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TODHUNTER INTERNATIONAL INC  
Form 10-Q  
February 12, 2002

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 December 31, 2001

Commission File No. 1-13453

TODHUNTER INTERNATIONAL, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

59-1284057

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
IRS Employer Identification No.

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

33401

-----  
(Address of principal executive offices)

-----  
(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 /X/            No / /

The number of shares outstanding of registrant's Common Stock, \$.01 par value per share, as of February 8, 2002 was 5,513,734.

TODHUNTER INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

TODHUNTER INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

December 31, 2001	September 30, 2001
-----	-----
(Unaudited)	*

ASSETS

CURRENT ASSETS

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Cash and cash equivalents	\$ 5,190,267	\$ 5,624,029
Short-term investments	10,488,292	8,533,851
Trade receivables	12,902,846	14,719,578
Other receivables	1,498,656	3,058,471
Inventories	25,518,990	27,483,329
Notes receivable, current maturities	73,703	72,973
Deferred income taxes	1,589,500	1,544,000
Other current assets	793,194	2,348,135
	-----	-----
Total current assets	58,055,448	63,384,366
	-----	-----
LONG-TERM INVESTMENTS AND NOTES RECEIVABLE		
Investments in subsidiaries	1,803,334	1,729,103
Notes receivable from affiliate	3,836,652	3,560,923
Notes receivable, less current maturities	645,359	663,785
	-----	-----
	6,285,345	5,953,811
	-----	-----
PROPERTY AND EQUIPMENT	87,239,608	85,198,203
Less accumulated depreciation	44,869,332	43,729,941
	-----	-----
	42,370,276	41,468,262
	-----	-----
GOODWILL, less accumulated amortization	20,524,404	20,524,404
OTHER ASSETS	3,152,420	2,257,321
	-----	-----
	\$130,387,893	\$133,588,164
	=====	=====

\*From audited financial statements.  
See Notes to Consolidated Financial Statements.

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TODHUNTER INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	
	-----	
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 4,000,000	\$
Accounts payable	4,391,513	
Accrued expenses	1,810,269	
	-----	
Total current liabilities	10,201,782	
LONG-TERM DEBT, less current maturities	52,139,489	

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DEFERRED INCOME TAXES	3,922,000
OTHER LIABILITIES	1,362,866
	<u>67,626,137</u>
STOCKHOLDERS' EQUITY	
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 5,612,934 shares as of December 31, 2001 and September 30, 2001	56,129
Additional paid-in capital	18,326,014
Comprehensive income	(12,000)
Retained earnings	45,129,393
	<u>63,499,536</u>
Less cost of 99,200 shares of treasury stock	(737,780)
	<u>62,761,756</u>
	<u>\$130,387,893</u>

\*From audited financial statements.  
See Notes to Consolidated Financial Statements.

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TODHUNTER INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended December 31,	
	2001	2000
	<u>-----</u>	<u>-----</u>
Sales	\$31,961,935	\$29,847,350
Less excise taxes	7,493,679	7,583,871
Net sales	<u>24,468,256</u>	<u>22,263,479</u>
Cost of goods sold	16,912,167	14,572,283
Gross profit	<u>7,556,089</u>	<u>7,691,196</u>
Selling, general and administrative expenses	5,070,151	4,920,462
Operating income	<u>2,485,938</u>	<u>2,770,734</u>

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Other income (expense):		
Interest income	224,163	225,169
Interest expense	(792,727)	(1,391,346)
Equity in income of equity investee	74,231	11,740
Other, net	38,449	43,314
	-----	-----
	(455,884)	(1,111,123)
	-----	-----
Income before income taxes	2,030,054	1,659,611
	-----	-----
Income tax expense (benefit):		
Current	537,431	546,327
Deferred	2,500	(130,500)
	-----	-----
	539,931	415,827
	-----	-----
Net Income	\$ 1,490,123	\$ 1,243,784
	=====	=====
Earnings per common share:		
Basic	\$ 0.27	\$ 0.23
	=====	=====
Diluted	\$ 0.27	\$ 0.23
	=====	=====
Common shares and equivalents outstanding:		
Basic	5,513,734	5,513,734
	=====	=====
Diluted	5,551,670	5,516,008
	=====	=====

See Notes to Consolidated Financial Statements.

