

TODHUNTER INTERNATIONAL INC  
Form 10-Q  
August 13, 2004

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

#### QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

Commission File No. 1-13453

## TODHUNTER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**59-1284057**

IRS Employer Identification No.

**222 Lakeview Avenue, Suite 1500, West Palm Beach, FL**

(Address of principal executive offices)

**33401**

(Zip Code)

Registrant's telephone number, including area code: **(561) 655-8977**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of registrant's Common Stock, \$.01 par value per share, as of August 12, 2004 was 6,338,519.

---

TODHUNTER INTERNATIONAL, INC.

INDEX

PART I    FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements</u>  <u>Consolidated Balance Sheets -</u> <u>June 30, 2004, unaudited and September 30, 2003</u>  <u>Consolidated Statements of Income -</u> <u>Nine and Three Months Ended June 30, 2004 and 2003, unaudited</u>  <u>Consolidated Statements of Cash Flows -</u> <u>Nine Months Ended June 30, 2004 and 2003, unaudited</u>  <u>Notes to Consolidated Financial Statements</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4</u>	<u>Controls and Procedures</u>

PART II    OTHER INFORMATION

Item 1	Legal Proceedings	*
<u>Item 2</u>	<u>Changes in Securities, Use of Proceeds and Issuer Purchase of Equity Securities</u>	
Item 3	Defaults Upon Senior Securities	*
Item 4	Submission of Matters to a Vote of Security Holders	*
Item 5	Other Information	*
<u>Item 6</u>	<u>Exhibits and Reports on Form 8-K</u>	
<u>Signatures</u>		

---

\* Item is omitted because answer is negative or item is inapplicable.



**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

## TODHUNTER INTERNATIONAL, INC.

**CONSOLIDATED BALANCE SHEETS**

	June 30, 2004 (Unaudited)	September 30, 2003 *
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,148,713	\$ 14,918,605
Short-term investments	215,415	1,819,016
Trade receivables	16,303,998	15,867,079
Other receivables	1,369,861	2,879,334
Inventories	31,651,439	28,664,895
Notes receivable, current maturities	662,304	647,782
Deferred income taxes	1,444,000	2,224,000
Other current assets	5,406,666	3,895,977
Total current assets	59,202,396	70,916,688
<b>LONG-TERM INVESTMENTS AND NOTES RECEIVABLE</b>		
Investments in and advances to equity investees	2,305,616	1,879,623
Notes receivable from affiliates, less current maturities	3,684,015	3,714,346
Notes receivable, less current maturities	435,522	506,422
	6,425,153	6,100,391
<b>PROPERTY AND EQUIPMENT</b>		
	95,523,528	92,182,294
Less accumulated depreciation	55,712,025	52,125,682
	39,811,503	40,056,612
<b>GOODWILL</b>		
	20,524,404	20,524,404
<b>AMORTIZED INTANGIBLE ASSETS</b>		
	804,697	834,850
<b>OTHER ASSETS</b>		
	1,221,290	866,128
	\$ 127,989,443	\$ 139,299,073

---

\*From audited financial statements.

See Notes to Consolidated Financial Statements.



	June 30, 2004 (Unaudited)	September 30, 2003 *
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 4,000,000	\$ 4,000,000
Accounts payable	8,145,365	6,288,431
Accrued expenses	1,480,743	3,837,745
Total current liabilities	13,626,108	14,126,176
<b>LONG-TERM DEBT, less current maturities</b>	<b>25,463,312</b>	<b>47,315,617</b>
<b>DEFERRED INCOME TAXES</b>	<b>5,334,500</b>	<b>5,243,000</b>
<b>OTHER LIABILITIES</b>	<b>1,069,697</b>	<b>2,002,761</b>
	45,493,617	68,687,554
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$.01 per share; authorized 2,500,000 shares; no shares issued		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued 6,437,719 shares June 30, 2004, and 5,686,434 shares September 30, 2003	64,377	56,864
Additional paid-in capital	28,934,890	18,803,404
Retained earnings	54,234,339	52,489,031
	83,233,606	71,349,299
Less cost of 99,200 shares of treasury stock	(737,780)	(737,780)
	82,495,826	70,611,519
	\$ 127,989,443	\$ 139,299,073

\*From audited financial statements.

See Notes to Consolidated Financial Statements.

## TODHUNTER INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Sales	\$ 88,954,982	\$ 88,646,677	\$ 32,537,957	\$ 30,924,864
Less excise taxes	18,988,128	22,769,722	7,052,598	7,837,133
Net sales	69,966,854	65,876,955	25,485,359	23,087,731
Cost of goods sold	47,611,349	44,423,842	18,109,695	15,022,995
Gross profit	22,355,505	21,453,113	7,375,664	8,064,736
Selling, general and administrative expenses	21,593,343	17,392,479	8,889,050	6,305,257
Operating income (loss)	762,162	4,060,634	(1,513,386)	1,759,479
Other income (expense):				
Interest income	433,395	570,479	73,164	227,759
Interest expense	(1,958,351)	(2,583,583)	(551,933)	(985,150)
Equity in income of equity investees	425,993	325,970	76,370	76,565
Other, net	404,681	(1,363,999)	111,110	94,622
	(694,282)	(3,051,133)	(291,289)	(586,204)
Income (loss) before income taxes	67,880	1,009,501	(1,804,675)	1,173,275
Income tax expense (benefit):				
Current	(2,548,928)	(928,041)	(1,848,169)	(883,657)
Deferred	871,500	109,500	268,000	164,500
	(1,677,428)	(818,541)	(1,580,169)	(719,157)
Net Income (loss)	\$ 1,745,308	\$ 1,828,042	\$ (224,506)	\$ 1,892,432
Earnings (loss) per common share:				
Basic	\$ 0.31	\$ 0.33	\$ (0.04)	\$ 0.34
Diluted	\$ 0.30	\$ 0.32	\$ (0.04)	\$ 0.34
Common shares and equivalents outstanding:				
Basic	5,620,427	5,572,608	5,647,782	5,574,322
Diluted	5,737,336	5,639,825	5,647,782	5,647,923

See Notes to Consolidated Financial Statements.





