

CRUZAN INTERNATIONAL, INC.  
Form PREM14A  
December 01, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

CRUZAN INTERNATIONAL, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- |     |  |
|-----|--|
| (1) | Title of each class of securities to which transaction applies:<br>Common stock, \$0.01 par value per share, of Cruzan International, Inc.   |
| (2) | Aggregate number of securities to which transaction applies:<br>2,928,911 shares of Cruzan common stock, consisting of 2,454,409<br>outstanding shares of Cruzan common stock not beneficially owned by<br>Absolut and 509,750 shares of Cruzan common stock underlying stock<br>options that have an exercise price per share less than \$28.37 that may be<br>cashed out in connection with the merger.  |
| (3) | Per unit price or other underlying value of transaction computed pursuant<br>to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is<br>calculated and state how it was determined):<br>The filing fee of \$8,483.80 was calculated pursuant to Exchange Act Rule<br>0-11(c) and is equal to \$107.00 per million of the aggregate merger<br>consideration of \$28.37. The aggregate merger consideration is calculated<br>as the sum of (a) the product of 2,454,409 outstanding shares of Cruzan<br>common stock not beneficially owned by Absolut and the merger<br>consideration of \$28.37 per share in cash and (b) the<br>difference between \$28.37 and the exercise price per share<br>for each of the 509,750 options outstanding to purchase<br>shares of Cruzan common stock that have an exercise price<br>of less than \$28.37 per share. |
| (4) | Proposed maximum aggregate value of transaction:<br>\$79,287,883   |
| (5) | Total fee paid:<br>\$8,483.80  |

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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:

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**Letter to Stockholders**

[Date]

Dear Stockholder:

We cordially invite you to attend a special meeting of stockholders of Cruzan International, Inc. to be held on , 2005 at 11:00 a.m., local time, at the offices of Gunster, Yoakley & Stewart, P.A., located at 777 South Flagler Drive, Suite 500 East, West Palm Beach, FL 33401.

At the special meeting, we will ask you to consider and vote on a proposal to approve the merger of a subsidiary of The Absolut Spirits Company, Incorporated, or Absolut, with and into Cruzan, and to adopt and approve the Agreement and Plan of Merger entered into as of September 30, 2005 with Absolut, and its wholly-owned subsidiary, Cruzan Acquisition, Inc. In the merger, Cruzan Acquisition, Inc. will merge with and into Cruzan, and each outstanding share of our common stock, par value \$0.01 per share, will be converted into the right to receive \$28.37 in cash, without interest. After the merger, Cruzan will be a wholly-owned subsidiary of Absolut, and an indirect, wholly-owned subsidiary of Absolut's parent, V&S Vin & Sprit AB (publ), a Swedish company.

A special committee of Cruzan's board of directors was formed to consider the sale by Angostura Limited of its controlling stake in Cruzan as well as Absolut's subsequent merger proposal.

Pursuant to the terms of the merger agreement, five members of Cruzan's board of directors resigned their seats on the board effective upon the execution by all parties of the merger agreement on September 30, 2005. In the enclosed proxy statement, we refer to Cruzan's board of directors as composed prior to these resignations on September 30, 2005 as Cruzan's prior board of directors. Prior to their resignations, the resigning directors and Edward F. McDonnell, a continuing director and a consultant to the special committee, appointed four new directors designated by Absolut. These appointments took effect on October 11, 2005.

**THE PRIOR BOARD OF DIRECTORS AND THE SPECIAL COMMITTEE BOTH UNANIMOUSLY DETERMINED THAT THE TERMS OF THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF CRUZAN AND OUR STOCKHOLDERS OTHER THAN ABSOLUT AND ITS AFFILIATES. THE PRIOR BOARD OF DIRECTORS AND THE SPECIAL COMMITTEE BOTH UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE MERGER AND BOTH RECOMMENDED THAT YOU VOTE FOR APPROVAL OF THE MERGER AND ADOPTION AND APPROVAL OF THE MERGER AGREEMENT.**

Your vote is very important. Even though Absolut owns approximately 63.6% of our common stock, and has agreed in the merger agreement to vote such common stock FOR the merger proposal, we cannot complete the merger unless the merger agreement and the merger are approved by

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holders of 66 2/3% of our outstanding shares not owned by Absolut and/or its affiliates. In the enclosed proxy statement, we refer to these stockholders as the unaffiliated stockholders. WHETHER OR NOT YOU PLAN TO BE PRESENT AT THE SPECIAL MEETING, WE URGE YOU TO SUBMIT A PROXY TO ENSURE YOUR SHARES ARE REPRESENTED AT THE MEETING. YOU MAY USE THE INTERNET, TELEPHONE OR THE ENCLOSED PROXY TO SUBMIT A PROXY IN ADVANCE OF THE MEETING. If you do not send in your proxy, do not instruct your broker to vote your shares, or abstain from voting, it will have the same effect as a vote AGAINST approval of the merger and the adoption and approval of the merger agreement.

