there may be a scarcity of water or poor water quality that may affect Company production costs or impose capacity constraints. Such events could adversely affect results of operations and financial condition.

Natural disasters, including earthquakes or fires, could destroy the Company's facilities or its inventory.

Truett-Hurst must store its wine in a limited number of locations for a period of time prior to its sale or distribution. Any intervening catastrophes, such as an earthquake or fire, that result in the destruction of all or a portion of its wine would result in a loss of the Company's investment in, and anticipated profits and cash flows from, that wine. Such a loss would seriously harm the Company's business and reduce its sales and profits.

Regulatory Environment

The wine industry is part of the highly regulated U.S. liquor industry. While there have been significant relaxations over time, such as those arising following the Granholm v. Heald U.S. Supreme Court decision in 2005, the U.S. wine industry still operates within the confines of an outdated, arcane set of laws. The production and sale of wine is subject to extensive regulation by the United States Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau and the California Liquor Control Commission. Truett-Hurst is licensed by and meets the bonding requirements of each of these governmental agencies. Sale of its wines are subject to federal alcohol tax, payable at the time wine is removed from the bonded area of the winery for shipment to customers or for sale in the Company's tasting rooms.

The current federal alcohol tax rate is $1.07 per gallon for wines with alcohol content at or below 14.0% and $1.57 per gallon for wines with alcohol content above 14.0% but less than 21%; however, wineries that produce not more than 250,000 gallons during the calendar year are allowed a graduated tax credit of up to $0.90 per gallon on the first 100,000 gallons of wine (other than sparkling wines) removed from the bonded area during that year. The Company also pays the state of California an excise tax of $0.20 per gallon for all wine sold in California. In addition, all states in which Truett-Hurst's wines are sold impose varying excise taxes on the sale of alcoholic beverages. These are the responsibility of the supplier or distributor depending upon the channel in which the wine is sold. Internet and consumer direct sales are also subject to state regulation which governs the quantity, manner in which product can be shipped, delivered and excise taxes collected.

As an agricultural processor, Truett-Hurst is further regulated by Sonoma County and, as a producer of wastewater, by the state of California. The Company has secured all necessary permits to operate its business. Prompted by growing government budget shortfalls and public reaction against alcohol abuse, Congress and many state legislatures are considering various proposals to impose additional excise taxes on the production and sale of alcoholic beverages, including table wines. Some of the excise tax rates being considered are substantial. The ultimate effects of such legislation, if passed, cannot be assessed accurately since the proposals are still in the discussion stage. Any increase in the taxes imposed on table wines can be expected to have an adverse impact on overall sales of such products. However, the impact may not be proportionate to that experienced by producers of other alcoholic beverages and may not be the same in every state. Company Management is highly focused on environmental stewardship and maintains a variety of policies and processes designed to protect the environment, the public and consumers of its wine. Many of the Company's expenses for protecting the environment are voluntary; however, the Company is regulated by various local, state, and federal agencies regarding environmental laws where these costs and processes are effectively integrated into regular operations and do not cause significant alternative processes or costs.

Risks Related to the Company's Organizational Structure

Truett-Hurst's only material asset is its interest in the LLC, and it is accordingly dependent upon distributions from the LLC to pay taxes, make payments under the tax receivable agreement, or pay dividends.

The Company is a holding company and has no material assets other than its controlling member equity interest in the LLC. Truett-Hurst has no independent means of generating revenue. It will cause the LLC to make distributions to its unit holders in an amount sufficient to cover all applicable taxes at assumed tax rates, payments under the tax receivable agreement and dividends, if any, declared by the Company. To the extent that Truett-Hurst needs funds, and the LLC is restricted from making such distributions under applicable law or regulation or under the terms of its financing arrangements, or is otherwise unable to provide such funds, it could materially adversely affect the Company's liquidity and financial condition.

The Company is controlled by its existing owners, whose interests may differ from those of the public stockholders.