## TODHUNTER INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,745,308	\$ 1,828,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,966,232	4,015,637
Amortization	30,150	30,150
(Gain) loss on sale of property and equipment	(267,997)	65,583
Equity in income of equity investees	(425,993)	(325,970)
Deferred income taxes	871,500	109,500
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	1,072,554	(216,167)
Inventories	(2,986,544)	(4,588,038)
Other current assets	(1,510,689)	589,848
Increase (decrease) in:		
Accounts payable	1,856,934	3,897,756
Accrued expenses	(2,357,002)	(181,611)
Other liabilities	(933,064)	421,878
Net cash provided by operating activities	1,061,389	5,646,608
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	503,591	60,152
Principal payments received on notes receivable	86,709	92,046
Purchase of property and equipment	(3,956,717)	(2,763,400)
Purchase of short-term investments		(103,603)
Disbursements for notes receivable		(506,000)
Redemption of short-term investments	1,603,601	98,000
Investments in subsidiaries		24,182
(Increase) decrease in other assets	(287,659)	794,589
Net cash used in investing activities	\$ (2,050,475)	\$ (2,304,034)

	Nine Months Ended June 30,	
	2004	2003
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (payments) on line of credit	\$ (18,750,000)	\$ 50,000
Issuance of common stock, net of transaction costs	10,138,999	32,500
Disbursements for loan costs	(67,500)	
Principal payments on long-term borrowings	(3,102,305)	(3,166,803)
Net cash used in financing activities	(11,780,806)	(3,084,303)
Net increase (decrease) in cash and cash equivalents	(12,769,892)	258,271
Cash and cash equivalents:		
Beginning	14,918,605	13,946,736
Ending	\$ 2,148,713	\$ 14,205,007
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments (refunds) for:		
Interest	\$ 1,987,668	\$ 2,580,428
Income taxes	\$ (1,339,140)	\$ (595,939)

See Notes to Consolidated Financial Statements.

## TODHUNTER INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, except for the retirement of the Executive Officer (see Note 7), necessary for a fair presentation of the financial information for the periods indicated have been included. For further information regarding the Company's accounting policies, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003.

Aggregate amortization expenses were \$30,150 for the nine months ended June 30, 2004 and 2003, and \$10,050 for the three months ended June 30, 2004 and 2003.

The Company applies Accounting Principles Board Opinion Number 25, *Accounting for Stock Issued to Employees* ( APB 25 ) and related interpretations in accounting for options granted, which requires compensation expense for the Company's options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of grant. Accordingly, the Company has not recognized compensation expense for its options granted after 1994. Statement of Financial Accounting Standards ( SFAS ) No. 123, *Accounting for Stock-Based Compensation*, issued in October 1995, requires pro forma disclosures for option grants made after December 31, 1994, when accounting for stock-based compensation plans in accordance with APB 25.

If the Company elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income (loss) and earnings (loss) per common share would have been reduced to the pro forma amounts show below:

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net income (loss), as reported	\$ 1,745,308	\$ 1,828,042	\$ (224,506)	\$ 1,892,432
Compensation costs, net of income taxes	42,034	126,103		42,034
Net income (loss), pro forma	1,703,274	1,701,939	(224,506)	1,850,398
Earnings (loss) per common share, as reported				
Basic	0.31	0.33	(0.04)	0.34
Diluted	0.30	0.32	(0.04)	0.34

Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Earnings (loss) per common share, pro forma				
Basic	0.31	0.30	(0.04)	0.33
Diluted	0.30	0.30	(0.04)	0.33

## Note 2. Inventories

The major components of inventories are:

	June 30, 2004 (Unaudited)	September 30, 2003
Finished goods	\$ 19,147,731	\$ 15,588,106
Work in process	2,395,467	3,380,434
Raw materials and supplies	10,108,241	9,696,355
	\$ 31,651,439	\$ 28,664,895

## Note 3. Financing Arrangements

Long-term debt consists of the following as of June 30, 2004:

Term loans under a credit agreement (i) (ii), interest payable monthly based on either the Eurodollar or prime rate at the Company's option, plus an applicable margin as defined in the agreement. The interest rate at June 30, 2004 was 4.34%. Future minimum quarterly principal installments of \$1,000,000 through September 30, 2006 with any remaining balance due September 30, 2006.	\$ 29,000,000
Revolving loans under a credit agreement (i), interest payable quarterly based on either the Eurodollar or prime rate at the Company's option, plus an applicable margin as defined in the agreement. The blended interest rate at June 30, 2004 was 3.60%. The revolving line of credit terminates in September 2006.	250,000
Other	213,312
	29,463,312
Less current maturities	4,000,000
	\$ 25,463,312

(i) In October 2001, the Company entered into a \$70 million credit agreement, consisting of a \$40 million term loan and a \$30 million revolving loan facility. During March 2004, the credit agreement was amended to reduce the revolving loan facility to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loans to be the same as the term loans, September 2006. The credit agreement is collateralized principally by all assets located in the United States of America. Under the credit agreement, the Company has certain limitations in its ability to pay dividends to stockholders. Also, the Company is required to maintain certain financial covenants under the credit agreement.

(ii) In addition to quarterly principal payments, the Company may be required to make additional principal payments based on results of the Company's domestic operating profits, as defined in the agreement.

## Note 4. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are calculated by dividing net income (loss) by the average common shares outstanding. On a diluted basis, shares outstanding are adjusted to assume the exercise of stock options.