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The enclosed proxy statement provides you with detailed information about the merger and related matters. We urge you to read the proxy statement carefully, including the annexes. If the merger agreement is adopted and approved and the merger is completed, you will be sent written instructions for exchanging your Cruzan common stock certificates for your cash payment. If you hold Cruzan common stock, please do not send us your certificates until you receive these instructions.

If you have any questions about the merger please call **[Name of Proxy Solicitor]**, at **[Phone Number of Proxy Solicitor]**.

On behalf of the board of directors, I thank you for your support and appreciate your consideration of this matter.

Yours truly,

Jay S. Maltby  
Chief Executive Officer and President

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**CRUZAN INTERNATIONAL, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON  
, 2005**

To the Stockholders of Cruzan International, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Cruzan International, Inc., a Delaware corporation, has been called by Cruzan's board of directors to be held on , 2005 at 11:00 a.m., local time, at the offices of Gunster, Yoakley & Stewart, P.A., located at 777 South Flagler Drive, Suite 500 East, West Palm Beach, FL 33401, for the following purposes:

- (1) To consider and vote on a proposal to approve the merger of a subsidiary of The Absolut Spirits Company, Incorporated with and into Cruzan and to adopt and approve the Agreement and Plan of Merger, dated as of September 30, 2005, among Cruzan, The Absolut Spirits Company, Incorporated, and Cruzan Acquisition, Inc., a copy of which agreement is attached as **Annex A** to the enclosed proxy statement.
- (2) To approve adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger and adopt and approve the merger agreement.
- (3) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The merger and the merger agreement have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has any such commission passed upon the merits of the merger or the merger agreement nor upon the adequacy of the information contained in this document. Any representation to the contrary is a criminal offense.

Only stockholders of record as of the close of business on , 2005, are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of the meeting. The number of outstanding shares of our common stock entitled to notice and to vote on , 2005, was . Each holder of Cruzan common stock is entitled to one vote for each share of our common stock held on the record date. Holders of shares of common stock are entitled to appraisal rights under the Delaware General Corporation Law in connection with the merger if they meet certain conditions. See **SPECIAL FACTORS** Appraisal Rights of Cruzan Stockholders on page 34 of the enclosed proxy statement.

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A form of proxy and a proxy statement containing more detailed information with respect to the matters to be considered at the special meeting, including a copy of the merger agreement, accompany and form a part of this notice. You should not send any certificates representing your Cruzan common stock with your proxy card.

WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING IN PERSON, WE URGE YOU TO SUBMIT A PROXY TO ENSURE YOUR SHARES ARE REPRESENTED AT THE MEETING. YOU MAY USE THE INTERNET, TELEPHONE OR THE ENCLOSED PROXY TO SUBMIT A PROXY IN ADVANCE OF THE MEETING. SUBMITTING A PROXY IN ADVANCE DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND THE MEETING AND TO VOTE YOUR SHARES IN PERSON. THANK YOU FOR ACTING PROMPTLY.

[Date]

By order of the Board of Directors,

Ezra Shashoua  
Secretary

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**SUMMARY OF THE PROXY STATEMENT**



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*The summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. So that you fully understand the merger, the merger agreement and the transactions contemplated thereby, and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement, the annexes attached to this proxy statement and the documents to which we refer. See MISCELLANEOUS OTHER INFORMATION Where You Can Find More Information beginning on page 75. In particular, you should carefully read the documents attached to this proxy statement, including the merger agreement, and the Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ( Houlihan Lokey ) fairness opinion, which are attached as Annexes A and B, respectively and made part of this proxy statement. The summary and the balance of this proxy statement contain forward-looking statements about events that are not certain to occur as described or at all, and you should not place undue reliance on those statements. For a discussion of these forward-looking statements, please see CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS beginning on page 13. We have included page references in parentheses to direct you to the appropriate place in this proxy statement for a more complete description of the topics presented in this summary.*