As of June 30, 2013, Truett-Hurst's existing owners owned approximately 61% of the LLC Units and outstanding shares of its Class A common stock, assuming conversion of all LLC units. Because they hold their ownership interest in the Company's business through the LLC, rather than through the public company, these existing owners may have conflicting interests with holders of shares of the Class A common stock. For example, Truett-Hurst's existing owners may have different tax positions from the Company, which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement that the Company entered in to, and whether and when it should terminate the tax receivable agreement and accelerate the obligations thereunder. In addition, the structuring of future transactions may take into consideration these existing owners' tax or other considerations even where no similar benefit would accrue to the Company.

Truett-Hurst is a "controlled company" within the meaning of the corporate governance standards of NASDAQ and, as a result, qualifies for, and relies on, exemptions from certain corporate governance requirements.

The Company's affiliates continue to control a majority of the combined voting power of Truett-Hurst. As a result, it is a "controlled company" within the meaning of the NASDAQ corporate governance standards. Under the NASDAQ rules, a company of which more than 50% of the voting power is held by an individual, group, or another company is a "controlled company" and need not comply with certain requirements, including the requirement that a majority of the Board of Directors consist of independent directors and the requirements that its compensation and nominating and governance committees be composed entirely of independent directors. The Company utilizes these exemptions, and as a result, does not have a majority of independent directors and its compensation and nominating and governance committees does not consist entirely of independent directors, and such committees are not subject to annual performance evaluations. Accordingly, investors do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of NASDAQ.

The Company will be required to pay its existing owners for certain tax benefits it may claim arising in connection with the IPO and related transactions, and the amounts that may be paid could be significant.

Truett-Hurst entered into a tax receivable agreement with its existing owners, which provides for the payment by the Company to its existing owners of 90% of the benefits, if any, that the Company is deemed to realize as a result of (i) the increases in tax basis resulting from its exchanges of LLC Units and (ii) certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

The Company expects the payments that it may make under the tax receivable agreement may be substantial. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding tax receivable agreement payments. There may be a material negative effect on the Company's liquidity if distributions to the Company by the LLC are not sufficient to permit it to make payments under the tax receivable agreement after having paid taxes. For example, Truett-Hurst may have an obligation to make tax receivable agreement payments for a certain amount while receiving distributions from the LLC in a lesser amount, which would negatively affect its liquidity. The payments under the tax receivable agreement are not conditioned upon the Company's existing owners' continued ownership of it.

The Company is required to make a good faith effort to ensure that it has sufficient cash available to make any required payments under the tax receivable agreement. The operating agreement of the LLC requires the LLC to make "tax distributions" which, in the ordinary course, will be sufficient to pay its actual tax liability and to fund required payments under the tax receivable agreement. If, for any reason, the LLC is not able to make a tax distribution in an amount that is sufficient to make any required payment under the tax receivable agreement or the Company otherwise lacks sufficient funds, interest would accrue on any unpaid amounts at LIBOR plus 500 basis points until they are paid. In the event that Truett-Hurst and an exchanging LLC Unit holder are unable to resolve a disagreement with respect to the tax receivable agreement, the Company is required to appoint either an expert in the relevant field or an arbitrator to make a determination, depending on the matter in dispute. As of June 30, 2013, none of the Company's existing owners exchanged LLC Units.

In certain cases, payments under the tax receivable agreement to the Company's existing owners may be accelerated and/or significantly exceed the actual benefits realized in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations, or other changes of control, or if, at any time, Truett-Hurst elects an early termination of the tax receivable agreement, Truett-Hurst's (or its successor's) obligations with respect to exchanged or acquired LLC Units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayer would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement.

As a result, (i) the Company could be required to make payments under the tax receivable agreement that are greater than or less than the specified percentage of the actual benefits realized in respect of the tax attributes subject to the tax receivable agreement and (ii) if the Company elects to terminate the tax receivable agreement early, it would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, and this upfront payment may be made years in advance of the actual realization of such future benefits.

Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis, and other benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement. In these situations, the Company's obligations under the tax receivable agreement could have a substantial negative impact on Truett-Hurst's liquidity. There can be no assurance that the Company will be able to finance its obligations under the tax receivable agreement.

Payments under the tax receivable agreement are based on the tax reporting positions that the Company determines. Although it is not aware of any issue that would cause the IRS to challenge a tax basis increase, Truett-Hurst will not be reimbursed for any payments previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made under the tax receivable agreement in excess of the benefits that Truett-Hurst actually realizes in respect of (i) the increases in tax basis resulting from its exchanges of LLC Units and (ii) certain other tax benefits related to its entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

Emerging Growth Company Status

Truett-Hurst is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, enacted on April 5, 2012 ("JOBS Act"). For as long as it is an "emerging growth company," the Company may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in the Company's periodic reports and proxy statements, and exemptions from the requirements of holding stockholder advisory "say-on-pay" votes on executive compensation and stockholder advisory votes on golden parachute compensation.

Under the JOBS Act, Truett-Hurst is expected to remain an "emerging growth company" until the earliest of the following:

- the last day of the fiscal year during which Truett-Hurst has total annual gross revenues of $1 billion or more;
- the last day of the fiscal year following the fifth anniversary of the Company's IPO;
- the date on which the Company has, during the previous three-year period, issued more than $1 billion in non-convertible debt; and
- the date on which the Company is deemed to be a "large accelerated filer" under the Exchange Act. The Company qualifies as a large accelerated filer as of the first day of the first fiscal year after they have (i) more than $700 million in outstanding common equity held by non-affiliates and (ii) been public for at least 12 months; the value of outstanding common equity will be measured each year on the last day of the second fiscal quarter).

The JOBS Act also provides that an "emerging growth company" can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "Securities Act") for complying with new or revised accounting standards. However, the Company chose to "opt out" of such extended transition period, and, as a result, will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not "emerging growth companies."

Controlled Company Status

For purposes of the corporate governance rules of NASDAQ, Truett-Hurst is a "controlled company." Controlled companies under the rules are companies of which more than 50% of the voting power for the election of directors is held by an individual, a group, or another company. Affiliates beneficially own more than 50% of the combined voting power of Truett-Hurst, Inc. and have the right to designate a majority of the members of the Company's Board of Directors for nomination for election and the voting power to elect such directors. Accordingly, Truett-Hurst takes advantage of certain exemptions from corporate governance requirements of NASDAQ. Specifically, as a "controlled company," the Company is not required to have (1) a majority of independent directors; (2) a nominating and governance committee composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; (3) a compensation committee composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; or (4) an annual performance evaluation of the nominating and governance and compensation committees.

Risks Related to the Class A Common Stock

The Company does not intend to pay any cash dividends in the foreseeable future.

Truett-Hurst does not expect to pay any dividends in the foreseeable future. Payments of future dividends, if any, will be at the discretion of its Board of Directors after taking into account various factors, including its business, operating results and financial condition, current and anticipated cash needs, plans for expansion, and any legal or contractual limitations on the Company's ability to pay dividends. As a result, capital appreciation in the price of Class A common stock, if any, may be the only source of gain on an investment in Truett-Hurst Class A common stock.

Even if the Company decides in the future to pay any dividends, Truett-Hurst Inc. is a holding company with no independent operations of its own except its controlling member equity interest in the LLC. As a result, Truett-Hurst Inc. depends on H.D.D. LLC and its affiliates for cash to pay its obligations and make dividend payments. Deterioration in the financial condition, earnings, or cash flow of H.D.D. LLC and its affiliates for any reason could limit or impair their ability to pay cash distributions or other distributions to the Company. In addition, the Company's ability to pay dividends in the future is dependent upon its receipt of cash from H.D.D. LLC and its affiliates. H.D.D. LLC and its affiliates may be restricted from sending cash to the Company by, among other things, law or provisions of the documents governing the Company's existing or future indebtedness.

If securities or industry analysts stop publishing research or reports about Truett business, or should the Company's Class A common stock be downgraded in recommendations, the stock price and trading volume could decline.

