TODHUNTER INTERNATIONAL INC
Form 10-Q
May 14, 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 March 31, 2004

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, 2004 was 5,624,234.

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, 2004 (Unaudited)	September 30, 2003 *
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,116,872	$ 14,918,605
Short-term investments	820,173	1,819,016
Trade receivables	14,847,822	15,867,079
Other receivables	3,618,873	2,879,334
Inventories	32,449,462	28,664,895
Notes receivable, current maturities	652,936	647,782
Deferred income taxes	1,657,000	2,224,000
Other current assets	3,561,022	3,895,977
Total current assets	58,724,160	70,916,688
LONG-TERM INVESTMENTS AND NOTES RECEIVABLE		
Investments in and advances to equity investees	2,229,246	1,879,623
Notes receivable from affiliates, less current maturities	3,694,277	3,714,346
Notes receivable, less current maturities	459,501	506,422
	6,383,024	6,100,391
PROPERTY AND EQUIPMENT	94,320,365	92,182,294
Less accumulated depreciation	54,612,054	52,125,682
	39,708,311	40,056,612
GOODWILL	20,524,404	20,524,404
AMORTIZED INTANGIBLE ASSETS	814,747	834,850
OTHER ASSETS	745,380	866,128
	$ 126,900,026	$ 139,299,073

*From audited financial statements.

See Notes to Consolidated Financial Statements.

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

		March 31, 2004		September 30, 2003
		(Unaudited)		*
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Current maturities of long-term debt	$	10,000,000	$	4,000,000
Accounts payable		9,687,222		6,288,431
Accrued expenses		1,943,560		3,837,745
Total current liabilities		21,630,782		14,126,176
LONG-TERM DEBT, less current maturities		26,210,390		47,315,617
DEFERRED INCOME TAXES		5,279,500		5,243,000
OTHER LIABILITIES		902,346		2,002,761
		54,023,018		68,687,554
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 5,723,434 shares March 31, 2004, and 5,686,434 shares September 30, 2003		57,234		56,864
Additional paid-in capital		19,098,709		18,803,404
Retained earnings		54,458,845		52,489,031
		73,614,788		71,349,299
Less cost of 99,200 shares of treasury stock		(737,780)		(737,780)
		72,877,008		70,611,519
	$	126,900,026	$	139,299,073

*From audited financial statements.

See Notes to Consolidated Financial Statements.

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Sales	$ 56,417,025	$ 57,721,813	$ 28,729,343	$ 29,384,629
Less excise taxes	11,935,530	14,932,589	6,689,500	7,559,884
Net sales	44,481,495	42,789,224	22,039,843	21,824,745
Cost of goods sold	29,501,654	29,400,847	14,193,478	14,020,606
Gross profit	14,979,841	13,388,377	7,846,365	7,804,139
Selling, general and administrative expenses	12,704,293	11,087,222	6,456,239	5,578,249
Operating income	2,275,548	2,301,155	1,390,126	2,225,890
Other income (expense):				
Interest income	360,231	342,720	187,672	210,059
Interest expense	(1,406,418)	(1,598,433)	(709,435)	(873,530)
Equity in income of equity investees	349,623	249,405	135,503	156,117
Other, net	293,571	(1,458,621)	65,000	(61,591)
	(402,993)	(2,464,929)	(321,260)	(568,945)
Income (loss) before income taxes	1,872,555	(163,774)	1,068,866	1,656,945
Income tax expense (benefit):				
Current	(700,759)	(44,384)	(457,414)	222,879
Deferred	603,500	(55,000)	407,750	6,000
	(97,259)	(99,384)	(49,664)	228,879
Net Income (loss)	$ 1,969,814	$ (64,390)	$ 1,118,530	$ 1,428,066
Earnings (loss) per common share:				
Basic	$ 0.35	$ (0.01)	$ 0.20	$ 0.26
Diluted	$ 0.35	$ (0.01)	$ 0.20	$ 0.25
Common shares and equivalents outstanding:				
Basic	5,598,122	5,571,750	5,617,591	5,572,367
Diluted	5,696,128	5,571,750	5,722,369	5,607,374

See Notes to Consolidated Financial Statements.