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net income (loss)	\$ 1,745,308	\$ 1,828,042	\$ (224,506)	\$ 1,892,432
Determination of shares:				
Weighted average number of common shares outstanding	5,620,427	5,572,608	5,647,782	5,574,322
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds	116,909	67,217	*	73,601
Average common shares outstanding for diluted earnings per share computation	5,737,336	5,639,825	5,647,782	5,647,923
Earnings (loss) per common share:				
Basic	\$ 0.31	\$ 0.33	\$ (0.04)	\$ 0.34
Diluted	\$ 0.30	\$ 0.32	\$ (0.04)	\$ 0.34

\* The effect of stock options have not been included for the three months ended June 30, 2004, as their effect would have been anti-dilutive.

The Company's Virgin Islands subsidiary, through the Economic Development Commission of the Government of the Virgin Islands of the United States, has received a 90% exemption from income taxes on operating income. This exemption is effective through September 2020. The per share effect of this exemption on earnings (on a diluted basis) was to increase earnings per share by \$0.19 and \$0.06 for the nine and three months ended June 30, 2004, respectively, and \$0.15 and \$0.06 for the nine and three months ended June 30, 2003, respectively.



Note 5. Segment and Geographical Information

The Company operates primarily in the beverage alcohol industry in the United States. The Company reports its operating results in four segments:

Bulk Alcohol Products (rum, citrus brandy, citrus spirits, cane spirits, fortified citrus wine, purchased distilled products and byproducts)

Premium Branded Spirits (primarily Cruzan Estate Rums and Cruzan Flavored Rums)

Bottling Operations (contract bottling services and proprietary and private label products)

Vinegar and Cooking Wine (bulk vinegar, bulk cooking wine, vinegar stock and proprietary and private label case goods)

Corporate Operations includes expenses related to the Company's executive offices that are not allocated to its reportable segments. These expenses include payroll and related expenses, professional fees, consulting fees, rent for the Company's executive offices, insurance expense, directors' fees and utilities.

The accounting policies of the reportable segments are the same as those referred to in Note 1 to the consolidated financial statements located in Item 8 of the Company's Annual Report on Form 10-K for the year ended September 30, 2003. The Company evaluates the performance of its operating segments based on income before income taxes, equity in income or loss of equity investees, interest income and interest expense. Material intersegment sales and transfers have been eliminated.

Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Net sales, operating income (loss), depreciation and amortization, and capital expenditures for the Company's reportable segments for the nine and three months ended June 30, 2004 and 2003, and identifiable assets as of June 30, 2004 and 2003, were as follows:

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
<b>Net Sales</b>				
Bulk Alcohol Products	\$ 27,024	\$ 26,276	\$ 9,898	\$ 8,749
Premium Branded Spirits	18,708	13,521	7,184	4,796
Bottling Operations	8,799	10,953	3,252	4,542
Vinegar and Cooking Wine	15,436	15,127	5,151	5,001
	\$ 69,967	\$ 65,877	\$ 25,485	\$ 23,088
<b>Operating Income (Loss)</b>				
Bulk Alcohol Products	\$ 8,386	\$ 8,673	\$ 2,195	\$ 2,900
Premium Branded Spirits	(4,669)	(1,290)	(2,781)	(544)
Bottling Operations	(2,445)	(1,450)	(723)	287
Vinegar and Cooking Wine	2,539	2,947	915	895
Corporate Operations and Other	(3,049)	(4,819)	(1,119)	(1,779)
	\$ 762	\$ 4,061	\$ (1,513)	\$ 1,759
<b>Depreciation and Amortization</b>				
Bulk Alcohol Products	\$ 2,281	\$ 2,424	\$ 707	\$ 815
Premium Branded Spirits	88	72	33	22
Bottling Operations	1,196	1,099	390	401
Vinegar and Cooking Wine	356	362	119	120
Corporate Operations and Other	75	89	25	30
	\$ 3,996	\$ 4,046	\$ 1,274	\$ 1,388
<b>Capital Expenditures</b>				
Bulk Alcohol Products	\$ 2,079	\$ 1,370	\$ 599	\$ 298
Premium Branded Spirits	221	71	41	55
Bottling Operations	1,611	1,178	708	171
Vinegar and Cooking Wine	41	68	22	34
Corporate Operations and Other	5	76		65
	\$ 3,957	\$ 2,763	\$ 1,370	\$ 623
<b>Identifiable Assets</b>				
Bulk Alcohol Products	\$ 64,395	\$ 76,132		
Premium Branded Spirits	8,033	7,673		
Bottling Operations	25,760	25,150		
Vinegar and Cooking Wine	19,730	19,753		
Corporate Operations and Other	10,071	12,380		
	\$ 127,989	\$ 141,088		



Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Net sales and operating income (loss) for the nine and three months ended June 30, 2004 and 2003 and identifiable assets as of June 30, 2004 and 2003, classified by geographic area, were as follows:

	United States	U. S. Virgin Islands and the Bahamas (in thousands)	Consolidated
<b><u>Nine Months Ended</u></b>			
June 30, 2004:			
Net sales	\$ 60,718	\$ 9,249	\$ 69,967
Operating income (loss)	(2,203)	2,965	762
Identifiable assets	97,450	30,539	127,989
June 30, 2003:			
Net sales	\$ 57,561	\$ 8,316	\$ 65,877
Operating income	1,603	2,458	4,061
Identifiable assets	96,023	45,065	141,088
<b><u>Three Months Ended</u></b>			
June 30, 2004:			
Net sales	\$ 21,970	\$ 3,515	\$ 25,485
Operating income (loss)	(2,578)	1,245	(1,513)
June 30, 2003:			
Net sales	\$ 20,078	\$ 3,010	\$ 23,088
Operating income	614	1,145	1,759

Included in net sales for the United States are export sales, primarily to Europe, Canada and the Caribbean, totaling approximately \$6,776,000 and \$2,750,000 for the nine and three months ended June 30, 2004, respectively, and \$6,203,000 and \$2,506,000 for the nine and three months ended June 30, 2003, respectively.