The trading market for the Company's Class A common stock is influenced by the research and reports that industry or securities analysts publish about the Company or its business. If any of the analysts who covers Truett-Hurst downgrades its Class A common stock or publishes inaccurate or unfavorable research about the Company's business, the Company's Class A common stock price may decline. If analysts cease coverage or fail to regularly publish reports on Truett-Hurst, the Company could lose visibility in the financial markets, which in turn could cause its Class A common stock price or trading volume to decline and its Class A common stock to be less liquid.

The market price and trading volume of Truett-Hurst common stock may be volatile and may be affected by market conditions beyond the Company's control.

As an emerging growth company, the market price of Truett-Hurst's Class A common stock may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market, or political conditions could reduce the market price of shares of the Company's Class A common stock in spite of operating performance.

In addition, operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in the Company's quarterly operating results or dividends, if any, to stockholders, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about the industry, litigation, and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting the Company's business, adverse market reaction to any indebtedness which the Company may incur or securities which may be issued in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by Truett-Hurst's competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures, or capital commitments, adverse publicity about the industries in which the Company participates in or individual scandals, and in response, the market price of shares of the Company's Class A common stock could decrease significantly. Investors may be unable to resell shares of Class A common stock at or above the price which was originally paid.

In the past years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against Truett-Hurst, could result in substantial costs and a diversion of management's attention and resources.

Investors may be diluted by the future issuance of additional Class A common stock in connection with incentive plans, acquisitions, or otherwise.

As of June 30, 2013, the Company had an aggregate of 4,354,644 million shares of Class A common stock authorized but unissued, including approximately 4,102,644 million shares of Class A common stock issuable upon exchange of outstanding LLC Units and 252,000 shares reserved for issuance under its 2012 Incentive Plan, including 252,000 restricted shares issuable upon vesting that the Company has granted to its CFO and independent contractor/creative director.

The certificate of incorporation authorizes Truett-Hurst to issue these shares of Class A common stock and restricted stock rights relating to Class A common stock for the consideration and on the terms and conditions established by the Company's Board of Directors at its sole discretion. Any Class A common stock that the Company issues, including under its 2012 Incentive Plan or other equity incentive plans that the Company may adopt in the future, would dilute the percentage ownership held by then existing holders of Class A Company common stock.

Truett-Hurst will incur increased costs and demands upon management as a result of complying with the laws and regulations that affect public companies, which could materially adversely affect its results of operations, financial condition, business, and prospects.

As a public company and particularly after the Company ceases to be an "emerging growth company," Truett-Hurst will incur significant legal, accounting, and other expenses that it did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with Section 404 and other provisions of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules implemented by the SEC and NASDAQ. In addition, the management team will also have to adapt to the requirements of being a public company. The Company expects that compliance with these rules and regulations will substantially increase its legal and financial compliance costs and will make some activities more time-consuming and costly.

The increased costs associated with operating as a public company will decrease the Company's net income or increase its net loss, and may require Truett-Hurst to reduce costs in other areas of its business or increase the prices of its products or services. Additionally, if these requirements divert management's attention from other business concerns, they could have a material adverse effect on results of operations, financial condition, business, and prospects.

However, for as long as the Company remains an “emerging growth company” as defined in the JOBS Act, it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. The Company may take advantage of these reporting exemptions until it is no longer an “emerging growth company.”

The Company will not be required to comply with certain provisions of the Sarbanes-Oxley Act for as long as it remains an “emerging growth company.”

Truett-Hurst is not currently required to comply with the SEC rules that implement Sections 302 and 404 of the Sarbanes-Oxley Act, and are therefore is not required to make a formal assessment of the effectiveness of its internal controls over financial reporting for that purpose. As a public company, Truett-Hurst will be required to comply with certain of these rules, which will require management to certify financial and other information in its quarterly and annual reports and provide an annual management report on the effectiveness of its internal control over financial reporting. Though the Company will be required to disclose changes made in its internal control procedures on a quarterly basis, it will not be required to make its first annual assessment of the Company’s internal control over financial reporting pursuant to Section 404 until the year following its first annual report required to be filed with the SEC, or the date it is no longer an “emerging growth company” as defined in the JOBS Act.