### **Purpose and Structure of the Merger (See page 38)**

Cruzan's purpose for entering into the merger is to provide you with an opportunity to receive \$28.37 in cash for each of your shares, a premium over the market price at which Cruzan common stock traded before the announcement of Absolut's agreement to purchase Angostura Limited's ( Angostura ) controlling stake for \$28.37 per share on June 3, 2005. Absolut's purpose for entering into the merger is to turn Cruzan into a privately held wholly-owned subsidiary of Absolut. To achieve this result, the merger has been structured so that Cruzan Acquisition, Inc., a wholly-owned subsidiary of Absolut will merge with and into Cruzan, with Cruzan continuing as the surviving corporation after the merger. If the merger is completed, as a stockholder of Cruzan, you will be entitled to receive \$28.37 in cash, without interest, in exchange for each of your shares of Cruzan common stock outstanding at the effective time of the merger, unless you perfect your appraisal rights under Delaware law.

### **Information About the Participants in the Merger**





*Cruzan International, Inc.*

Cruzan International, Inc. ( Cruzan, the company, us, we, or our ), formerly Todhunter International, Inc., is a leading producer and supplier of rum, brandy, wine and spirits to other beverage alcohol manufacturers; produces, imports and markets premium branded spirits, including CRUZAN rum; bottles beverage alcohol and other beverages on a contract basis and under its own labels; and produces vinegar and cooking wine. The company operates four production facilities in the United States and one in St. Croix, United States Virgin Islands. Cruzan is a Delaware corporation organized in 1970 as a successor to a business founded in the Bahamas in 1964.

*The Absolut Spirits Company, Incorporated*

The Absolut Spirits Company, Incorporated ( Absolut ) is a Delaware corporation principally engaged in the business of selling and marketing alcoholic beverages in the United States. Absolut is a wholly-owned subsidiary of V&S Vin & Sprit AB (publ) ( V&S ) and is the exclusive U.S. importer of certain of V&S 's alcohol brands, including ABSOLUT vodka.

On September 26, 2005, Absolut completed the purchase of 4,294,583 shares of Cruzan common stock from Angostura, which shares currently represent approximately 63.6% of our total issued and

outstanding common stock. Absolut has agreed to vote all of its shares of Cruzan common stock FOR approval of the merger and adoption and approval of the merger agreement at the special meeting.

*Cruzan Acquisition, Inc.*

Cruzan Acquisition, Inc. ( Merger Sub ) is a Delaware corporation that was formed at the direction of Absolut solely for the purpose of consummating the merger. Absolut currently holds 100% of the capital stock of Merger Sub. The separate existence of Merger Sub will cease upon consummation of the merger.

**The Change in the Majority of the Board of Directors**



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Prior to our entry into the merger agreement, five members of our prior board of directors resigned their seats on the board effective upon the execution by all parties of the merger agreement on September 30, 2005. Prior to such resignations, however, the prior board of directors (i) approved the merger agreement and the merger, (ii) determined that the terms of the merger are fair to and in the best interests of Cruzan's stockholders other than Absolut and its affiliates, (iii) recommended that Cruzan's stockholders adopt and approve the merger agreement and approve the merger, and (iv) declared the merger agreement advisable. In this proxy statement, we refer to the Cruzan board of directors as composed prior to these resignations as the prior board of directors.

Pursuant to additional resolutions adopted prior to the effectiveness of their resignations and in connection with the merger agreement, the prior board of directors, except for the special committee of the prior board of directors (see - Formation and Recommendation of the Special Committee ), resolved to appoint four new directors designated by Absolut. These appointments became effective as of October 11, 2005. In this proxy statement, we refer to the Cruzan board of directors composed as of such date and currently as the board of directors.

