TODHUNTER INTERNATIONAL INC
Form 10-Q
February 13, 2001

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, 2000

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 9, 2001 was 5,513,734.

TODHUNTER INTERNATIONAL, INC.

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* 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

	December 31, 2000 (Unaudited)	Se
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,014,338	$
Short-term investments	6,374,311	

Trade receivables	12,512,325	
Other receivables	1,922,362	
Inventories	24,421,276	
Notes receivable, current maturities	1,134,716	
Deferred income taxes	1,190,000	
Other current assets	2,464,378	
Total current assets	52,033,706	
Investments in and advances to equity investees	1,079,545	
Note receivable from affiliate, less current maturities	3,439,605	
Notes receivable, less current maturities	2,853,918	
PROPERTY AND EQUIPMENT	80,204,157	
Less accumulated depreciation	40,356,575	
	39,847,582	
GOODWILL, less accumulated amortization	21,745,902	
OTHER ASSETS	2,065,187	
	$ 123,065,445	$

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

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TODHUNTER INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2000 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt	$ 8,000,000
Accounts payable	4,012,875
Accrued interest expense	109,987
Other accrued expenses	1,382,107
Total current liabilities	13,504,969
LONG-TERM DEBT, less current maturities	48,272,296
DEFERRED INCOME TAXES	4,050,500
OTHER LIABILITIES	1,119,333

	66,947,098
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, 2000 and September 30, 2000	56,129
Additional paid-in capital	18,326,014
Accumulated other comprehensive loss	(206,500)
Retained earnings	38,680,484
	56,856,127
Less cost of 99,200 shares of treasury stock	(737,780)
	56,118,347
	$ 123,065,445

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

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

	Three Months En
	2000
Sales	$ 29,847,350
Less excise taxes	7,583,871
Net sales	22,263,479
Cost of goods sold	14,572,283
Gross profit	7,691,196
Selling, general and administrative expenses	4,920,462
Operating income	2,770,734
Other income (expense):	
Interest income	225,169
Interest expense	(1,391,346)
Equity in income of equity investee	11,740
Other, net	43,314
	(1,111,123)

Income before income taxes and extraordinary item	1,659,611
Income tax expense (benefit):	
Current	546,327
Deferred	(130,500)
	415,827
Income before extraordinary item	1,243,784
Extraordinary item - early extinguishment of debt, net of income taxes of $382,075	-
Net income	$ 1,243,784
Earnings per common share - basic:	
Income before extraordinary item	$ 0.23
Extraordinary item	-
Net income	$ 0.23
Earnings per common share - diluted:	
Income before extraordinary item	$ 0.23
Extraordinary item	-
Net income	$ 0.23
Common shares and equivalents outstanding:	
Basic	5,513,734
Diluted	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
	2000
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 1,243,784
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,150,714
Amortization	369,503
(Gain) on sale of property and equipment	(2,185)
Equity in income of equity investee	(11,740)

Deferred income taxes	(130,500)
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	3,794,289
Inventories	(891,698)
Other current assets	617,806
Increase (decrease) in:	
Accounts payable	(1,063,505)
Accrued interest expense	2,952
Other accrued expenses	(502,285)
Other liabilities	(64,521)
Net cash provided by operating activities	4,512,614
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	21,799
Principal payments received on notes receivable	372,055
Purchase of property and equipment	(1,329,105)
Disbursements for notes receivable	-
Purchase of short-term investments	(1,530,963)
Purchase of Monarch Wine Company	-
(Increase) in other assets	(216,000)
Net cash used in investing activities	$ (2,682,214)

(continued)

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

	Three Months Ende
	2000
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings (payments) on line of credit	$ (1,029,999)
Proceeds from long-term borrowings	-
Principal payments on long-term borrowings	(2,031,929)
Net cash provided by (used in) financing activities	(3,061,928)
Net increase (decrease) in cash and cash equivalents	(1,231,528)
Cash and cash equivalents:	
Beginning	3,245,866
Ending	$ 2,014,338
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for:	
Interest	$ 1,388,394

Income taxes	$ 125,216

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

Acquisition of Monarch Wine Company:	
Cash purchase price	$ -
Working capital acquired	$ -
Goodwill	-
Operating lease assumed, to be abandoned	-
	$ -

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 generally accepted accounting principles 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, 2000.