The Company’s independent registered public accounting firm is not required to formally attest to the effectiveness of its internal control over financial reporting until the year following the first annual report required to be filed with the SEC, or the date Truett-Hurst is no longer an “emerging growth company.” At such time, its independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which the Company’s controls are documented, designed, or operating.

Reduced disclosure requirements applicable to emerging growth companies may make the Company’s common stock less attractive to investors.

As an “emerging growth company,” Truett-Hurst will take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in the Company’s periodic reports, and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. The Company cannot predict if investors will find its common stock less attractive as the Company relies on these exemptions. If some investors find Truett-Hurst common stock less attractive as a result, there may be a less active trading market for its common stock and the Company’s stock price may be more volatile.

Litigation Matters

Paul Dolan, a former employee of Mendocino Wine Group (MWG), left MWG in 2012. Mr. Dolan filed suit against MWG in connection with establishing a fair price for his interest in MWG, and MWG filed a cross-complaint alleging Dolan breached his duty to, and competed with, MWG, and shared confidential information with others, including people at the Company. The suit is pending in Mendocino County Superior Court. In May 2013, the Company was subpoenaed to produce documents but not named in the suit. A trial date is yet to be scheduled and the plaintiff has appointed a new attorney who has indicated a desire to settle the matter with Mr. Dolan. The Company estimates that its response costs will not be material. At March 31, 2014, there were no changes.

The Company may be subject to various litigation matters arising in the ordinary course of business from time to time. The results of litigation and claims cannot be predicted with certainty, and unfavorable resolutions are possible and could materially affect results of operations, cash flows, or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on Truett-Hurst because of defense costs, diversion of management resources, and other factors. However, 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 its financial position, results of operations, or cash flows.

Indemnification Obligations

Truett-Hurst's certificate of incorporation and bylaws also provide that the Company shall indemnify its directors and executive officers and shall indemnify its other officers and employees and other agents to the fullest extent permitted by law. The Company believes that indemnification under its bylaws covers at least negligence and gross negligence on the part of indemnified parties. The Company's bylaws also permit it to secure insurance on behalf of any officer, director, employee, or other agent for any liability arising out of his or her actions in this capacity, regardless of whether Company bylaws would permit indemnification.

The Company believes that these provisions are necessary to attract and retain qualified persons as directors and executive officers. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the company pursuant to the foregoing provisions, the opinion of the SEC is that such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

In addition, Truett-Hurst maintains standard policies of insurance under which coverage is provided to its directors and officers against loss arising from claims made by reason of breach of duty or other wrongful act, and to it with respect to payments which may be made by the Company to such directors and officers pursuant to the above indemnification provisions or otherwise as a matter of law. Truett-Hurst maintains a Directors and Officers liability insurance policy, which enables the Company to recover a portion of future indemnification claims paid, subject to retentions, conditions and limitations of those policies. In addition, the Company makes available standard life insurance and accidental death and disability insurance policies to its employees.

Glossary

Appellation—Denotes the place where most of the grapes used in the wine were grown. An appellation of origin can be the name of a country, state, county, or geographic region. Federal regulations require that at least 75% of the grapes must be grown in the named appellation of origin.

Barrel—A hollow cylindrical container traditionally made of wood that is used for fermenting and aging wine. Sometimes called a cask.

Biodynamic—A spiritual-ethical-ecological approach to agriculture, food production, and nutrition that employs a holistic understanding of agricultural processes. It has been referred to as one of the first sustainable agriculture movements, treating soil fertility, plant growth, and livestock care as ecologically interrelated tasks.

Blends—The mixing of two or more different parcels of wine together by winemakers to produce a consistent finished wine that is ready for bottling. Laws generally dictate what wines can be blended together, and what is subsequently printed on the wine label.