Note 6. Supplemental Employee Retirement Plan

During the second quarter of fiscal 2004, the Company's Compensation and Stock Option Committee approved a supplemental employee retirement plan for certain key executives of the Company. The plan is an unfunded plan within the meaning of Financial Accounting Standard 132. The net periodic benefit cost for the nine and three months ended June 30, 2004 and 2003, was as follows:

Nine Months Ended June 30,		Three Months Ended June 30,	
2004	2003	2004	2003

Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Amortization of prior service cost	\$	88,055	\$	\$	66,041	\$
Interest cost		5,283			3,962	
Total net periodic benefit cost	\$	93,338	\$	\$	70,003	\$

## Note 7. Retirement of Executive Officers

On November 26, 2002, the Company announced the retirement and resignation of A. Kenneth Pincourt, Jr., its founder, Chairman and Chief Executive Officer. The Company entered into a retirement agreement with Mr. Pincourt, setting forth the terms of his retirement and resignation. The retirement agreement replaced Mr. Pincourt's previous employment agreement. Under the retirement agreement, the Company elected to accelerate retirement benefits under its deferred compensation program and to continue to pay compensation and provide related benefits through July 15, 2004, the remaining term of Mr. Pincourt's previous employment contract.

Accelerated benefits under the deferred program amounted to \$1,040,987, of which \$549,220 had been accrued as of September 30, 2002. Mr. Pincourt's deferred compensation was paid to him on December 13, 2002. Also under the retirement agreement, Mr. Pincourt will continue to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491, which was paid in October 2003, and a second bonus payment of \$119,138 payable on or before August 31, 2004. Among other benefits, Mr. Pincourt is also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during the first quarter of fiscal 2003. The effect of this charge was included in other expense in the Company's consolidated statement of income and amounted to \$1,503,925 before income taxes.

The following table summarizes the charge made during the first quarter of fiscal 2003 for Mr. Pincourt's retirement:

Deferred compensation	\$	1,040,987
Compensation and related benefits		1,012,158
Total		2,053,145
Less deferred compensation accrued as of September 30, 2003		(549,220)
Charged to expense	\$	1,503,925

On May 22, 2003, the Company announced the retirement of Troy Edwards, its Chief Financial Officer, Secretary, Treasurer and Controller. The Company recorded a charge for the retirement of Mr. Edwards of \$207,683 during the third quarter of fiscal 2003. The effect of this charge was included in other expense in the Company's consolidated statement of income.

## Note 8. Issuance of Common Stock

During June 2004, the Company and Angostura Limited completed a transaction whereby Angostura Limited agreed to invest \$10 million in the Company in exchange for 714,285 shares of common stock, which equates to an equity issue price of \$14.00 per share. The transaction was approved by the Board of Directors after having been determined to be fair to the public stockholders of the Company by the Special Committee of Independent Directors of the Company. In addition, Angostura Limited reimbursed one-half of the Company's expenses in connection with this transaction. As a result of this transaction, Angostura Limited's ownership of the Company's stock increased from 64% to 68%.

Note 9. Income Taxes

The Company incurred losses for income tax purposes from its U.S. operations of \$7.0 million and \$4.0 million for the nine and three months ended June 30, 2004, respectively. The Company has recorded an income tax benefit in the Company's consolidated statement of income and as a receivable included in other current assets on the Company's consolidated balance sheet.

## Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations contains Forward-Looking Statements, as defined in section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended. Forward-Looking Statements are statements other than historical information or statements of current condition and relate to future events or the future financial performance of the Company. Some Forward-Looking Statements may be identified by use of such terms as believes, anticipates, intends or expects. Such Forward-Looking Statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such Forward-Looking Statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the Forward-Looking Statements: business conditions in certain market segments and industries and the general economy; competitive factors, including increased competition and price pressures; availability of third-party component products at reasonable prices; increased excise taxes; foreign currency exposure; changes in product mix between and among product lines; lower than expected customer orders and quarterly seasonal fluctuations of those orders; and product shipment interruptions. The Company undertakes no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise.

### **Introduction**

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for the nine months ended June 30, 2004 compared to the nine months ended June 30, 2003, (ii) consolidated results of operations of the Company for the three months ended June 30, 2004 compared to the three months ended June 30, 2003, and (iii) financial liquidity and capital resources. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein. Certain amounts presented in this Item 2 have been rounded to the nearest thousand or hundred thousand, as applicable, but the percentages calculated are based on actual amounts without rounding.

The Company operates primarily in the beverage alcohol industry in the United States. The Company is a leading producer and supplier of rum, brandy, wine and spirits to other beverage alcohol manufacturers; produces, imports and markets premium branded spirits; bottles beverage alcohol and other beverages on a contract basis and under its own labels; and produces vinegar and cooking wine. The Company reports its operating results in four segments: Bulk Alcohol Products (rum, citrus brandy, citrus spirits, cane spirits, fortified citrus wine, purchased distilled products and byproducts); Premium Branded Spirits (primarily Cruzan Estate Rums and Cruzan Flavored Rums); Bottling Operations (contract bottling services and proprietary and private label products); and Vinegar and Cooking Wine (bulk vinegar, bulk cooking wine, vinegar stock and proprietary and private label case goods).

Information regarding the net sales, operating income and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 5 to the consolidated financial statements.



## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

The Company's net sales and gross margins (gross profit as a percentage of net sales) vary depending on the mix of business among the Company's products. Historically, gross margins have been highest in bulk alcohol products and premium branded spirits and lower in bottling operations and vinegar and cooking wine operations.

The Company's customers often purchase bulk alcohol products in significant quantities or place significant orders for contract bottling services, distilled spirits, vinegar and cooking wine. Accordingly, the size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter. Additionally, some Company products generate higher profit margins than others, and changes in the Company's product mix can cause gross margins to fluctuate. Certain aspects of the Company's business are seasonal, with increased demand for the Company's contract bottling services from April to October and increased production of the Company's bulk alcohol products from November to June, corresponding to the Florida citrus harvest. As a result of these factors, the Company's operating results may vary significantly from quarter to quarter.

