TODHUNTER INTERNATIONAL INC
Form 10-Q
May 15, 2003

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 March 31, 2003

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 ý No o

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

Yes o No ý

The number of shares outstanding of registrant s Common Stock, $.01 par value per share, as of May 12, 2003 was 5,574,234.

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

	March 31, 2003 (Unaudited)	September 30, 2002 *
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 12,905,229	$ 13,946,736
Short-term investments	3,402,235	3,397,033
Trade receivables	13,593,832	13,505,737
Other receivables	2,989,610	2,696,743
Inventories	30,092,602	27,854,925
Notes receivable, current maturities	123,901	118,165
Deferred income taxes	2,105,000	1,992,000
Other current assets	1,571,117	3,078,437
Total current assets	66,783,526	66,589,776
LONG-TERM INVESTMENTS AND NOTES RECEIVABLE		
Investments in and advances to equity investees	2,108,034	1,584,628
Notes receivable from affiliates, less current maturities	3,755,870	3,774,773
Notes receivable, less current maturities	544,374	584,687
	6,408,278	5,944,088
PROPERTY AND EQUIPMENT	91,101,193	89,775,329
Less accumulated depreciation	49,509,352	47,590,112
	41,591,841	42,185,217
GOODWILL	20,524,404	20,524,404
AMORTIZED INTANGIBLE ASSETS	1,870,081	2,040,181
OTHER ASSETS	720,653	598,838
	$ 137,898,783	$ 137,882,504

*From audited financial statements.

See Notes to Consolidated Financial Statements.

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2003 (Unaudited)	September 30, 2002 *
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 4,000,000	$ 4,000,000
Accounts payable	5,076,553	4,051,379
Accrued expenses	1,935,619	3,223,293
Total current liabilities	11,012,172	11,274,672
LONG-TERM DEBT, less current maturities	52,905,192	53,017,009
DEFERRED INCOME TAXES	4,768,000	4,710,000
OTHER LIABILITIES	2,191,382	1,811,459
	70,876,746	70,813,140
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 5,673,434 shares March 31, 2003, and 5,669,434 shares September 30, 2002	56,715	56,694
Additional paid-in capital	18,681,491	18,664,449
Retained earnings	49,021,611	49,086,001
	67,759,817	68,807,144
Less cost of 99,200 shares of treasury stock	(737,780)	(737,780)
	67,022,037	67,069,364
	$ 137,898,783	$ 137,882,504

*From audited financial statements.

See Notes to Consolidated Financial Statements.

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended March 31, 2003	Six Months Ended March 31, 2002	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Sales	$ 57,721,813	$ 63,316,172	$ 29,384,629	$ 31,354,237
Less excise taxes	14,932,589	16,504,594	7,559,884	8,396,438
Net sales	42,789,224	46,811,578	21,824,745	22,957,799
Cost of goods sold	29,400,847	32,113,588	14,020,606	15,815,898
Gross profit	13,388,377	14,697,990	7,804,139	7,141,901
Selling, general and administrative expenses	11,087,222	9,814,277	5,578,249	4,744,124
Operating income	2,301,155	4,883,713	2,225,890	2,397,777
Other income (expense):				
Interest income	342,720	372,633	210,059	148,470
Interest expense	(1,598,433)	(1,420,726)	(873,530)	(627,999)
Equity in income of equity investees	249,405	157,413	156,117	83,182
Other, net	(1,458,621)	245,806	(61,591)	207,357
	(2,464,929)	(644,874)	(568,945)	(188,990)
Income (loss) before income taxes	(163,774)	4,238,839	1,656,945	2,208,787
Income tax expense (benefit):				
Current	(44,384)	996,750	222,879	459,319
Deferred	(55,000)	26,500	6,000	24,000
	(99,384)	1,023,250	228,879	483,319
Net Income (loss)	$ (64,390)	$ 3,215,589	$ 1,428,066	$ 1,725,468
Earnings (loss) per common share:				
Basic	$ (0.01)	$ 0.58	$ 0.26	$ 0.31
Diluted	$ (0.01)	$ 0.58	$ 0.25	$ 0.31
Common shares and equivalents outstanding:				
Basic	5,571,750	5,513,734	5,572,367	5,513,734
Diluted	5,635,928	5,565,483	5,607,374	5,574,959

See Notes to Consolidated Financial Statements.

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TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended March 31,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (64,390)	$ 3,215,589
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,637,420	2,596,508
Amortization	170,100	195,100
(Gain) loss on sale of property and equipment	54,234	(30,924)
Equity in income of equity investees	(249,405)	(157,413)
Deferred income taxes	(55,000)	26,500
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(380,962)	2,988,482
Inventories	(2,237,677)	1,144,643
Other current assets	1,507,320	821,193
Increase (decrease) in:		
Accounts payable	1,025,174	824,500
Accrued expenses	(1,287,674)	(801,094)
Other liabilities	379,923	97,516
Net cash provided by operating activities	1,499,063	10,920,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	42,026	46,599
Principal payments received on notes receivable	53,480	49,622
Purchase of property and equipment	(2,140,304)	(3,287,015)
Disbursements for notes receivable		(286,797)
Purchase of short-term investments	(103,202)	(3,231,379)
Redemption of short-term investments	98,000	
Investments in and advances to equity investees	(274,001)	
Increase in other assets	(121,815)	(106,502)
Net cash used in investing activities	$ (2,445,816)	$ (6,815,472)