Note 2. Inventories

The major components of inventories are:

	December 31, 2000 (Unaudited)	September 30, 2000
Finished goods	$ 12,875,750	$ 14,382,36
Work in process	874,472	928,48
Raw materials and supplies	10,670,784	8,218,73
	$ 24,421,276	$ 23,529,57

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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, 2000:

Term loans under a credit agreement (i), 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, 2000 was 9.12%. Quarterly principal installments of $2,000,000 through September 30, 2004 with any remaining balance due December 31, 2004.	$ 48
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, 2000 was 10%. The revolving lines of credit terminate in November 2002.	7
Other	
	56
Less current maturities	8
	$ 48

(i) In November 1999, the Company entered into a $71 million credit agreement consisting of $56 million of term loans and a $15 million revolving loan facility. The credit agreement is collateralized by 65% of the issued and outstanding stock of the Company's majority-owned subsidiaries. The proceeds from these loans were used to prepay all borrowings under previous finance agreements and to finance a business acquisition. The Company is required to maintain minimum fixed charge and interest coverage ratios in addition to other financial covenants.

In the first quarter of fiscal year 2000, the Company recognized an extraordinary loss of $1,168,790, net of an income tax benefit of $382,075, on its early extinguishment of debt.

On January 14, 2000, the Company entered into an interest rate cap agreement. The agreement caps the applicable Eurodollar rate under the credit agreement at 7.5%. At December 31, 2000 the underlying applicable Eurodollar rate was 6.62%. The Company paid $250,000 for this cap, which has a term of two years. The notional amount of this agreement at December 31, 2000 was $48,000,000.

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.

	Three Mon Decemb
	2000
Income before extraordinary item	$ 1,243,784
Net income	$ 1,243,784
Determination of shares:	
Weighted average number of common shares outstanding	5,513,734
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds	2,274
Average common shares outstanding for diluted earnings per share computation	5,516,008
Earnings per common share - basic:	
Income before extraordinary item	$ 0.23
Extraordinary item	-
Net income	$ 0.23
Earnings per common share - diluted:	
Income before extraordinary item	$ 0.23
Extraordinary item	-
Net income	$ 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 January 31, 2002. The effect of this exemption was to increase earnings per share by $0.04 and $0.05 for the three months ended December 31, 2000 and 1999, 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 five segments:

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

byproducts)
Premium Branded Spirits (primarily rum, flavored rum and tequila)
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 and Other (primarily corporate related items).

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 operating segments based on income before income taxes, equity in losses of equity investee, interest income and interest expense. Material intersegment sales and transfers have been eliminated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Summarized financial information concerning the Company's reportable segments is shown in the following table. "Corporate Operations and Other" includes corporate items and the results of certain nonmaterial operations.

Net sales, operating income (loss), depreciation and amortization and capital expenditures for the Company's operating segments for the three months ended December 31, 2000 and 1999, and identifiable assets as of December 31, 2000 and 1999, were as follows:

	THREE MONTH DECEMBE	
	2000	
	(in thous	
NET SALES		
Bulk Alcohol Products	$ 9,384	$
Premium Branded Spirits	3,983	
Bottling Operations	3,984	
Vinegar and Cooking Wine	4,912	
Corporate Operations and Other	-	
	$ 22,263	$
OPERATING INCOME (LOSS)		
Bulk Alcohol Products	$ 3,389	$
Premium Branded Spirits	(512)	
Bottling Operations	211	
Vinegar and Cooking Wine	879	
Corporate Operations and Other	(1,196)	
	$ 2,771	$
DEPRECIATION AND AMORTIZATION		
Bulk Alcohol Products	$ 778	$

Premium Branded Spirits		34
Bottling Operations		367
Vinegar and Cooking Wine		281
Corporate Operations and Other		60
	$	1,520
CAPITAL EXPENDITURES		
Bulk Alcohol Products	$	651
Premium Branded Spirits		184
Bottling Operations		266
Vinegar and Cooking Wine		186
Corporate Operations and Other		42
	$	1,329
IDENTIFIABLE ASSETS		
Bulk Alcohol Products	$	61,410
Premium Branded Spirits		8,270
Bottling Operations		22,427
Vinegar and Cooking Wine		20,388
Corporate Operations and Other		10,570
	$	123,065