TODHUNTER INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,969,814	$ (64,390)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,702,323	2,637,420
Amortization	20,100	20,100
(Gain) loss on sale of property and equipment	(197,271)	54,234
Equity in income of equity investees	(349,623)	(249,405)
Deferred income taxes	603,500	(55,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	279,718	(380,962)
Inventories	(3,784,567)	(2,237,677)
Other current assets	334,955	1,507,320
Increase (decrease) in:		
Accounts payable	3,398,791	1,025,174
Accrued expenses	(1,894,185)	(1,287,674)
Other liabilities	(1,100,415)	379,923
Net cash provided by operating activities	1,983,140	1,349,063
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	429,815	42,026
Principal payments received on notes receivable	61,836	53,480
Purchase of property and equipment	(2,586,566)	(2,140,304)
Purchase of short-term investments		(103,202)
Redemption of short-term investments	998,843	98,000
Investments in subsidiaries		(274,001)
Decrease in other assets	120,751	28,185
Net cash used in investing activities	$ (975,321)	$ (2,295,816)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on line of credit	$ (13,000,000)	$ 2,000,000
Issuance of common stock	295,675	17,063
Principal payments on long-term borrowings	(2,105,227)	(2,111,817)
Net cash used in financing activities	(14,809,552)	(94,754)
Net decrease in cash and cash equivalents	(13,801,733)	(1,041,507)

Cash and cash equivalents:				
Beginning		14,918,605		13,946,736
Ending	$	1,116,872	$	12,905,229
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash payments (refunds) for:				
Interest	$	1,415,835	$	1,445,278
Income taxes	$	(1,418,352)	$	142,604

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 6), 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 $20,100 for the six months ended March 31, 2004 and 2003, and $10,050 for the three months ended March 31, 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:

	Six Months Ended March 31,		**Three Months Ended March 31,**	
	2004	**2003**	**2004**	**2003**
Net income (loss), as reported	$ 1,969,814	$ (64,390)	$ 1,118,530	$ 1,428,066
Compensation costs, net of income taxes	42,034	84,068		42,034
Net income (loss), pro forma	1,927,780	(148,458)	1,118,530	1,386,032
Earnings (loss) per common share, as reported				
Basic	0.35	(0.01)	0.20	0.26
Diluted	0.35	(0.01)	0.20	0.25

Earnings (loss) per common share, pro forma				
Basic	0.34	(0.02)	0.20	0.24
Diluted	0.33	(0.02)	0.20	0.24

Note 2. Inventories

The major components of inventories are:

		March 31, 2004 (Unaudited)		September 30, 2003
Finished goods	$	20,080,138	$	15,588,106
Work in process		2,550,080		3,380,434
Raw materials and supplies		9,819,244		9,696,355
	$	32,449,462	$	28,664,895

Note 3. Financing Arrangements

Long-term debt consists of the following as of March 31, 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 March 31, 2004 was 4.36%. Future minimum quarterly principal installments of $1,000,000 through September 30, 2006 with any remaining balance due September 30, 2006.	$	30,000,000
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, 2004 was 3.84%. The revolving lines of credit terminate in October 2004.		6,000,000
Other		210,390
		36,210,390
Less current maturities		10,000,000
	$	26,210,390

(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. The credit agreement is collateralized principally by all assets located in the United States of America. Under the credit agreement, the Company is restricted from paying 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 Per Common Share

Basic earnings 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.

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net income (loss)	$ 1,969,814	$ (64,390)	$ 1,118,530	$ 1,428,066
Determination of shares:				
Weighted average number of common shares outstanding	5,598,122	5,571,750	5,617,591	5,572,367
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds	98,006	*	104,778	35,007
Average common shares outstanding for diluted earnings per share computation	5,696,128	5,571,750	5,722,369	5,607,374
Earnings (loss) per common share:				
Basic	$ 0.35	$ (0.01)	$ 0.20	$ 0.26
Diluted	$ 0.35	$ (0.01)	$ 0.20	$ 0.25

* The effect of stock options have not been included for the six months ended March 31, 2003, 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 $0.13 and $0.06 for the six and three months ended March 31, 2004, respectively, and $0.09 and $0.06 for the six and three months ended March 31, 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.