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Six Months Ended March 31, 2003		Six Months Ended March 31, 2002	
CASH FLOWS FROM FINANCING ACTIVITIES				
Net payments on line of credit	$	2,000,000	$	(2,200,000)
Issuance of common stock		17,063		
Disbursements for loan costs				(889,833)
Principal payments on long-term borrowings		(2,111,817)		(2,101,391)
Net cash used in financing activities		(94,754)		(5,191,224)
Net decrease in cash and cash equivalents		(1,041,507)		(1,086,096)
Cash and cash equivalents:				
Beginning		13,946,736		5,624,029
Ending	$	12,905,229	$	4,537,933
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash payments for:				
Interest	$	1,445,278	$	1,392,540
Income taxes	$	142,604	$	826,615

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 Chief 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, 2002.

Aggregate amortization expenses were $170,100 and $85,050 for the six and three months ended March 31, 2003, respectively, and $195,100 and $97,550 for the six and three months ended March 31, 2002, respectively.

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. SFAS 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 and earnings per common share would have been reduced to the pro forma amounts show below:

	Six Months Ended March 31,		Three Months Ended March 31,	
	2003	**2002**	**2003**	**2002**
Net income (loss), as reported	$ (64,390)	$ 3,215,589	$ 1,428,066	$ 1,725,468
Net income (loss), pro forma	(197,833)	3,082,146	1,361,344	1,658,746
Earnings (loss) per common share, as reported				
Basic	(0.01)	0.58	0.26	0.31
Diluted	(0.01)	0.58	0.25	0.31

Earnings (loss) per common share, pro forma				
Basic	(0.03)	0.55	0.24	0.30
Diluted	(0.03)	0.55	0.24	0.29

Note 2. Inventories

The major components of inventories are:

	March 31, 2003 (Unaudited)	September 30, 2002
Finished goods	$ 16,251,569	$ 16,470,057
Work in process	2,399,366	1,513,786
Raw materials and supplies	11,441,667	9,871,082
	$ 30,092,602	$ 27,854,925

Note 3. Financing Arrangements

Long-term debt consists of the following as of March 31, 2003:

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 March 31, 2003 was 4.78%. Future minimum quarterly principal installments of $1,000,000 through September 30, 2006 with any remaining balance due September 30, 2006.	$ 34,000,000
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 March 31, 2003 was 5.2%. The revolving lines of credit terminate in October 2004.	22,500,000
Other	405,192
	56,905,192
Less current maturities	4,000,000
	$ 52,905,192

(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 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 ratio, 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.

As of December 31, 2002 and March 31, 2003, the Company was not in compliance with the Funded Debt to EBITDA (earnings before interest, taxes, depreciation and amortization) financial covenant under its credit agreement. In addition, as of March 31, 2003 the Company was not in compliance with its Interest Coverage and Fixed Charge Coverage financial covenants. On February 18, 2003, the Company received a waiver for the December 31, 2002 covenant violation. On May 14, 2003, the Company received a waiver of the March 31, 2003 covenant violations and amended prospectively the credit agreement to reset the levels of certain financial covenants to reflect the Company s current business plan and forecasts. The Company paid a fee of $136,250 for the December waiver and $160,000 for the March waiver and amendment. The Company s interest rate under the term-loan and revolving credit agreement was increased 50 basis points effective January 1, 2003 and an additional 50 basis points effective May 14, 2003.

Note 4. Earnings (Loss) 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. The effect of stock options have not been included in six months ended March 31, 2003 loss per common share, as their effect would have been anti-dilutive.

	Six Months Ended March 31,		**Three Months Ended March 31,**	
	2003	**2002**	**2003**	**2002**
Net income (loss)	$ (64,390)	$ 3,215,589	$ 1,428,066	$ 1,725,468
Determination of shares:				
Weighted average number of common shares outstanding	5,571,750	5,513,734	5,572,367	5,513,734
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds	64,178	51,749	35,007	61,225
Average common shares outstanding for diluted earnings per share computation	5,635,928	5,565,483	5,607,374	5,574,959
Earnings (loss) per common share:				
Basic	$ (0.01)	$ 0.58	$ 0.26	$ 0.31
Diluted	$ (0.01)	$ 0.58	$ 0.25	$ 0.31

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 both a basic and diluted basis) was to increase earnings per share by $0.09 and $0.06 for the six and three months ended March 31, 2003, respectively, and $0.08 and $0.05 for the six and three months ended March 31, 2002, 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 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)

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 income or loss of equity investees, interest income and interest expense. Material intersegment sales and transfers have been eliminated.

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 six and three months ended March 31, 2003 and 2002, and identifiable assets as of March 31, 2003 and 2002, were as follows:

	Six Months Ended March 31,		Three Months Ended March 31,	
	2003	**2002**	**2003**	**2002**
	(in thousands)		(in thousands)	
Net Sales				
Bulk Alcohol Products	$ 17,527	$ 17,692	$ 8,832	