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Sales and operating income for the three months ended December 31, 2000 and 1999 and identifiable assets as of December 31, 2000 and 1999, classified by geographic area, were as follows:

THREE MONTHS ENDED	UNITED STATES	U. S. VIRGIN ISLANDS AND THE BAHAMAS
		(in thousands)
December 31, 2000:		
Net sales	$ 19,251	$ 3,012
Operating income	1,924	847
Identifiable assets	86,709	36,356
December 31, 1999:		
Net sales	17,000	3,462
Operating income	1,513	828
Identifiable assets	88,904	34,031

Included in net sales for the United States are export sales, primarily to Europe, Canada and the Caribbean, totaling approximately $1,451,000 and $1,218,000 for the three months ended December 31, 2000 and 1999, 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, 2000 and 1999 was as follows:

	THREE MONTHS DECEMBER
	2000
	(in thous
Net income	$ 1,244
Other comprehensive income, interest rate cap adjustment	34
	$ 1,278

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

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations may contain, among other things, statements regarding anticipated revenue growth, expenditure levels and plans for development. These forward-looking statements involve a number of risks and uncertainties. The following is a list of the principal factors that could cause actual results to differ materially from those contemplated by the forward-looking statements: business conditions and growth 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; excise taxes; foreign currency exposure; changes in product mix; lower than expected customer orders and quarterly seasonal fluctuations of those orders; and product shipment interruptions. See "Risk Factors" in previous filings with the Securities and Exchange Commission.

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, 2000 compared to the three months ended December 31, 1999 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 five segments: Bulk Alcohol Products (citrus brandy, citrus spirits, rum, cane spirits, fortified citrus wine, purchased distilled products and byproducts); Premium Branded Spirits (primarily rum, flavored rum and tequila); 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); and Corporate Operations and Other (primarily corporate related items).

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. Within its bottling operations, sales and gross margins have varied substantially based upon the mix of business from the Company's "Type A" and "Type B" bottling customers. Type A bottling customers pay the Company to purchase their raw materials and these costs are passed through to the customer. Type B bottling customers supply their own raw materials and are only charged for bottling charges. Although gross profit per case for the Company's Type A and Type B bottling customers is approximately equal, given the same case volume, net sales and cost of goods sold with respect to products bottled for Type A bottling customers are higher, and gross margins are lower, than for Type B bottling customers. As a result, significant fluctuations in volume of Type A bottling customers can distort the Company's gross margin.

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,

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.

ACQUISITION OF MONARCH WINE COMPANY

In November 1999, the Company acquired substantially all of the assets of Adams Wine Company d/b/a Monarch Wine Company of Georgia ("Monarch"), Atlanta, Georgia (the acquisition of the assets of Monarch is hereafter referred to as the "Monarch Acquisition"). The purchase price was $23.8 million in cash. Monarch specializes in the manufacture of wines, including custom blended wines and cooking wines for the food industry and base wines for producers of vinegar and beverage alcohol. The Monarch Acquisition has strengthened the Company's position in the beverage alcohol and food industry by expanding the Company's customer base and product offerings, and has improved the Company's plant capacity utilization.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDE DECEMBER 31,
	2000
Net sales	100.0 %
Cost of goods sold	65.5
Gross margin	34.5
Selling, general and administrative expenses	22.1
Operating income	12.4
Interest expense	(6.2)
Other income, net	1.3
Income before income taxes	7.5
Income tax expense	(1.9)
Income before extraordinary item	5.6
Extraordinary item	-
Net income	5.6 %

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

	THREE MONTHS DECEMBER	
	2000	1999
	(in thousands)	
Bulk Alcohol Products	$ 9,384	$ 8,
Premium Branded Spirits	3,983	3,
Bottling Operations	3,984	3,
Vinegar and Cooking Wine	4,912	4,
Corporate Operations and Other	-	

	$ 22,263	$ 20,
	============	========

RESULTS OF OPERATIONS (CONTINUED)