Net sales represent the Company's gross sales less excise taxes. Excise taxes are generally payable on sales of certain of the Company's bulk alcohol products and on all alcohol products bottled by the Company. However, there are no excise taxes paid on sales made to customers that have tax permits. Accordingly, excise taxes may vary significantly from period to period depending upon the Company's product and customer mix.

## Results of Operations

The following table sets forth statement of income items as a percentage of net sales.

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	68.0	67.4	71.1	65.1
Gross margin	32.0	32.6	28.9	34.9
Selling, general and administrative expenses	30.9	26.4	34.8	27.3
Operating income (loss)	1.1	6.2	(5.9)	7.6
Interest expense	(2.8)	(3.9)	(2.2)	(4.3)
Other income (expense), net	1.8	(0.8)	1.0	1.8
Income (loss) before income taxes	0.1	1.5	(7.1)	5.1
Income tax benefit	2.4	1.3	6.2	3.1
Net income (loss)	2.5%	2.8%	(0.9)%	8.2%

The following table provides information on net sales of certain Company products.

	Nine Months Ended June 30,			Three Months Ended June 30,		
	2004	2003	% Change	2004	2003	% Change
	(in thousands)			(in thousands)		
Bulk Alcohol Products	\$ 27,024	\$ 26,276	2.8	\$ 9,898	\$ 8,749	13.1
Premium Branded Spirits	18,708	13,521	38.4	7,184	4,796	49.8
Bottling Operations	8,799	10,953	(19.7)	3,252	4,542	(28.4)
Vinegar and Cooking Wine	15,436	15,127	2.0	5,151	5,001	3.0
	\$ 69,967	\$ 65,877	6.2	\$ 25,485	\$ 23,088	10.4

Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

The following table provides unit sales volume data for certain Company products.

	Nine Months Ended June 30,			Three Months Ended June 30,		
	2004 (in thousands)	2003	% Change	2004 (in thousands)	2003	% Change
<b>Bulk alcohol products:</b>						
Distilled products, in proof gallons						
Citrus Brandy	992	1,131	(12.2)	354	260	36.4
Citrus Spirits	110	238	(54.0)	55	55	(0.1)
Rum	3,575	3,323	7.6	1,351	1,176	14.9
Cane Spirits	359	389	(7.9)	142	144	(2.0)
Fortified wine, in gallons	8,404	7,559	11.2	3,081	2,531	21.7
Premium branded spirits, in cases	517	360	43.4	175	133	30.8
Bottling operations, in cases	2,289	2,876	(20.4)	878	1,435	(38.8)
Vinegar						
Bulk, in 100 grain gallons	3,912	4,290	(8.8)	1,293	1,588	(18.6)
Cases	364	396	(8.1)	147	125	18.0
Drums, in 100 grain gallons	1,193	1,162	2.7	543	389	39.8
Cooking Wine						
Bulk, in gallons	2,017	3,226	(37.5)	590	1,048	(43.7)
Cases	500	476	5.2	135	126	7.3

**Nine months ended June 30, 2004 compared to nine months ended June 30, 2003.** Unless otherwise noted, references to 2004 represent the nine-month period ended June 30, 2004 and references to 2003 represent the nine-month period ended June 30, 2003.

*Net Sales.* Net sales were \$70.0 million in 2004, an increase of 6.2% from net sales of \$65.9 million in 2003.

Net sales of bulk alcohol products were \$27.0 million in 2004, an increase of 2.8% from net sales of \$26.3 million in 2003. The increase resulted primarily from increased shipments of rum and fortified wine offset by decreased shipments of citrus brandy, citrus spirits and cane spirits. The decrease in citrus brandy, citrus spirits and cane spirits was due in part to the timing of customer orders. In addition, in 2003, the Company had sales of citrus and cane spirits to new customers that had difficulty sourcing bulk alcohol from their regular suppliers. These sales did not reoccur in 2004.

Net sales of premium branded spirits were \$18.7 million in 2004, an increase of 38.4% from net sales of \$13.5 million in 2003. During fiscal 2002, the Company had introduced a new line of Cruzan products in the ready-to-drink category. During fiscal 2003, due to increased competition and management's expectation of limited growth potential within the ready-to-drink product category, the Company made a strategic decision to exit this category and concentrate on the growing segment of its premium branded spirits business, Cruzan Estate Rums and Cruzan Flavored Rums. In connection with management's decision to exit the ready-to-drink product category, during the fourth quarter of fiscal 2003, the Company entered into an agreement with a corporate trading company to receive trade credits upon installment deliveries of the Company's

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

remaining inventory of ready-to-drink products. In 2004, net sales of premium branded spirits included \$0.7 million of Cruzan ready-to-drink products sold to this trading company. These sales represented the final sales of inventories of such products. Excluding Cruzan ready-to-drink product sales, net sales of premium branded spirits were \$18.0 million in 2004, an increase of 33.2% from net sales of \$13.5 million in 2003, as the premium branded spirits segment continued its double-digit growth.

Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 25.7% in 2004 compared to 2003. Sales of Cruzan Estate Rums and Cruzan Flavored Rums increased from \$2.2 million in fiscal 1996 to \$17.0 million in fiscal 2003. During this time, the Cruzan brand has been recognized as one of the fastest growing brands in the spirits industry by certain beverage industry publications and the Cruzan Rums have won numerous tasting awards from several prestigious beverage industry organizations. Recently, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which could adversely affect the Company's sales growth of Cruzan Estate Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management has significantly increased its marketing budget for fiscal 2004, causing a current increase in the operating loss for this business segment. Management believes that by increasing its marketing budget and maintaining its focus on the Cruzan brand, sales of Cruzan Estate Rums and Cruzan Flavored Rums will continue their double-digit growth for fiscal 2004.