**Formation and Recommendation of the Special Committee (See page 22)**



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Absolut acquired its controlling stake in Cruzan common stock through a stock purchase agreement between our former controlling stockholder, Angostura, and V&S that was executed on June 3, 2005. On the same date, V&S announced that it intended to treat the minority stockholders in Cruzan equitably. V&S subsequently assigned its rights under the stock purchase agreement to Absolut. One of the conditions to the closing of the sale of Angostura's shares to V&S was obtaining the approval of such sale by Cruzan's prior board of directors. Due to this closing condition, and the prospect that V&S might make an offer to acquire the shares of the remaining Cruzan stockholders in a subsequent business combination, Cruzan's prior board of directors appointed a special committee of Cruzan's independent directors for the purpose of considering the sale of Angostura's controlling stake in Cruzan, as well as to consider any business combination proposal from V&S. The special committee was composed of Donald L. Kasun and Leonard G. Rogers, two Cruzan directors determined to be independent by the prior board of directors due to their lack of affiliation with Cruzan, Cruzan management or Angostura. Edward F. McDonnell, another Cruzan independent director, was named as a consultant to the special committee. In light of Mr. McDonnell's interest in a distributorship partially owned by Cruzan, he was not appointed to the special committee by the prior board of directors.

The special committee evaluated several factors related to Absolut's merger proposal, including the opinion delivered by Houlihan Lokey as to the fairness, from a financial point of view, of the cash consideration to be received by our stockholders (other than Absolut and its affiliates). The special committee unanimously recommends that Cruzan's stockholders vote FOR approval of the merger and adoption and approval of the merger agreement.

**Recommendation of the Prior Board of Directors (See page 22)**

The prior board of directors also unanimously recommended that Cruzan's stockholders vote FOR approval of the merger and adoption and approval of the merger agreement.

**Interests of Executive Officers, Members of the Special Committee and Members of the Prior Board of Directors in the Merger (See page 20)**





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In considering the recommendations of the special committee and our prior board of directors to vote for the proposal to adopt the merger agreement, you should be aware that all of our executive officers, each member of the special committee and each member of our prior board of directors have personal interests in the merger that are, or may be, different from, or in addition to, your interests. These interests include the following:

Certain of our executive officers are expected to receive special payments in the aggregate amount of \$9 million from our former controlling stockholder, Angostura, in connection with the sale of Angostura's controlling stake in us to Absolut;

Five of our executive officers would become entitled to receive severance payments and the continuation of certain employee benefits for the greater of one year from the date of termination or the remainder of the terms of their respective employment agreements in the event their employment is terminated under certain circumstances defined in those employment agreements;

Two of these five executive officers would also be entitled to additional severance payments if they are terminated during certain periods and under certain circumstances pursuant to the change of control provisions of their employment agreements;

Each vested option to purchase our common stock with an exercise price less than the merger consideration of \$28.37 per share held by our executive officers, the members of the special committee and the members of our prior board of directors will be converted into the right to receive a cash payment equal to the excess of the \$28.37 per share merger consideration over the per share exercise price, multiplied by the number of shares of our common stock subject to the option;

Under the change of control provisions of our defined benefit supplemental executive retirement plan, which covers five of our executive officers and three other non-executive officers, we may not terminate the supplemental executive retirement plan without the executive's consent unless the executive is terminated for cause; and

The terms of the merger agreement provide for the continued indemnification, advancement of expenses and liability insurance coverage of our executive officers, the members of the special committee and the members of our prior board of directors.

### **Fairness Opinion of Houlihan Lokey (See page 23)**

On September 29, 2005, the special committee received the opinion of Houlihan Lokey to the effect that, as of that date, and based upon the assumptions made, matters considered and limitations on the review described in the written opinion, the cash consideration to be received by the holders of Cruzan common stock (other than Absolut and its affiliates) in connection with the merger, was fair from a financial point of view, to those stockholders.

**The Position of Absolut and V&S as to the Fairness of the Merger (See page 29)**

Both Absolut and V&S have considered the factors examined by the special committee and our prior board of directors described in the section of this proxy statement entitled SPECIAL FACTORS Recommendation of the Special Committee and the Prior Board of Directors. Based on these factors and other factors described under SPECIAL FACTORS The Position of Absolut and V&S as to the Fairness of the Merger to the Unaffiliated Stockholders, Absolut and V&S believe that the merger is fair

to our unaffiliated stockholders. However, neither Absolut nor V&S has performed, or engaged a financial advisor to perform, any valuation analysis for the purposes of assessing the fairness of the merger to our unaffiliated stockholders.

**Effects of the Merger (See page 32 and 38)**

The consummation of the merger will result in:

The conversion of each share of our common stock issued and outstanding immediately prior to the effective time of the merger into the right to receive \$28.37 in cash, without interest (less any applicable withholding tax), other than shares of our common stock:

held by us in our treasury;

held by Cruzan stockholders who perfect their appraisal rights under Delaware law; and

held by Absolut or Merger Sub.