Cabernet Sauvignon—A variety of red grape mainly used for wine production, and is, along with Chardonnay, one of the most widely-planted of the world's noble grape varieties. Cabernet Sauvignon-produced wines have the distinct flavors of blackcurrant and cassis, along with cedar, leather, and plum. These wines are medium- to full-bodied, and are rich and high in tannins, which help these wines to age better than most wines, as well made Cabernet Sauvignons can be aged for more than 10 years. Cabernet Sauvignon prefers hotter climates, and when grown in cooler climates it does not fully ripen and exudes a bitter bell pepper flavor. Also called "Cabernet," it is often mixed with Merlot to help soften the tannins. The best Cabernet Sauvignon wines come from California and the Médoc region of Bordeaux in France. As well, it is grown in other regions of Argentina, Australia, Chile, France (Bordeaux and Langedouc-Rousillon), Italy, New Zealand, and Washington in the U.S.

Chardonnay—Chardonnay is among the most popular grapes on the market today. This grape is able to adapt to a variety of climates: in cooler climates it exhibits green apple and citrus notes, and in hotter climates, baked pineapple and tropical fruit notes. Chardonnay wines are characteristically dry with a medium to high acidity and a full body. These grapes are almost always fermented in oak barrels, as it tends to richen the fruit characteristics, impart a vanilla flavor, and provide the body with a creamier texture. In addition, Chardonnay is one of the three accepted grapes used in producing Champagne. The best expression of Chardonnay can be found in Burgundy, France. Other regions producing good examples of Chardonnay are Argentina, Austria, Australia, Chile, France (Champagne and Langedouc-Rousillon), Italy (Tre Venezie and Tuscany), New Zealand, South Africa, and the United States (primarily California and Oregon).

Cuvée—A wine blended from several vats or batches, or from a selected vat. Also used in Champagne to denote the juice from the first pressing of a batch of grapes.

Enology—A word that comes from the Greek words for wine and study, is the term that is used to describe the science of winemaking. This science has its roots in prehistoric times, as the effects of alcohol were most likely discovered when rotten fruit was consumed and found to have an intoxicating effect, which was viewed as pleasant. Fermented liquid could be stored for a long time without fear of decomposition, and a reliable drinking source was obtained.

Hectoliters—A metric unit of capacity equal to one hundred liters, used especially for wine, beer, grain, and other agricultural produce.

Kraft—Paper or paperboard (cardboard) produced from chemical pulp produced in the Kraft process.

Merlot—With a similar flavor to Cabernet Sauvignon, Merlots tend to have a deeper color, and often have integrated flavors of baked cherry and mocha. In addition, they have softer tannins, the reason why many believe Merlot's silky texture is more pleasant than Cabernet Sauvignon. Merlot does well in the Pomerol and St.-Émilion, two regions in the "Right Bank" of Bordeaux, France. Also, it is grown in Argentina, Australia, Chile, France (Langedouc-Rousillon), Italy, and the U.S. (California, New York, Virginia and Washington).

Open-IPO® process—Open-IPO is an alternative approach to initial public offerings (IPOs), developed by W.R. Hambrecht & Co., which substitutes an auction-based system for the traditional Wall Street book-building process. Open-IPO uses an auction process to find the intersection of supply and demand in pricing IPOs.

Pinot Grigio/Pinot Gris—This grape, which is grown around the world, has many flavor profiles. Italian Pinot Grigios are typically light-bodied and somewhat dry, with notes of citrus fruit zest. In California, these wines are crisp, yet bitter and in Oregon, take on notes of pear and spice cake. The name used for this grape depends on the region in which it is grown, as Italians call it Pinot Grigio, French Pinot Gris in Alsace, and in California and Oregon, some call it Gris and others Grigio, and Germans call this the Grauburgunder or Ruländer grape.