Net sales of the Company's bottling operations were \$8.8 million in 2004, a decrease of 19.7% from net sales of \$11.0 million in 2003. During the first quarter of fiscal 2004, the Company lost a large private label bottling customer. Net sales to this private label bottling customer were approximately \$2.5 million and 193,719 cases for the year ended September 30, 2003, or approximately 17.6% of bottling operations net sales and 5.2% of bottling operations volume. Net sales to this customer during 2003 were approximately \$2.1 million and 176,114 cases. Also during 2004, excise taxes decreased \$3.8 million compared to 2003, primarily due to the decrease in sales to this private label bottling customer. Management believes that the loss of this low margin business will not have a material effect on the Company's consolidated results of operations or financial position. Sales in the Company's bottling operations also continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for this year, which has caused a continuing loss in this segment. The Company is placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. Additional sales, coupled with savings to be realized from the consolidation, are expected to reverse this loss trend in future quarters.

Net sales of vinegar and cooking wine were \$15.4 million in 2004, an increase of 2.0% from net sales of \$15.1 million in 2003.

*Gross Profit.* Gross profit was \$22.4 million in 2004, an increase of 4.2% from gross profit of \$21.5 million in 2003. During 2004, bulk alcohol gross profit increased as a result of increased shipments of rum and fortified wine; premium branded spirits gross profit increased with sales; bottling operations gross profit decreased with sales; and vinegar and cooking wine gross profit decreased due to higher material cost. Gross margin was 32.0% in 2004 and 32.6% in 2003.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$21.6 million in 2004, an increase of 24.2% from \$17.4 million in 2003. The increase was primarily attributable to increased administrative, marketing and advertising expenses in the Company's premium branded spirits business as the Company continues to place emphasis on this growing business segment. Also during 2004, the Company's Compensation and Stock Option Committee approved a new Supplemental Employee Retirement Plan for certain key executives of the Company. This new plan replaces a deferred compensation plan, which resulted in the cancellation of a \$0.7 million liability which was credited to expense.



**Results of Operations (Continued)**

*Operating Income.* The following table sets forth the operating income (loss) by reportable segment of the Company for 2004 and 2003.

	Nine Months Ended June 30,			% Change
	2004	2003		
	(In thousands)			
Bulk Alcohol Products	\$ 8,386	\$ 8,673		(3.3)
Premium Branded Spirits	(4,669)	(1,290)		
Bottling Operations	(2,445)	(1,450)		
Vinegar and Cooking Wine	2,539	2,947		(13.9)
Corporate Operations	(3,049)	(4,819)		
	\$ 762	\$ 4,061		(81.2)

As a result of the above factors, operating income was \$0.8 million in 2004, a decrease of 81.2% from operating income of \$4.1 million in 2003.

The Company's premium branded spirits segment experienced operating losses of \$4.7 million in 2004 and \$1.3 million in 2003. The operating losses reflected the Company's continuing efforts to increase market share by reinvesting segment gross profits in selling and marketing expenses.

As a result of the factors described under *Net Sales* above, the Company's bottling operations segment reported an operating loss of \$2.4 million in 2004 and \$1.5 million in 2003.

*Interest Expense.* Interest expense was \$2.0 million in 2004 and \$2.6 million in 2003. The Company's borrowing rates and average borrowings were lower in 2004 compared to 2003.

*Other Expense.* On November 26, 2002, the Company announced the retirement and resignation of A. Kenneth Pincourt, Jr., its Founder, Chairman and Chief Executive Officer. The Company has entered into a retirement agreement with Mr. Pincourt, setting forth the terms of his retirement and resignation. The retirement agreement replaces Mr. Pincourt's previous employment agreement. Under the retirement agreement, the Company elected to accelerate retirement benefits under its deferred compensation program and to continue to pay compensation and provide related benefits through July 15, 2004, the remaining term of Mr. Pincourt's previous employment contract.

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

Accelerated benefits under the deferred program amounted to \$1,040,987, of which \$549,220 had been accrued as of September 30, 2002. Mr. Pincourt's deferred compensation was paid to him on December 13, 2002. Also under the retirement agreement, Mr. Pincourt continued to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491, which was paid in October 2003, and a second bonus payment of \$119,138 payable on or before August 31, 2004. Among other benefits, Mr. Pincourt was also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during 2003. The effect of this charge was included in other expense in the Company's consolidated statement of income and amounted to \$1,503,925 before income taxes.



The following table summarizes the charge made during 2003 for Mr. Pincourt's retirement:

Deferred compensation	\$	1,040,987
Compensation and related benefits		1,012,158
<b>Total</b>		<b>2,053,145</b>
Less deferred compensation accrued as of September 30, 2002		(549,220)
Charged to expense	\$	1,503,925

On May 22, 2003, the Company announced the retirement of Troy Edwards, its Chief Financial Officer, Secretary, Treasurer and Controller. The Company recorded a charge for the retirement of Mr. Edwards of \$207,683 during the third quarter of fiscal 2003. The effect of this charge was included in other expense in the Company's consolidated statement of income.

*Income Tax Expense.* During 2004 and 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$1.7 million and \$0.8 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2004 and 2003.

**Three months ended June 30, 2004 compared to three months ended June 30, 2003.** Unless otherwise noted, references to 2004 represent the three-month period ended June 30, 2004 and references to 2003 represent the three-month period ended June 30, 2003.

*Net Sales.* Net sales were \$25.5 million in 2004, an increase of 10.4% from net sales of \$23.1 million in 2003.

Net sales of bulk alcohol products were \$9.9 million in 2004, an increase of 13.1% from net sales of \$8.7 million in 2003. The increase resulted primarily from increased shipments of citrus brandy, rum and fortified wine offset by decreased shipments of citrus and cane spirits due to timing of customer orders.