All options outstanding immediately prior to the effective time being cancelled or terminated or converting, if vested and exercisable, into the right to receive a cash amount equal to the excess, if any, between \$28.37 per share and the exercise price of the option.

Upon completion of the merger, we will remove our common stock from listing on the American Stock Exchange, and our common stock will no longer be publicly traded.

**Material U.S. Federal Income Tax Consequences of the Merger (See page 33)**

For U.S. federal income tax purposes, the merger will be treated as a taxable sale by our stockholders of their shares of our common stock in which they will recognize a gain or loss equal to the difference between (1) \$28.37 per share and (2) their adjusted tax basis in the shares of Cruzan common stock surrendered in the merger.

**Conditions to the Merger (See page 49)**

The completion of the merger depends on the satisfaction or waiver of a number of conditions, including the following:

the approval of the merger agreement and the merger by the holders of two-thirds of our outstanding common stock not owned (within the meaning of Section 203 of the DGCL) by Absolut or its affiliates and associates and adoption of the merger agreement by the holders of a majority of our outstanding common stock;

the resignation from our board of directors of each member of the special committee and each other independent director;

the termination or expiration of any applicable waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements or HSR Act; and

the accuracy of the representations and warranties made in the merger agreement by us, Absolut, and Merger Sub.

**Termination of the Merger Agreement (See page 51)**

We, Absolut and Merger Sub may agree to terminate the merger agreement at any time prior to the effective time.

In addition, the merger agreement may be terminated:

by us or Absolut, if:

the merger has not been consummated by April 30, 2006, unless the failure to consummate the merger is the result of a breach of the merger agreement by the party seeking to terminate the agreement;

a governmental entity issues a permanent injunction or order prohibiting the transactions contemplated by the merger agreement and such order is final and nonappealable; or

our stockholders do not approve the merger and adopt and approve the merger agreement;

by us, if Absolut or Merger Sub fails to perform in any material respect after a 30 day cure period any of their representations, warranties or covenants in the merger agreement which would give rise to a failure of any one of the closing conditions;

by Absolut, if:

we or the special committee fail to perform in any material respect after a 30 day cure period any of our respective representations, warranties or covenants in the merger agreement, which would give rise to a failure of any one of the closing conditions;

the special committee withdraws or modifies, or proposes to withdraw or modify, in a manner adverse to Absolut or Merger Sub, its approval or recommendation of the merger agreement or the merger, fails to recommend approval of this transaction to our stockholders or approves or recommends, or proposes to approve or recommend, any other competing takeover proposal; or

the special committee or any of its representatives (i) solicits, initiates, encourages or takes any action to facilitate the making by any person of any competing takeover proposal; (ii) enters into any agreement relating to any competing takeover proposal; or (iii) enters into, participates in or continues any discussions or negotiations regarding, or furnishes to any person any information with respect to, any competing takeover proposal except at the direction of or with the written approval of Absolut, in breach of certain provisions of the merger agreement.

**Fees and Expenses (See page 39)**

Pursuant to the merger agreement, all fees and expenses incurred in connection with the merger will be paid by the party incurring those expenses, whether or not the merger is completed. The merger agreement also provides that upon a termination in specified circumstances, we must pay a termination fee of \$3,000,000 to Absolut. In addition, if Absolut terminates the merger agreement in specified circumstances, we would be obligated to reimburse Absolut for all of its documented out-of-pocket expenses actually incurred up to a maximum of \$1,500,000 in connection with the merger agreement or the merger. The termination fee is subject to a credit for any expense reimbursement paid and no expense reimbursement shall be due if we have previously paid the termination fee.

**Appraisal Rights of Stockholders (See page 34)**

Under Delaware law, you are entitled to appraisal rights in connection with the merger.

You will have the right under Delaware law to have the fair value of your shares of our common stock determined by the Court of Chancery of the State of Delaware, which fair value could be greater than, the same as or less than the \$28.37 per share merger consideration. This right to appraisal is subject to a number of restrictions and procedural requirements. Generally, in order to exercise your appraisal rights you must:

deliver a written demand to us for appraisal in compliance with the DGCL before the vote on the merger;

not vote in favor of the merger; and

continuously hold your shares of our common stock, from the date you make the demand for appraisal through the effective date of the merger.

A holder who is the record holder of shares of our common stock on the date the written demand for appraisal is made, but who thereafter transfers those shares prior to the effective time of the merger, will lose any appraisal rights with respect to those shares.