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, 2004 and 2003, and identifiable assets as of March 31, 2004 and 2003, were as follows:

	Six Months Ended March 31,		Three Months Ended March 31,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Net Sales				
Bulk Alcohol Products	$ 17,126	$ 17,527	$ 8,538	$ 8,832
Premium Branded Spirits	11,524	8,725	5,682	4,521
Bottling Operations	5,547	6,411	2,872	3,582
Vinegar and Cooking Wine	10,284	10,126	4,947	4,890
	$ 44,481	$ 42,789	$ 22,039	$ 21,825
Operating Income (Loss)				
Bulk Alcohol Products	$ 6,191	$ 5,773	$ 3,454	$ 3,676
Premium Branded Spirits	(1,887)	(746)	(1,191)	(333)
Bottling Operations	(1,722)	(1,737)	(742)	(455)
Vinegar and Cooking Wine	1,624	2,052	758	880
Corporate Operations and Other	(1,930)	(3,041)	(888)	(1,542)
	$ 2,276	$ 2,301	$ 1,391	$ 2,226
Depreciation and Amortization				
Bulk Alcohol Products	$ 1,574	$ 1,609	$ 768	$ 800
Premium Branded Spirits	55	50	30	25
Bottling Operations	806	698	404	400
Vinegar and Cooking Wine	237	242	119	120
Corporate Operations and Other	50	59	25	30
	$ 2,722	$ 2,658	$ 1,346	$ 1,375
Capital Expenditures				
Bulk Alcohol Products	$ 1,480	$ 1,072	$ 868	$ 314
Premium Branded Spirits	180	16	48	
Bottling Operations	903	1,007	590	376
Vinegar and Cooking Wine	19	34	4	23
Corporate Operations and Other	5	11	4	
	$ 2,587	$ 2,140	$ 1,514	$ 713
Identifiable Assets				
Bulk Alcohol Products	$ 65,979	$ 73,442		
Premium Branded Spirits	9,084	6,838		
Bottling Operations	23,879	25,639		
Vinegar and Cooking Wine	19,902	19,600		
Corporate Operations and Other	8,056	12,380		
	$ 126,900	$ 137,899		

Net sales and operating income for the six and three months ended March 31, 2004 and 2003 and identifiable assets as of March 31, 2004 and 2003, classified by geographic area, were as follows:

	United States	U. S. Virgin Islands and the Bahamas (in thousands)	Consolidated
Six Months Ended			
March 31, 2004:			
Net sales	$ 38,748	$ 5,733	$ 44,481
Operating income	555	1,721	2,276
Identifiable assets	97,701	29,199	126,900
March 31, 2003:			
Net sales	37,483	5,306	42,789
Operating income	988	1,313	2,301
Identifiable assets	94,637	43,262	137,899
Three Months Ended			
March 31, 2004:			
Net sales	19,130	2,909	22,039
Operating income	445	946	1,391
March 31, 2003:			
Net sales	18,823	3,002	21,825
Operating income	1,351	875	2,226

Included in net sales for the United States are export sales, primarily to Europe, Canada and the Caribbean, totaling approximately $4,026,000 and $1,554,000 for the six and three months ended March 31, 2004, respectively, and $3,697,000 and $1,779,000 for the six and three months ended March 31, 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. Amortization of prior service cost and interest cost during the quarter ended March 31, 2004, was $22,014 and $1,321, respectively.

Note 7. Retirement of Executive Officer

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

Note 8. Income Taxes

The Company incurred losses for income tax purposes from its U.S. operations of $3.0 million and $1.6 million for the six months ended March 31, 2004 and 2003, 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

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 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 six months ended March 31, 2004 compared to the six months ended March 31, 2003, (ii) consolidated results of operations of the Company for the three months ended March 31, 2004 compared to the three months ended March 31, 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.

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.