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

	THREE MONT DECEMBE	
	2000	199
	(in thousands)	
Bulk alcohol products:		
Distilled products, in proof gallons		
Citrus Brandy	466	43
Citrus Spirits	143	39
Rum	1,142	1,07
Cane Spirits	159	14
Fortified citrus wine, in gallons	2,680	2,05
Premium branded spirits, in cases	85	6
Bottling operations, in cases	841	61
Vinegar		
Bulk, in 100 grain gallons	1,141	1,14
Cases	157	15
Drums, in 100 grain gallons	146	35
Cooking Wine		
Bulk, in gallons	696	3
Cases	216	6

THREE MONTHS ENDED DECEMBER 31, 2000 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1999. Unless otherwise noted, references to 2000 represent the three-month period ended December 31, 2000 and references to 1999 represent the three-month period ended December 31, 1999.

NET SALES. Net sales were $22.3 million in 2000, an increase of 8.8% from net sales of $20.5 million in 1999.

Net sales of bulk alcohol products were $9.4 million in 2000, an increase of 13.9% from net sales of $8.2 million in 1999. The increase resulted primarily from increased sales of wine products due to the Monarch Acquisition. Unit sales of citrus spirits decreased 64.1% and unit sales of wine products increased 30.4% in 2000 compared to 1999. These changes resulted from the Monarch Acquisition, as Monarch was a major purchaser of the Company's citrus spirits for use in producing fortified citrus wine.

Net sales of premium branded spirits were $4.0 million in 2000, an increase of 9.6% from net sales of $3.6 million in 1999. This sales increase reflected the continued success of the Company's Cruzan Rums. Sales of the Company's Cruzan Rums and Cruzan Flavored Rums increased 43.2% and 54.7% respectively in 2000 compared to 1999. Sales of Porfidio tequila decreased 59.2% due to an industry-wide shortage of agave, the principal raw material for the Company's premium tequila brand.

Net sales of the Company's bottling operations were $4.0 million in 2000, an increase of 15.2% from net sales of $3.5 million in 1999. The unit volume of the Company's bottling operations increased 35.8% in 2000 as a result of a new bottling contract. Management expects the unit volume in its bottling operations to increase over fifty percent for the fiscal year ending September 30, 2001, as a result of this new business.

RESULTS OF OPERATIONS (CONTINUED)

Net sales of vinegar and cooking wine were $4.9 million in 2000, an increase of 12.0% from net sales of $4.4 million in 1999. The increase in net sales was primarily attributable to increased sales of cooking wine resulting from the Monarch Acquisition.

GROSS PROFIT. Gross profit was $7.7 million in 2000, an increase of 18.2% from gross profit of $6.5 million in 1999. Gross margin increased to 34.5% in 2000 from 31.8% in 1999. The increase in gross margin was primarily attributable to a change in product mix as a result of the Monarch Acquisition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $4.9 million in 2000, an increase of 18.1% from $4.2 million in 1999. The increase was primarily attributable to (1) increased marketing expenses and new employees related to the Company's premium branded spirits business, and (2) increased amortization expense.

OPERATING INCOME. The following table sets forth the operating income (loss) by operating segment of the Company for 2000 and 1999.

	THREE MONTHS ENDED DECEMBER 31,		
	2000	1999	% CHANGE
	(IN THOUSANDS)		
Bulk Alcohol Products	$ 3,389	$ 3,153	7.5
Premium Branded Spirits	(512)	27	(2,017.2)
Bottling Operations	211	(390)	154.1
Vinegar and Cooking Wine	879	989	(11.1)
Corporate Operations and Other	(1,196)	(1,438)	(16.7)
	$ 2,771	$ 2,341	18.4

As a result of the above factors, operating income was $2.8 million in 2000, an increase of 18.4% over operating income of $2.3 million in 1999.

INTEREST INCOME. The Company earns interest income on its cash, short-term investments and notes receivable. The decrease in interest income in 2000 was attributable to lower average amounts of cash, short-term investments and notes receivable outstanding compared to 1999.

INTEREST EXPENSE. Interest expense was $1.4 million in 2000 and $1.0 million in 1999. The increase in interest expense was due to higher interest rates during 2000 as compared to 1999.

INCOME TAX EXPENSE. The Company's effective income tax rate was 25.0% in 2000 and 24.7% in 1999. The low tax rate was attributable to the Virgin Islands subsidiary, which has a 90% exemption from United States federal income taxes through January 2002 (see Note 4 to the Consolidated Financial Statements).