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TODHUNTER INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended December 31,	
	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,490,123	\$ 1,243,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,266,812	1,150,714
Amortization	97,550	369,503
(Gain) on sale of property and equipment	(22,531)	(2,185)
Equity in (income) of equity investee	(74,231)	(11,740)

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Deferred income taxes	2,500	(130,500)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	3,376,547	3,794,289
Inventories	1,964,339	(891,698)
Other current assets	1,554,941	617,806
Increase (decrease) in:		
Accounts payable	(777,729)	(1,063,505)
Accrued expenses	(515,435)	(499,333)
Other liabilities	48,830	(64,521)
	-----	-----
Net cash provided by operating activities	8,411,716	4,512,614
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	27,313	21,799
Principal payments received on notes receivable	28,764	372,055
Purchase of property and equipment	(2,173,608)	(1,329,105)
Disbursements for notes receivable	(286,797)	-
Purchase of short-term investments	(1,954,441)	(1,530,963)
Increase in other assets	(69,815)	(216,000)
	-----	-----
Net cash used in investing activities	\$ (4,428,584)	\$ (2,682,214)
	=====	=====

(Continued)

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TODHUNTER INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Unaudited)

	Three Months Ended December	
	2001	2000
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	\$ (2,500,000)	\$ (1,029,000)
Disbursements for loan costs	(871,834)	(1,029,000)
Principal payments on long-term borrowings	(1,045,060)	(2,031,000)
	-----	-----
Net cash used in financing activities	(4,416,894)	(3,061,000)
	-----	-----
Net decrease in cash and cash equivalents	(433,762)	(1,231,000)
Cash and cash equivalents:		
Beginning	5,624,029	3,245,000
	-----	-----
Ending	\$ 5,190,267	\$ 2,014,000
	=====	=====

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### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:

Interest	\$ 756,081	\$ 1,388
	=====	=====
Income taxes	\$ 20,321	\$ 125
	=====	=====

See Notes to Consolidated Financial Statements.

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### 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, 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, 2001.

#### Note 2. Inventories

The major components of inventories are:

	December 31, 2001 ----- (Unaudited)	September 30, 2001 -----
Finished goods	\$13,928,916	\$16,879,276
Work in process	1,611,811	598,648
Raw materials and supplies	9,978,263	10,005,405
	-----	-----
	\$25,518,990	\$27,483,329
	=====	=====

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued (Unaudited)

#### Note 3. Financing Arrangements

Long-term debt consists of the following as of December 31, 2001:

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 December 31, 2001 was 5.25%. Quarterly principal installments of \$1,000,000 through September 30, 2006 with any remaining balance due September 30, 2006.

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 interest rate at December 31, 2001 was 4.42%. The revolving lines of credit terminate in October 2004.

Other

Less current maturities

- (i) In October 2001, the Company entered into a \$70 million credit agreement, which consists of a \$40 million term loan and a \$30 million revolving loan facility. The credit agreement is collateralized principally by all assets located in the United States of America. The new credit agreement replaced all borrowings under the previous finance agreement and increased the Company's borrowing capacity from \$59 million to \$70 million. The Company is restricted from paying dividends to stockholders. Also, the Company is required to maintain unencumbered cash or marketable securities of \$4 million at the end of each fiscal quarter and to maintain a minimum fixed charge and interest coverage ratios, among other financial covenants.
- (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.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued (Unaudited)

#### Note 4. Earnings Per Common Share

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



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	Three Months Ended December 31,	
	2001	2000
Net income	\$1,490,123	\$1,243,784
Determination of shares:		
Weighted average number of common shares outstanding	5,513,734	5,513,734
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds	37,936	2,274
Average common shares outstanding for diluted earnings per share computation	5,551,670	5,516,008
Earnings per common share:		
Basic	\$ 0.27	\$ 0.23
Diluted	\$ 0.27	\$ 0.23