	Six Months Ended March 31,		Three Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	66.3	68.7	64.4	64.2
Gross margin	33.7	31.3	35.6	35.8
Selling, general and administrative expenses	28.6	25.9	29.3	25.6
Operating income	5.1	5.4	6.3	10.2
Interest expense	(3.2)	(3.7)	(3.2)	(4.0)
Other income (expense), net	2.3	(2.1)	1.8	1.4
Income (loss) before income taxes	4.2	(0.4)	4.9	7.6
Income tax (expense) benefit	0.2	0.2	0.2	(1.1)
Net income (loss)	4.4%	(0.2)%	5.1%	6.5%

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

	Six Months Ended March 31,			Three Months Ended March 31,		
	2004	**2003**	**% Change**	**2004**	**2003**	**% Change**
	(in thousands)			**(in thousands)**		
Bulk Alcohol Products	$ 17,126	$ 17,527	(2.3)	$ 8,538	$ 8,832	(3.3)
Premium Branded Spirits	11,524	8,725	32.1	5,682	4,521	25.7
Bottling Operations	5,547	6,411	(13.5)	2,872	3,582	(19.8)
Vinegar and Cooking Wine	10,284	10,126	1.6	4,947	4,890	1.2
	$ 44,481	$ 42,789	4.0	$ 22,039	$ 21,825	1.0

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

	Six Months Ended March 31, 2004 (in thousands)	Six Months Ended March 31, 2003 (in thousands)	% Change	Three Months Ended March 31, 2004 (in thousands)	Three Months Ended March 31, 2003 (in thousands)	% Change
Bulk alcohol products:						
Distilled products, in proof gallons						
Citrus Brandy	638	871	(26.8)	221	414	(46.7)
Citrus Spirits	55	183	(70.1)	55	67	(18.6)
Rum	2,224	2,147	3.6	1,108	1,199	(7.6)
Cane Spirits	217	245	(11.3)	127	120	6.6
Fortified citrus wine, in gallons	5,323	5,028	5.9	2,569	2,485	3.4
Premium branded spirits, in cases	342	227	50.8	141	118	19.5
Bottling operations, in cases	1,412	1,441	(2.0)	752	898	(16.2)
Vinegar						
Bulk, in 100 grain gallons	2,619	2,702	(3.1)	1,255	1,463	(14.2)
Cases	217	271	(20.1)	100	117	(14.6)
Drums, in 100 grain gallons	650	773	(15.9)	404	388	4.3
Cooking Wine						
Bulk, in gallons	1,427	2,178	(34.5)	528	1,025	(48.5)
Cases	366	350	4.4	151	166	(9.6)

Six months ended March 31, 2004 compared to six months ended March 31, 2003. Unless otherwise noted, references to 2004 represent the six-month period ended March 31, 2004 and references to 2003 represent the six-month period ended March 31, 2003.

Net Sales. Net sales were $44.5 million in 2004, an increase of 4.0% from net sales of $42.8 million in 2003.

Net sales of bulk alcohol products were $17.1 million in 2004, a decrease of 2.3% from net sales of $17.5 million in 2003. The decrease resulted primarily from decreased shipments of citrus brandy, citrus spirits and cane spirits offset by increased shipments of rum and fortified wine. 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 $11.5 million in 2004, an increase of 32.1% from net sales of $8.7 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 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 $10.8 million in 2004, an increase of 24.1% from net sales of $8.7 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 12.6% in 2004 compared to 2003. The rate of growth for Cruzan Estate Rums and Cruzan Flavored Rums is less than previous periods due to a larger comparative base number and the increased competition discussed below. 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 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. 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 $5.5 million in 2004, a decrease of 13.5% from net sales of $6.4 million in 2003. While the unit volume of the Company s bottling operations has decreased by only 2.0% in 2004 as a result of business with new contract bottling customers, average unit prices declined as a result of a change in customer mix. During the first quarter of fiscal 2004, the Company lost a large private label bottling customer. Net sales to this customer were approximately $1.6 million and 124,277 cases for the year ended September 30, 2003, or approximately 11.0% of bottling operations net sales and 3.3% of bottling operations volume. Net sales to this customer during 2003 were approximately $1.5 million and 120,615 cases. Also during 2004, excise taxes decreased $3.0 million compared to 2003. The decrease in sales to this private label bottling customer during 2004 accounted for approximately $2.9 million of the $3.0 million decrease in excise taxes. 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. During the third quarter of fiscal 2003, management began to implement a plan to consolidate the Company s bottling operations to increase efficiencies and reduce overhead. Although the Company continues to consolidate its bottling operations, bottling operations volume has not met expectations, which caused a loss in bottling operations. The Company is placing a renewed emphasis on the sales effort in this segment of its business and believes it will see improvement in future quarters.