Net sales of premium branded spirits were \$7.2 million in 2004, an increase of 49.8% from net sales of \$4.8 million in 2003. Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 48.9% in 2004 compared to 2003. Sales of Cruzan Estate Rums and Cruzan Flavored Rums increased from \$2.2 million in fiscal 1996 to \$17.0 million in fiscal 2003. During this time, the Cruzan brand has been recognized as one of the fastest growing brands in the spirits industry by certain beverage industry publications and the Cruzan Rums have won numerous tasting awards from several prestigious beverage industry organizations. Recently, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which could adversely affect the Company's sales growth of Cruzan Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management has significantly increased its marketing budget for fiscal 2004, causing a current increase in the operating loss for this business.

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

segment. Management believes that by increasing its marketing budget and maintaining its focus on the Cruzan brand, sales of Cruzan Estate Rums and Cruzan Flavored Rums will continue their double-digit growth for fiscal 2004.

Net sales of the Company's bottling operations were \$3.3 million in 2004, a decrease of 28.4% from net sales of \$4.5 million in 2003. During fiscal 2004, the Company lost a large private label bottling customer. Net sales to this private label bottling customer were approximately \$2.5 million and 193,719 cases for the year ended September 30, 2003, or approximately 17.6% of bottling operations net sales and 5.2% of bottling operations volume. Net sales to this customer during 2003 were approximately \$0.6 million and 55,499 cases. Also during 2004, excise taxes decreased \$0.8 million compared to 2003, primarily due to the decrease in sales to this private label bottling customer. Management believes that the loss of this low margin business will not have a material effect on the Company's consolidated results of operations or financial position. Sales in the Company's bottling operations also

continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for this year, which has caused a continuing loss in this segment. The Company is placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. Additional sales, coupled with savings to be realized from the consolidation, are expected to reverse this loss trend in future quarters.

Net sales of vinegar and cooking wine were \$5.2 million in 2004, an increase of 3.0% from net sales of \$5.0 million in 2003.

*Gross Profit.* Gross profit was \$7.4 million in 2004, a decrease of 8.5% from gross profit of \$8.1 million in 2003. Gross margin was 28.9% in 2004 compared to 34.9% in 2003. Gross profit increases in premium branded spirits were offset by increased raw material costs in bulk alcohol products and decreased sales in bottling operations.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$8.9 million in 2004, an increase of 41.0% from \$6.3 million in 2003. The increase was primarily attributable to increased administrative, marketing and advertising expenses related to the Company's premium branded spirits business as the Company continues to place emphasis on this growing business segment.

*Operating Income.* The following table sets forth the operating income (loss) by reportable segment of the Company for 2004 and 2003.

	<b>Three Months Ended June 30,</b>			<b>% Change</b>
	<b>2004</b>		<b>2003</b>	
	<b>(In thousands)</b>			
Bulk Alcohol Products	\$ 2,195		\$ 2,900	(24.3)
Premium Branded Spirits	(2,781)		(544)	
Bottling Operations	(723)		287	
Vinegar and Cooking Wine	915		895	2.2
Corporate Operations and Other	(1,119)		(1,779)	
	\$ (1,513)		\$ 1,759	

As a result of the above factors, operating loss was \$1.5 million in 2004, compared to operating income of \$1.8 million in 2003.

The Company's premium branded spirits segment experienced operating losses of \$2.8 million in 2004 and \$0.5 million in 2003. The operating loss reflected the Company's continuing efforts to increase market share by reinvesting segment gross profits in selling and marketing expenses.

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

As a result of the factors described under *Net Sales* above, the Company's bottling operations segment reported an operating loss of \$0.7 million in 2004 compared to operating income of \$0.3 million in 2003.

*Interest Expense.* Interest expense was \$0.6 million in 2004 and \$1.0 million in 2003. The Company's borrowing rates and average borrowings were lower in 2004 compared to 2003.

*Income Tax Expense.* During 2004 and 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$1.6 million and \$0.7 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2004 and 2003.

## Financial Liquidity and Capital Resources

### General

The Company's principal use of cash in its operating activities is for purchasing raw materials to be used in its manufacturing operations and purchasing imported products for its premium branded spirits business. The Company's source of liquidity has historically been cash flow from operations and from borrowings on its line of credit. Some of the Company's manufacturing operations are seasonal and the Company's borrowings on its line of credit vary during the year. For example, the Company uses citrus molasses as its primary raw material in the production of citrus brandy and spirits at its two Florida distilleries. The Company buys citrus molasses, a by-product of citrus juice production, from local manufacturers of citrus juice and concentrate during the citrus harvest, which generally runs from November to June. The Company begins purchasing citrus molasses in November and, due to the short life of the citrus molasses it purchases, manufactures and builds inventory of citrus brandy and spirits through June. Another seasonal business of the Company is its contract bottling services. Demand for contract bottling services is highest during the months from April through October. Management believes that cash provided by its operating and financing activities will provide adequate resources to satisfy its working capital, liquidity and anticipated capital expenditure requirements for both its short-term and long-term capital needs.

### Operating Activities

Net cash provided by operating activities in 2004 was \$1.1 million, which resulted from \$5.9 million in net income adjusted for noncash items, and \$4.8 million representing the net increase in operating assets and liabilities.

### Investing and Financing Activities

Net cash used in investing activities in 2004 was \$2.1 million, which resulted primarily from \$4.0 million of capital expenditures, offset by proceeds from the sale of property and equipment, collections on notes receivable and redemptions of short-term investments.

Net cash used in financing activities in 2004 was \$11.8 million, which resulted primarily from payments of \$3.1 million of long-term debt and \$18.8 million in payments on the Company's line of credit, offset by \$10.1 million from the issuance of common stock.