The Company's Virgin Islands subsidiary, through the Industrial 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 effect of this exemption was to increase earnings per share by \$0.03 and \$0.04 for the three months ended December 31, 2001 and 2000, 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 (citrus brandy, citrus spirits, rum, cane spirits, fortified citrus wine, purchased distilled products and byproducts)
- Premium Branded Spirits (primarily rum and flavored rum)
- 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)

The accounting policies of the reportable segments are the same as those referred to in Note 1 to the Consolidated Financial Statements. The Company evaluates the performance of its reportable segments based on income before income taxes, equity in income or loss of equity investee, interest income and interest expense. Material intersegment sales and transfers have been eliminated.

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(Unaudited)

Summarized financial information concerning the Company's reportable segments is shown in the following table.

Net sales, operating income (loss), depreciation and amortization and capital expenditures for the Company's reportable segments for the three months ended December 31, 2001 and 2000, and identifiable assets as of December 31, 2001 and 2000, were as follows:

	THREE MONTHS ENDED DECEMBER 31,	
	2001	2000
	(in thousands)	
<b>NET SALES</b>		
Bulk Alcohol Products	\$ 8,836	\$ 9,384
Premium Branded Spirits	5,387	3,983
Bottling Operations	4,782	3,984
Vinegar and Cooking Wine	5,463	4,912
	\$ 24,468	\$ 22,263
	=====	
<b>OPERATING INCOME (LOSS)</b>		
Bulk Alcohol Products	\$ 2,889	\$ 3,389
Premium Branded Spirits	(171)	(512)
Bottling Operations	182	211
Vinegar and Cooking Wine	1,147	879
Corporate Operations and Other	(1,561)	(1,196)
	\$ 2,486	\$ 2,771
	=====	
<b>DEPRECIATION AND AMORTIZATION</b>		
Bulk Alcohol Products	\$ 706	\$ 778
Premium Branded Spirits	36	34
Bottling Operations	398	367
Vinegar and Cooking Wine	117	281
Corporate Operations and Other	107	60
	\$ 1,364	\$ 1,520
	=====	
<b>CAPITAL EXPENDITURES</b>		
Bulk Alcohol Products	\$ 1,932	\$ 651
Premium Branded Spirits	9	184
Bottling Operations	140	266
Vinegar and Cooking Wine	17	186
Corporate Operations and Other	76	42
	\$ 2,174	\$ 1,329
	=====	
<b>IDENTIFIABLE ASSETS</b>		
Bulk Alcohol Products	\$ 68,937	\$ 61,410
Premium Branded Spirits	7,594	8,270

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Bottling Operations	23,206	22,427
Vinegar and Cooking Wine	20,569	20,388
Corporate Operations and Other	10,082	10,570
	-----	-----
	\$130,388	\$123,065
	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
(Unaudited)

Sales and operating income for the three months ended December 31, 2001 and 2000 and identifiable assets as of December 31, 2001 and 2000, classified by geographic area, were as follows:

THREE MONTHS ENDED	UNITED STATES	U. S. VIRGIN ISLANDS AND THE BAHAMAS	CONSOLIDATED
-----	-----	-----	-----
	(in thousands)		
December 31, 2001:			
Net sales	\$22,538	\$ 1,930	\$ 24,468
Operating income	2,136	350	2,486
Identifiable assets	90,137	40,251	130,388
December 31, 2000:			
Net sales	19,251	3,012	22,263
Operating income	1,924	847	2,771
Identifiable assets	86,709	36,356	123,065

Included in net sales for the United States are export sales, primarily to Europe, Canada and the Caribbean, totaling approximately \$3,116,000 and \$1,451,000 for the three months ended December 31, 2001 and 2000, respectively.