Merely voting against the merger will not protect your rights to an appraisal. In order to protect your rights to an appraisal you must take all the steps required under Delaware law. Delaware law requirements for exercising appraisal rights are described in further detail in this proxy statement. The relevant section of Delaware law regarding appraisal rights is reproduced and attached as **Annex C** to this proxy statement.

**If you vote for the merger, you will waive your right to seek appraisal of your shares of our common stock under Delaware law.**

**Voting (See page 41)**

*Record Date*

Only holders of record of Cruzan's common stock at the close of business on           , 2005, the record date, are entitled to vote at the special meeting. On the record date,            shares of Cruzan common stock were issued and outstanding and held by approximately            holders of record.



*Abstentions*

Abstentions from voting will be counted in the determination of a quorum and will have the same effect as votes AGAINST approval of the merger and adoption and approval of the merger agreement. Brokers will be prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy, and, therefore, the failure to return a proxy will have the same effect as a vote AGAINST approval of the merger and adoption and approval of the merger agreement, but will be counted in the determination of a quorum.

*Revocation*

You may revoke your proxy at any time before it is voted by delivering to us a subsequently executed proxy or a written notice of revocation. In addition, returning your completed proxy will not prevent you from voting in person at the special meeting should you be present and wish to do so.

*Common Stock Held in Street Name by Brokers*

Brokers will be prohibited from exercising discretionary authority for beneficial owners who have not instructed the brokers to vote their shares, and, therefore, if you hold your shares of common stock through a broker, you must instruct your broker on how you wish to vote. For those stockholders who hold their Cruzan common stock through a broker, the failure to return a proxy will have the same effect as a vote AGAINST approval of the merger and adoption and approval of the merger agreement, but such broker non-votes will be counted in the determination of a quorum.

**QUESTIONS AND ANSWERS ABOUT THE MERGER**



**Q1: What is the date, time and place of the special meeting?**

**A1:** The special meeting will be held on , 2005 at 11:00 a.m., local time, at the offices of Gunster, Yoakley & Stewart, P.A., located at 777 South Flagler Drive, Suite 500 East, West Palm Beach, FL 33401.

**Q2: What am I being asked to vote on at the special meeting?**

**A2:** You will be asked to vote on a proposal to approve the merger and adopt and approve the Agreement and Plan of Merger dated as of September 30, 2005, among Cruzan, Absolut and Merger Sub, a wholly-owned subsidiary of Absolut, pursuant to which, upon the merger becoming effective, each share of common stock, par value \$0.01 per share, of Cruzan will be converted into the right to receive \$28.37 in cash, without interest.

**Q3: What will happen in the merger?**

**A3:** In the merger, Merger Sub will merge with and into Cruzan, and each outstanding share of our common stock (excluding shares owned by Absolut) will be converted into the right to receive \$28.37 in cash, without interest. After the merger, Cruzan will be a wholly-owned subsidiary of Absolut, and an indirect, wholly-owned subsidiary of V&S.

**Q4: What will I be entitled to receive in the merger?**

**A4:** If the merger is completed, each of your shares of Cruzan common stock will be converted into the right to receive \$28.37 in cash, without interest and less any applicable withholding taxes (unless you validly perfect appraisal rights under Delaware law). If the merger is completed, you will not have any continuing interest in Cruzan.

For more information, see THE MERGER AGREEMENT.

**Q5: Does Absolut intend to finance the payment of the merger consideration?**

**A5:** No. Absolut will pay the merger consideration from a combination of its working capital funds and working capital loans from V&S.

**Q6: What vote is required to approve the merger and adopt and approve the merger agreement?**

**A6:** Notwithstanding the fact that Absolut owns approximately 63.6% of our common stock and has agreed to vote such common stock **FOR** approval of the merger, the approval of the merger and adoption and approval of the merger agreement require the affirmative vote of the holders of  $66 \frac{2}{3}\%$  of our outstanding shares not owned by Absolut and/or its affiliates and associates and the affirmative vote of the holders of a majority of our outstanding common stock. If you do not send in your proxy, do not instruct your broker to vote your shares or abstain from voting, it will have the same effect as a vote **AGAINST** the approval of the merger and the adoption and approval of the merger agreement.

**Q7: What does the special committee recommend?**

**A7:** The special committee unanimously recommends that you vote **FOR** approval of the merger and adoption and approval of the merger agreement.