During June 2004, the Company and Angostura Limited completed a transaction whereby Angostura Limited agreed to invest \$10 million in the Company in exchange for 714,285 shares of common stock, which equates to an equity issue price of \$14.00 per share. The transaction was approved by the Board of Directors after having been determined to be fair to the public stockholders of the Company by the Special Committee of Independent Directors of the Company. In addition, Angostura Limited reimbursed one-half of the Company's expenses in connection with this transaction. As a result of this transaction, Angostura Limited's ownership of the Company's stock increased from 64% to 68%. The Subscription Agreement for this transaction also provides that the Company will use its best efforts to complete a rights offering pursuant to a registration statement to be filed with the Securities and Exchange Commission. The rights offering will allow each stockholder of the Company, other than Angostura Limited and its affiliates, to purchase such holder's pro rata amount of the number of shares of the common stock of the Company that will permit the public stockholders in the aggregate to maintain the percentage stock ownership the public

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

stockholders owned prior to the stock purchase by Angostura Limited. It is expected that the number of shares available to be sold pursuant to the rights offering will be approximately 408,000 and the per share purchase price of the rights offering will be the lesser of \$14.00 or the closing price on the American Stock Exchange two days prior to the effective date of the registration statement. The Company expects to file the registration statement in August 2004.

The Company's revolving credit facility provides for maximum borrowings of \$15 million. Borrowings under this facility were \$250,000 at June 30, 2004. During June 2004, the Company's credit agreement was modified to extend the maturity date of the revolving loans to be the same as the term loans, September 2006.

The Company's bank debt was \$29.3 million as of June 30, 2004, and its ratio of total debt to equity was 0.55 to 1.

The Company has not paid dividends to stockholders since becoming a public company in 1992. The Company intends to continue to retain earnings for use in its business and, therefore, does not anticipate declaring or paying cash dividends in this fiscal year. Also, the Company is limited by the credit agreement in its ability to pay dividends to stockholders. In addition to quarterly term loan principal payments required by the credit agreement, the Company may be required to make additional principal payments based on the results of the Company's domestic operating profits, as defined in the credit agreement.

The Company's share of the undistributed earnings of the Bahamian and Virgin Islands subsidiaries was approximately \$7.3 million and \$31.6 million, respectively, as of September 30, 2003. See Note 10 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003 for additional information on income taxes related to these subsidiaries.

Based on current plans and business conditions, management expects that its cash, cash equivalents, and short-term investments, together with any amounts generated from operations and available borrowings, will be sufficient to meet the Company's cash requirements for at least the next 12 months.

#### **Effects of Inflation and Changing Prices**

The Company's results of operations and financial condition have not been significantly affected by inflation and changing prices. The Company has been able, subject to normal competitive conditions, to pass along rising costs through increased selling prices.

#### **Critical Accounting Policies**

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in Item 8 of its Annual Report on Form 10-K for the year ended September 30, 2003. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions. The Company believes that the following critical accounting policy is subject to estimates and judgments used in the preparation of its consolidated financial statements:

The Company has goodwill and intangible assets associated with business acquisitions. The Company reviews these assets for impairment annually and whenever an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying value. If the fair value of these assets is less than their carrying value, then an impairment loss would be recognized equal to the excess of the carrying value over the fair value of the asset.

#### **Off-Balance Sheet Arrangements**

## Edgar Filing: TODHUNTER INTERNATIONAL INC - Form 10-Q

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. See Recent Accounting Pronouncements, below.

### **Recent Accounting Pronouncements**

As of March 31, 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 45 ( FIN 45 ), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a guarantor to recognize at the inception of a guarantee, a liability for the fair value or market value, of the obligation undertaken in issuing the guarantee and must disclose the information in its interim and annual financial statements. The provisions related to recognizing a liability at inception for the fair value of the guarantor's obligation does not apply to guarantees issued between entities under common control and therefore is not applicable to the Company. Management believes that this standard does not have a material effect on the Company's consolidated financial position or results of operations.



In January 2003, the Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ( variable interest entities ). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applied immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which the Company obtains an interest after that date. FIN 46 was effective July 1, 2003 to variable interest entities in which the Company holds a variable interest that it acquired before February 1, 2003. Management believes this standard does not have a material effect on the Company's consolidated financial position or results of operations.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information required under this Item 3 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003. As of June 30, 2004, there have been no material changes for the information provided therein.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

#### **Changes in Internal Control Over Financial Reporting**

In addition, management, including the Company's Chief Executive Officer and Chief Financial Officer, reviewed the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), and there have been no significant changes in the Company's internal control or in other factors that could significantly affect the Company's internal control over financial reporting during the period covered by this report.



## PART II. OTHER INFORMATION

### Item 2. **Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

During June 2004, the Company and Angostura Limited completed a transaction whereby Angostura Limited agreed to invest \$10 million in the Company in exchange for 714,285 shares of common stock, which equates to an equity issue price of \$14.00 per share. The transaction was approved by the Board of Directors after having been determined to be fair to the public stockholders of the Company by the Special Committee of Independent Directors of the Company. In addition, Angostura Limited reimbursed one-half of the Company's expenses in connection with this transaction. As a result of this transaction, Angostura Limited's ownership of the Company's stock increased from 64% to 68%.

### Item 6. **Exhibits and Reports on Form 8-K**

- 10.22(d) Modification of Credit Agreement, dated June 29, 2004, by and among Todhunter International, Inc., SouthTrust Bank, acting as lender and Agent, and Wachovia Bank, N.A. (2)
- 11.1 Statement of Computation of Per Share Earnings (1)
- 20.1 Earnings press release for the three and nine-month periods ended June 30, 2004 (2)
- 31.1 Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (2)
- 31.2 Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (2)
- 32.1 Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to 18 U.S.C. Section 1350 (2)
- 32.2 Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (2)

---

(1) Filed herewith and incorporated herein by reference to Note 4 of notes to consolidated financial statements, included in Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

(2) Filed herewith.

#### (b) **Reports on Form 8-K**

During the third quarter of fiscal 2004, the Company filed the following current report on Form 8-K:

(1) Form 8-K dated June 9, 2004. This Form 8-K reported information under Item 5 (Other Events and required FD Disclosure).

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 13, 2004

/s/ Jay S. Maltby  
Jay S. Maltby  
Chairman, Chief Executive Officer and President

Date: August 13, 2004

/s/ Ezra Shashoua  
Ezra Shashoua  
Executive Vice President and Chief Financial Officer