Note 6. Comprehensive income

Comprehensive income is the total of net income and other changes in equity. Total comprehensive income for the three months ended December 31, 2001 and 2000 was as follows:

	THREE MONTHS ENDED DECEMBER 31,	
	-----	-----
	2001	2000
	-----	-----
	(in thousands)	
Net income	\$1,490	\$1,244

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Other comprehensive income, interest rate cap adjustment	51	34
	-----	-----
	\$1,541	1,278
	=====	=====

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

#### FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis 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 and fluctuations 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 three months ended December 31, 2001 compared to the three months ended December 31, 2000, and (ii) 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 brandy, rum, 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 (citrus brandy, citrus spirits, rum, cane spirits, fortified citrus wine, purchased distilled products and byproducts); Premium Branded Spirits (primarily rum and flavored rum); Bottling Operations

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(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.

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 has a limited number of customers, and these 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,

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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 products bottled by the Company. In addition, excise taxes are payable on sales of industrial alcohol to certain customers. Accordingly, excise taxes vary 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.

	THREE MONTHS ENDED DECEMBER 31,	
	2001	2000
Net sales	100.0%	100.0%
Cost of goods sold	69.1	65.5
Gross margin	30.9	34.5
Selling, general and administrative expenses	20.7	22.1
Operating income	10.2	12.4

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Interest expense	(3.2)	(6.2)
Other income, net	1.3	1.3
	-----	-----
Income before income taxes	8.3	7.5
Income tax expense	(2.2)	(1.9)
	-----	-----
Net income	6.1%	5.6%
	=====	=====

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

	THREE MONTHS ENDED DECEMBER 31,		
	2001	2000	% CHANGE
	-----		
	(in thousands)		
Bulk Alcohol Products	\$ 8,836	\$ 9,384	(5.8)
Premium Branded Spirits	5,387	3,983	35.2
Bottling Operations	4,782	3,984	20.0
Vinegar and Cooking Wine	5,463	4,912	11.2
	-----	-----	
	\$24,468	\$22,263	9.9
	=====	=====	

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RESULTS OF OPERATIONS (CONTINUED)

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

	THREE MONTHS ENDED DECEMBER 31,		
	2001	2000	% CHANGE
	-----		
	(in thousands)		
Bulk alcohol products:			
Distilled products, in proof gallons			
Citrus Brandy	363	466	(22.0)
Citrus Spirits	156	143	9.0
Rum	847	1,142	(25.8)
Cane Spirits	200	159	25.8
Fortified citrus wine, in gallons	2,704	2,680	0.9
Premium branded spirits, in cases	89	85	5.2
Bottling operations, in cases	1,432	841	70.3

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Vinegar			
Bulk, in 100 grain gallons	1,352	1,141	18.6
Cases	169	157	7.3
Drums, in 100 grain gallons	378	146	159.7
Cooking Wine			
Bulk, in gallons	1,067	696	53.5
Cases	208	216	(4.0)

THREE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2000. Unless otherwise noted, references to 2001 represent the three-month period ended December 31, 2001 and references to 2000 represent the three-month period ended December 31, 2000.

NET SALES. Net sales were \$24.5 million in 2001, an increase of 9.9% from net sales of \$22.3 million in 2000.

Net sales of bulk alcohol products were \$8.8 million in 2001, a decrease of 5.8% from net sales of \$9.4 million in 2000. The decrease resulted primarily from decreased shipments of rum from the Company's Virgin Islands subsidiary. Management believes that the decrease in rum shipments is due to the timing of customer orders and that rum shipments will return to normal levels by the end of fiscal 2002.