Net sales of vinegar and cooking wine were $10.3 million in 2004, an increase of 1.6% from net sales of $10.1 million in 2003.

Gross Profit. Gross profit was $15.0 million in 2004, an increase of 11.9% from gross profit of $13.4 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 increased due to new business with contract bottling customers; and vinegar and cooking wine gross profit decreased due to higher material cost. Gross margin increased to 33.7% in 2004 from 31.3% in 2003 as a result of changes in product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $12.7 million in 2004, an increase of 14.6% from $11.1 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.

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

	Six Months Ended March 31,		
	2004	2003	% Change
	(In thousands)		
Bulk Alcohol Products	$ 6,191	$ 5,773	7.2
Premium Branded Spirits	(1,887)	(746)	
Bottling Operations	(1,722)	(1,737)	
Vinegar and Cooking Wine	1,624	2,052	(20.8)
Corporate Operations	(1,930)	(3,041)	
	$ 2,276	$ 2,301	(1.1)

As a result of the above factors, operating income was $2.28 million in 2004, a decrease of 1.1% from operating income of $2.3 million in 2003.

The Company s premium branded spirits segment experienced operating losses of $1.9 million in 2004 and $0.8 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.

The Company s bottling operations segment reported an operating loss of $1.7 million in 2004 and 2003. During the third quarter of fiscal 2003, management began to implement a plan to consolidate the Company s bottling operations to increase efficiencies and reduce overhead. Although the Company continues to consolidate its bottling operations, bottling operations volume has not met expectations, which caused a loss in bottling operations. The Company is placing a renewed emphasis on the sales effort in this segment of its business and believes it will see improvement in future quarters.

Interest Expense. Interest expense was $1.4 million in 2004 and $1.6 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.

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 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
Total		2,053,145
Less deferred compensation accrued as of September 30, 2002		(549,220)
Charged to expense	$	1,503,925

Income Tax Expense. During 2004 and 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of $0.1 million in each period. 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 March 31, 2004 compared to three months ended March 31, 2003. Unless otherwise noted, references to 2004 represent the three-month period ended March 31, 2004 and references to 2003 represent the three-month period ended March 31, 2003.

Net Sales. Net sales were $22.0 million in 2004, an increase of 1.0% from net sales of $21.8 million in 2003.

Net sales of bulk alcohol products were $8.5 million in 2004, a decrease of 3.3% from net sales of $8.8 million in 2003. The decrease resulted primarily from decreased shipments of citrus brandy, citrus spirits and rum spirits offset by increased shipments of cane spirits and fortified citrus wine. The decrease in citrus brandy, citrus spirits and rum spirits was due in part to the timing of customer orders.

Net sales of premium branded spirits were $5.7 million in 2004, an increase of 25.7% from net sales of $4.5 million in 2003. Sales of the Company s Cruzan Estate Rums and Cruzan Flavored Rums increased 23.4% 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 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. 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 $2.9 million in 2004, a decrease of 19.8% from net sales of $3.6 million in 2003. During fiscal 2004, the Company lost a large private label bottling customer. Net sales to this customer were approximately $1.6 million and 124,277 cases for the year ended September 30, 2003, or approximately 11.0% of bottling operations net sales and 3.3% of bottling operations volume. Net sales to this customer during 2003 were approximately $0.7 million and 62,949 cases. Also during 2004, excise taxes decreased $0.9 million compared to 2003. The decrease in sales to this private label bottling customer during 2004 accounted for approximately $1.3 million of the $0.9 million net decrease in excise taxes. 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. During the third quarter of fiscal 2003, management began to implement a plan to consolidate the Company s bottling operations to increase efficiencies and reduce overhead. Although the Company continues to consolidate its bottling operations, bottling operations volume has not met expectations, which caused a loss in bottling operations. The Company is placing a renewed emphasis on the sales effort in this segment of its business and believes it will see improvement in future quarters.

Net sales of vinegar and cooking wine were $4.95 million in 2004, an increase of 1.2% from net sales of $4.89 million in 2003.