Pinot Noir—Pinot Noir is typically described as lighter in body, color, and tannins than most of its red wine counterparts. This wine conveys baked cherry and plums, and picks up flavors of whatever is nearby such as cedar, pristine forest, and wild mushrooms. Pinot Noir is also one of the three accepted grapes used to produce Champagne. Pinot Noirs of Burgundy, France are distinguished throughout the world as being some of the most elegant wines on the market. Pinot Noir grows also grows well in a few other climates, such as New Zealand, the U.S. (Oregon and California), Italy, Austria, and Germany.

Retail Exclusive Label—Products or services are manufactured or provided by one company for offer under another company's brand.

Reserve—A term given to wine to indicate that it is of higher quality than usual.

Sauvignon Blanc—Sauvignon Blancs are crisp, light- to medium-bodied, with melon and dried fig flavors. Distinguishable by their herbaceous characteristics, which are most often described as grass, Sauvignon Blancs can also display fresh herbs, hay, meadow, and straw. The Loire Valley in France has two regions, Pouilly-Fumé and Sancerre, which produce notable Sauvignon Blancs. As well, New Zealand and regions in Chile, France (Bordeaux), Italy, South Africa, and the U.S. (California, Texas, and Washington) have become well known for their Sauvignon Blancs.

Super-Premium—The pricing structure of wines ranges from super value to luxury. Figure 16 (page 24) summarizes wine price categories, noting that super-premium wines are priced between $15.00 and $24.99 per 750 mL bottle. This is more than premium wines, which are $12.00 to $14.99 per bottle, but less than ultra-premium wines. *See Ultra-Premium on page 68.* Truett-Hurst's wine brands are positioned primarily within the super-premium and ultra-premium sectors.

Syrah/Shiraz—Shiraz or Syrah is a variety of grape used to make red wine. Syrahs, which are almost black in color, offers notes of meat, pepper, smoke, and spices, as well as a full body and firm tannins. The Rhône Valley in Southern France has long been a known for Syrah. Some Rhône appellations, such as Hermitage, allow only the Syrah grape to be used in its wines. Others, such as Châteauneuf-du-Pape, allow it to be used in blends. Besides France, Syrah is grown in the U.S. (California and Washington), as well as in Australia and South Africa, where it is called shiraz.

Three-tier Channel—System for distributing alcoholic beverages set up in the U.S. after the repeal of Prohibition. The three tiers are producers, distributors, and retailers. The basic structure of the system is that producers can sell their products only to wholesale distributors who then sell to retailers, and only retailers may sell to consumers. Producers include brewers, wine makers, distillers, and importers.

Ultra-Premium—The pricing structure of wines ranges from super value to luxury. Figure 16 (page 24) summarizes wine price categories, noting that ultra-premium wines are priced between $25.00 and $49.99 per 750 mL bottle. This is more than super-premium wines but less than luxury wines, which are over $50.00 per bottle. *See Super-Premium on page 67.* Truett-Hurst's wine brands are positioned primarily within the super-premium and ultra-premium sectors.

Varietal—A descriptive naming convention based on the type of grape used to produce a wine. Varietal is predominately used in the U.S. as a marketing tool to segment the market and is not specific to a geographic location. Some common varietals today are White Zinfandel, Riesling, Chardonnay, Burgundy, Shiraz, Petite Shiraz, Merlot, Pinot Noir, Zinfandel, and Cabernet Sauvignon.

Winemaker—A person engaged in the occupation of making wine.

Zinfandel (also White Zinfandel)—Zinfandel is a variety of black-skinned wine grape, which is planted in over 10% of California vineyards. The grape found its way to the U.S. in the mid-19th century, and became known by variations of the name "Zinfandel." The grapes typically produce a robust red wine, however, a semi-sweet rosé (blush-style) wine called White Zinfandel has six times the sales of the red wine in the U.S. The grape's high sugar content can be fermented into levels of alcohol exceeding 15%. The taste of the red wine is subject to the ripeness of the grapes from which it is made. Red berry fruit flavors like raspberry predominate in wines from cooler areas, whereas blackberry, anise, and pepper notes are more common in wines made in warmer areas.

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