Net sales of premium branded spirits were \$5.4 million in 2001, an increase of 35.2% from net sales of \$4.0 million in 2000. In 2001, net sales of premium branded spirits includes \$1.6 million of bulk tequila sales. Excluding bulk tequila sales, net sales of premium branded spirits were \$3.8 million in 2001, a decrease of 4.4% from net sales of \$4.0 million in 2000. Bulk tequila sales represent the liquidation of inventory that was held to produce Porfidio tequila. Sales of the Company's Cruzan Rums and Cruzan Flavored Rums increased 11.5% and 47.0%, respectively, in 2001 compared to 2000. The strong sales increases in Cruzan Rums and Cruzan Flavored Rums were offset by large decreases in sales of Porfidio tequila and Antiqueno Aguardiente. As of September 2001, the Company was out of stock of Porfidio tequila. The Company has not received a shipment of Porfidio tequila since March 2001, and cannot predict when or whether shipments will resume. In addition, as a result of a trademark dispute with the Company, the producer of Antiqueno Aguardiente, one of the Company's premium branded spirits products, suspended shipments of this product to the Company in June 2001. Sales of this product amounted to \$1.6 million in the fiscal year ended September 30, 2001. As of November 2001, the Company was out of stock of Antiqueno Aguardiente. The Company cannot predict when or whether shipments of this product will resume. Management believes that the decreases in sales of Porfidio Tequila and Antiqueno Aguardiente have not had, and are not expected to have, a material adverse effect on the Company's consolidated results of operations.

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### RESULTS OF OPERATIONS (CONTINUED)

Net sales of the Company's bottling operations were \$4.8 million in 2001, an increase of 20.0% from net sales of \$4.0 million in 2000. The unit volume of the Company's bottling operations increased 70.3% in 2001 as a result of increased business with an existing customer. Management expects the unit volume in its bottling operations to increase over thirty percent for the fiscal year ending September 30, 2002, as a result of increased business with new and existing customers.

Net sales of vinegar and cooking wine were \$5.5 million in 2001, an

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increase of 11.2% from net sales of \$4.9 million in 2000. Management believes that the increase in net sales is due to the timing of customer orders.

**GROSS PROFIT.** Gross profit was \$7.6 million in 2001, a decrease of 1.8% from gross profit of \$7.7 million in 2000. Gross margin decreased to 30.9% in 2001 from 34.5% in 2000. The decrease in gross margin was primarily attributable to a decrease in shipments of bulk rum related to the timing of customer orders.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses were \$5.1 million in 2001, an increase of 3.0% from \$4.9 million in 2000.

**OPERATING INCOME.** The following table sets forth the operating income (loss) by reportable segment of the Company for 2001 and 2000.

	THREE MONTHS ENDED DECEMBER 31,		
	2001	2000	% CHANGE
	-----	-----	-----
	(IN THOUSANDS)		
Bulk Alcohol Products	\$ 2,889	\$ 3,389	(14.7)
Premium Branded Spirits	(171)	(512)	-
Bottling Operations	182	211	(13.9)
Vinegar and Cooking Wine	1,147	879	30.5
Corporate Operations and Other	(1,561)	(1,196)	-
	-----	-----	
	\$ 2,486	\$ 2,771	(10.3)
	=====	=====	

As a result of the above factors, operating income was \$2.5 million in 2001, a decrease of 10.3% from operating income of \$2.8 million in 2000. Included in operating loss of premium branded spirits was profit of \$0.5 million related to bulk tequila sales. Excluding bulk tequila sales, operating loss of premium branded spirits would have been \$0.7 million in 2001 compared to \$0.5 million in 2000.

**INTEREST INCOME.** The Company earns interest income on its cash, short-term investments and notes receivable.

**INTEREST EXPENSE.** Interest expense was \$0.8 million in 2001 and \$1.4 million in 2000. The decrease in interest expense was due to lower interest rates during 2001 as compared to 2000.

**INCOME TAX EXPENSE.** The Company's effective income tax rate was 26.6% in 2001 and 25.0% in 2000. The low tax rate was attributable to the Virgin Islands subsidiary, which has a 90% exemption from United States federal income taxes through September 2020.

### FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

#### GENERAL



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The Company's principal use of cash in its operating activities is for purchasing raw materials to be used in its manufacturing operations, purchasing imported products for its premium branded spirits business and carrying inventories and receivables. The Company's source of liquidity has historically been cash flow from operations and 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 byproduct 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 generally begins purchasing citrus molasses in November and builds inventory of citrus brandy and spirits. Due to the short life of the citrus molasses it purchases, the Company must manufacture and build inventory while raw materials are available. 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 needs.