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The Company's principal use of cash in its operating activities is to purchase raw materials to be used in its manufacturing operations, purchase imported products for its premium branded spirits business and carry inventories and receivables. The Company's sources of liquidity have historically been cash flow from operations and borrowings. 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. The Company must manufacture and build inventory while raw materials are available due to the short life of the citrus molasses it purchases. 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 2000 was $4.5 million, which resulted from $2.6 million in net income adjusted for noncash items, and $1.9 million representing the net change in operating assets and liabilities.

INVESTING AND FINANCING ACTIVITIES

Net cash used in investing activities in 2000 was $2.7 million, which resulted primarily from $1.3 million of capital expenditures and a net increase of $1.5 million in short-term investments.

Net cash used in financing activities in 2000 was $3.1 million, which resulted from a decrease of $1.0 million in borrowings under the revolving credit facility and payments of long-term debt totaling $2.0 million.

The Company's present revolving credit facility provides for maximum borrowings of $15 million. Borrowings under this facility were $7.5 million at December 31, 2000 (see Note 3 to the Consolidated Financial Statements).

The Company's total debt was $56.3 million as of December 31, 2000, and its ratio of debt to equity was 1.0 to 1.

No provision has been made for income taxes that would result from the remittance of undistributed earnings of the Company's Bahamian and Virgin Islands subsidiaries, as the Company intends to reinvest these earnings indefinitely. The Company's shares of the undistributed earnings of the Bahamian and Virgin Islands subsidiaries were approximately $8.1 million and $21.1 million, respectively, as of September 30, 2000. 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, 2000 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 uses natural gas in its distilling operations and has recently experienced significant increases in its energy costs as a result of natural gas price increases. At the present time, management believes that the Company's energy costs relating to natural gas will continue to increase. Where competitively feasible, management plans to increase selling prices to offset the effects of natural gas price increases, but the Company may not be able to recover these energy cost increases.

Except as noted above, 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, 2000.

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. (1)

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 Especially West Palm Beach, Inc. (1)

10.8(a) Amendment to Lease, dated January 1, 1997, between Todhunter International, Inc. and Florida Acquisition Fund Esperante, Ltd. (4)

10.16 Asset Purchase Agreement dated as of September 27, 1999, among Todhunter International, Inc. and Adams Wine Company d/b/a Monarch Wine Company of Georgia, and Howard J. Weinstein, David Paszamant, Jay

	Paszamant and Matthew Paszamant (5)
10.17	Credit Agreement dated as of November 17, 1999, by and among Todhunter International, Inc. and each of the Financial Institutions Initially a Signatory thereto, and SouthTrust Bank, National Association (5)
10.17(a)	Waiver and Modification of Credit Agreement dated as of September 29, 2000, by and among Todhunter International, Inc. and each of the Financial Institutions Initially a Signatory thereto, and SouthTrust Bank, National Association (9)
10.18	Executive Employment Agreement dated as of July 15, 1999, between Thomas A. Valdes and Todhunter International, Inc. (6)
10.19	Executive Employment Agreement dated as of July 15, 1999, between Jay S. Maltby and Todhunter International, Inc. (6)
10.20	Executive Employment Agreement dated as of July 15, 1999, between A. Kenneth Pincourt, Jr. and Todhunter International, Inc. (6)
10.21	Executive Employment Agreement dated as of July 15, 1999, between D. Chris Mitchell and Todhunter International, Inc. (6)
11.1	Statement of Computation of Per Share Earnings (8)
13.1	Quantitative and Qualitative Disclosures about Market Risk (7)
21.1	Subsidiaries of Todhunter International, Inc. (2)
23.1	Consent of McGladrey & Pullen, LLP (7)

(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 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, 2000.

(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, 2000.

(9) Filed herewith.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the first quarter ended December 31, 2000.

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 9, 2001	/s/ A. Kenneth Pincourt, Jr. ---------------------------------- A. Kenneth Pincourt, Jr. Chairman and Chief Executive Officer
Date: February 9, 2001	/s/ Troy Edwards ---------------------------------- Troy Edwards Chief Financial Officer, Treasurer and Controller