Gross Profit. Gross profit was $7.81 million in 2004, an increase of 0.5% from gross profit of $7.8 million in 2003. Gross margin was 35.6% in 2004 compared to 35.8% in 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $6.5 million in 2004, an increase of 15.7% from $5.6 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. 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.

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

	Three months ended March 31,		
	2004	**2003**	**% Change**
	(In thousands)		
Bulk Alcohol Products	$ 3,454	$ 3,676	(6.1)
Premium Branded Spirits	(1,191)	(333)	
Bottling Operations	(742)	(455)	
Vinegar and Cooking Wine	758	880	(13.9)
Corporate Operations and Other	(888)	(1,542)	
	$ 1,391	$ 2,226	(37.5)

As a result of the above factors, operating income was $1.4 million in 2004, a decrease of 37.5% from operating income of $2.2 million in 2003.

The Company s premium branded spirits segment experienced operating losses of $1.2 million in 2004 and $0.3 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.

The Company s bottling operations segment reported an operating loss of $0.7 million in 2004 compared to operating loss of $0.5 million in 2003. During the third quarter of fiscal 2003, management began to implement a plan to consolidate the Company s bottling operations to increase efficiencies and reduce overhead. Although the Company continues to consolidate its bottling operations, bottling operations volume has not met expectations, which caused a loss in bottling operations. The Company is placing a renewed emphasis on the sales effort in this segment of its business and believes it will see improvement in future quarters.

Interest Expense. Interest expense was $0.7 million in 2004 and $0.9 million in 2003. The Company s borrowing rates and average borrowings were lower in 2004 compared to 2003.

Income Tax Expense. During 2004, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of $0.5 million. 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 $2.0 million, which resulted from $4.8 million in net income adjusted for noncash items, and $2.8 million representing the net increase in operating assets and liabilities.

Investing and Financing Activities

Net cash used in investing activities in 2004 was $1.0 million, which resulted primarily from $2.6 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 $14.8 million, which resulted primarily from payments of $2.1 million of long-term debt and $13.0 million in payments on the Company s line of credit.

The Company s revolving credit facility, which expires in October 2004, provides for maximum borrowings of $15 million. Borrowings under this facility were $6.0 million at March 31, 2004. The Company is actively discussing alternatives with its current and other lenders to refinance this facility prior to its scheduled expiration (see Note 3 to the consolidated financial statements).

The Company s bank debt was $36.0 million as of March 31, 2004, and its ratio of total debt to equity was 0.74 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 payment of cash dividends is restricted by the Company s credit agreement. 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

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 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.

Corporate Governance

The Company has adopted the Todhunter International, Inc. Code of Business Conduct and Ethics (the code of conduct), applicable to all officers, directors and employees, and the Todhunter International, Inc. Code of Ethics (the code of ethics), applicable to our Chief Executive Officer, Chief Financial Officer, Controller and other senior financial officers. Both the code of conduct and the code of ethics are publicly available on our Web site at http://www.todhunter.com.

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 March 31, 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in the Company s Annual Report on Form 10-K for the year ended September 30, 2003, the United States Virgin Islands Department of Public Works, Virgin Islands Rum Industries, Ltd. (VIRIL), the Company s wholly-owned subsidiary, and Cruzan Divers, Inc. (VIRIL s contractor) each received a Request for Information (the I-R), dated June 30, 2003, from the Environmental Protection Agency (the EPA) concerning the construction, in the spring of 2002, of an effluent outfall line on the south shore of St. Croix. The I-R, which was issued pursuant to Section 308 of the Federal Water Pollution Control Act, 33 U.S.C. 1251, et seq. (the FWPCA), stated that the EPA was investigating whether the construction and installation of the outfall line constituted a violation of Section 404 of the FWPCA. On March 1, 2004, VIRIL received notice from the EPA that it had decided not to undertake enforcement action against VIRIL under Section 404 for the subject work and referred VIRIL to the U.S. Army Corps of Engineers regarding the final disposition of the regulatory status of the outfall line construction under Section 10 of the Rivers and Harbors Act of 1899, as amended. On March 9, 2004, VIRIL contacted the U.S. Army Corps of Engineers regarding final disposition but has yet to receive a reply.