### OPERATING ACTIVITIES

Net cash provided by operating activities in 2001 was \$8.4 million, which resulted from \$2.8 million in net income adjusted for noncash items, and \$5.6 million representing the net change in operating assets and liabilities.

### INVESTING AND FINANCING ACTIVITIES

Net cash used in investing activities in 2001 was \$4.4 million, which resulted primarily from \$2.2 million of capital expenditures and a net increase of \$2.0 million in short-term investments.

Net cash used in financing activities in 2001 was \$4.4 million, which resulted from payments of \$2.5 million under the revolving credit facility, \$1.0 million of long-term debt and \$0.9 million in loan costs.

The Company's revolving credit facility provides for maximum borrowings of \$30 million. Borrowings under this facility were \$16.5 million at December 31, 2001 (see Note 3 to the Consolidated Financial Statements).

The Company's bank debt was \$55.5 million as of December 31, 2001, and its ratio of total debt to equity was 1.1 to 1.

The Company's share of the undistributed earnings of the Bahamian and Virgin Islands subsidiaries were approximately \$8.4 million and \$25.1 million, respectively, as of September 30, 2001. See Note 9 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2001 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.

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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.

### 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, 2001.

### PART II. OTHER INFORMATION

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- 3.1 Amended and Restated Certificate of Incorporation of Todhunter International, Inc.
- 3.2 Amended and Restated By-Laws of Todhunter International, Inc. (6)
- 4.1 Form of Todhunter International, Inc. Common Stock Certificate (1)
- 10.6 Todhunter International, Inc. 1992 Stock Option Plan, as amended (3)
- 10.8 Lease, dated March 24, 1988, as amended, between Todhunter International, Inc. and West Palm Beach, Inc. (1)
- 10.8(a) Amendment to Lease, dated January 1, 1997, between Todhunter International, Inc. and Acquisition Fund Esperante, Ltd. (4)
- 10.16 Asset Purchase Agreement dated as of September 27, 1999, among Todhunter International, Adams Wine Company d/b/a Monarch Wine Company of Georgia, and Howard J. Weinstein, David Paszamant, Jay Paszamant and Matthew Paszamant (5)
- 10.18 Executive Employment Agreement dated as of July 15, 1999, between Thomas A. Valdes International, Inc. (6)
- 10.19 Executive Employment Agreement dated as of July 15, 1999, between Jay S. Maltby and International, Inc. (6)
- 10.20 Executive Employment Agreement dated as of July 15, 1999, between A. Kenneth Pincou and International, Inc. (6)
- 10.21 Executive Employment Agreement dated as of July 15, 1999, between D. Chris Mitchell and International, Inc. (6)
- 10.22 Amended and Restated Credit Agreement dated as of October 19, 2001, by and among Todhunter International, Inc., and each of the Financial Institutions Initially a Signatory to the Credit Agreement and South Trust Bank (7)
- 11.1 Statement of Computation of Per Share Earnings (8)
- 21.1 Subsidiaries of Todhunter International, Inc. (2)

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- (1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 (File No. 33-50848).
- (2) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1995.
- (3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1997.
- (4) Incorporated herein by reference to the Company's Annual Report on Form

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10-K for the year ended September 30, 1998.

- (5) Incorporated herein by reference to the Company's Report on Form 8-K for November 17, 1999.
- (6) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
- (7) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2001.
- (8) 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 December 31, 2001.

### (b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the first quarter ended December 31, 2001.

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### 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: February 11, 2002

/s/ A. Kenneth Pincourt, Jr.  
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A. Kenneth Pincourt, Jr.  
Chairman  
and Chief Executive Officer

Date: February 11, 2002

/s/ Troy Edwards  
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Troy Edwards  
Chief Financial Officer,  
Treasurer and Controller

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