The Company and its subsidiaries are subject to litigation from time to time in the ordinary course of business. None of these routine legal proceedings are material.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of stockholders of the Company was held on March 16, 2004, in West Palm Beach, Florida, for the purpose of electing three Class III directors to hold office for a term of three years electing one Class II director to hold office for a term of two years, and approving the Company s 2004 Stock Option Plan.

Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, and there was no solicitation in opposition to management s solicitations.

<u>Election of Directors</u>

All of management s nominees for election as directors as listed in the proxy statement were elected. The results of the election were as follows:

Name	Class	For	Withheld	Abstentions and Broker Non-Votes
Jay S. Maltby	III	4,398,822	546,361	0
Edward F. McDonnell	III	4,383,022	562,161	0

D. Chris Mitchell	III	4,398,822	546,361	0
Michael E. Carballo	III	4,398,822	546,361	0

Following the annual meeting, Donald L. Kasun and Thomas A. Valdes continue to serve as Class I directors with terms expiring at the 2005 annual meeting and Joseph R. Cook and Leonard G. Rogers continue to serve as Class II directors with terms expiring at the 2006 annual meeting.

Approval of the Company s 2004 Stock Option Plan

For	**Against**	**Not Voted**	**Abstain**
3,842,166	578,789	523,728	500

Item 6. Exhibits and Reports on Form 8-K

10.22(c)	Lenders Consent and Modification of Credit Agreement, dated March 31, 2004, by and among Todhunter International, Inc., SouthTrust Bank, acting as lender and Agent, Wachovia Bank, N.A., National City Bank and Suntrust Bank (3)
10.30	Todhunter International, Inc. 2004 Stock Option Plan (2)
10.31	Salary Continuation Plan Agreement, dated as of February 20, 2004, between Jay S. Maltby and Todhunter International, Inc. (3) +
10.32	Salary Continuation Plan Agreement, dated as of February 20, 2004, between Thomas A. Valdes and Todhunter International, Inc. (3) +
10.33	Salary Continuation Plan Agreement, dated as of February 20, 2004, between Ezra Shashoua and Todhunter International, Inc. (3) +
10.34	Salary Continuation Plan Agreement, dated as of February 20, 2004, between D. Chris Mitchell and Todhunter International, Inc. (3) +
10.35	Salary Continuation Plan Agreement, dated as of February 20, 2004, between Chester Brandes and Todhunter International, Inc. (3) +
10.36	Salary Continuation Plan Agreement, dated as of February 20, 2004, between William McGough and Todhunter International, Inc. (3) +
10.37	Salary Continuation Plan Agreement, dated as of February 20, 2004, between Ousik Yu and Todhunter International, Inc. (3) +
10.38	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between Jay S. Maltby and Todhunter International, Inc. (3) +
10.39	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between Thomas A. Valdes and Todhunter International, Inc. (3) +
10.40	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between Ezra Shashoua and Todhunter International, Inc. (3) +
10.41	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between D. Chris Mitchell and Todhunter International, Inc. (3) +
10.42	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between Chester Brandes and Todhunter International, Inc. (3) +
10.43	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between William McGough and Todhunter International, Inc. (3) +
10.44	Endorsement Split-Dollar Agreement, dated as of February 20, 2004, between Ousik Yu and Todhunter International, Inc. (3) +
11.1	Statement of Computation of Per Share Earnings (1)
20.1	Earnings press release for the three and six-month periods ended March 31, 2004 (3)
21.1	Subsidiaries of Todhunter International, Inc. (3)
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 (3)
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 (3)

32.1	Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to 18 U.S.C. Section 1350 (3)
32.2	Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (3)

\+ Indicates management contracts or compensatory plans or arrangements required to be filed as an exhibit.

(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 March 31, 2004.

(2) Incorporated herein by reference to the Company s Supplemental Materials to be included with the Company s Proxy Statement on Form 14A/A, filed with the Securities and Exchange Commission on February 24, 2004.

(3) Filed herewith.

(b) Reports on Form 8-K

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

(1) Form 8-K dated March 16, 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: May 12, 2004	/s/ Jay S. Maltby Jay S. Maltby Chairman, Chief Executive Officer and President
Date: May 12, 2004	/s/ Ezra Shashoua Ezra Shashoua Executive Vice President and Chief Financial Officer