For more information, see SPECIAL FACTORS Background of the Merger, Recommendation of the Special Committee and the Prior Board of Directors, and Opinion of Houlihan Lokey.

**Q8: Why was a special committee of the board of directors formed?**

**A8:** Absolut acquired its controlling stake in Cruzan common stock through a stock purchase agreement between our former controlling stockholder, Angostura, and V&S that was executed on June 3, 2005. On the same date, V&S announced that it intended to treat the minority stockholders in Cruzan equitably. V&S subsequently assigned its rights under the stock purchase agreement to Absolut. One of the conditions to the closing of the sale of Angostura's shares to V&S was obtaining the approval of such sale by Cruzan's prior board of directors. Due to this closing condition, and the prospect that V&S might make an offer to acquire the shares of the remaining Cruzan stockholders in a subsequent business combination, Cruzan's prior board of directors appointed a special committee of directors for the purpose of considering the sale of Angostura's controlling stake in Cruzan, as well as to consider any business combination proposal from V&S. The prior board of directors believed that it would not be appropriate to permit directors affiliated with Angostura to participate in the review of the Angostura sale transaction, or any business combination proposal made by V&S to the remaining minority stockholders. The special committee was composed of Donald L. Kasun and Leonard G. Rogers, two Cruzan directors determined to be independent by the prior board of directors due to their lack of affiliation with Cruzan, Cruzan management or Angostura. Edward F. McDonnell, another Cruzan independent director, was named as a consultant to the special committee.

**Q9: Does the special committee have any interests in the merger that are different from or in addition to my interests?**

**A9:** Each of Messrs. Rogers, Kasun and McDonnell are entitled to receive compensation for his service to the special committee of \$12,000 per month as well as reimbursement of all out-of-pocket expenses reasonably incurred in connection with his provision of services to the special committee. In addition, Mr. McDonnell holds in-the-money stock options that will be cashed out when the merger is completed and Messrs. Rogers, Kasun and McDonnell are entitled to continued indemnification, advancement of expenses and liability insurance coverage pursuant to the merger agreement. For more information, see SPECIAL FACTORS Interests of Executive Officers, Members of the Special Committee and Members of the Prior Board of Directors in the Merger, THE MERGER AGREEMENT Indemnification of Directors and Officers; Advancement of Expenses and Insurance.

**Q10: Has the special committee received any opinions, appraisals or reports from outside parties regarding the fairness of the merger consideration offered by Absolut?**

**A10:** Yes. The special committee received the opinion from its financial advisor, Houlihan Lokey, that, as of September 29, 2005, the cash consideration to be received by the holders of Cruzan common stock (other than

Absolut and its affiliates) in connection with the merger was fair, from a financial point of view, to such holders.

**Q11: Does Absolut, as the controlling stockholder, have any interests in the merger that are different from or in addition to my interests as a Cruzan stockholder generally?**

**A11:** Absolut is buying your shares in the merger so, as in any transaction involving a buyer and seller on opposite sides of a transaction, its interests in the transaction are very different from your interests. In addition, Absolut's parent, V&S, is a party to a distribution agreement with Cruzan whereby V&S acts as Cruzan's sole and exclusive distributor of CRUZAN rum in Scandinavia, Northern Europe, Canada and all global duty free and travel retail markets other than those located in the U.S., Caribbean, Bermuda, Philippines and Israel.



**Q12: Other than the stockholder vote, are there any other significant conditions to completing the merger?**

**A12:** Besides the stockholder vote, the other significant conditions to the completion of the merger include the following:

the resignation from our board of directors of each member of the special committee and each other independent director;

the termination or expiration of any applicable waiting period (and any extension thereof) under the HSR Act; and

the accuracy of the representations and warranties made in the merger agreement by us, Absolut, and Merger Sub.

For more information, see THE MERGER AGREEMENT Conditions to the Merger.

**Q13: When do you expect the merger to be completed?**

**A13:** We are working to complete the merger as quickly as possible. If the conditions to the merger are satisfied or waived (to the extent permitted by applicable law), including obtaining various regulatory approvals, we expect to complete the merger in the first quarter of 2006.

**Q14: What are the tax consequences of the merger to me?**

**A14:** The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may be taxable for state and local income tax purposes. For U.S. federal income tax purposes, if you receive cash in exchange for common stock pursuant to the merger, you will recognize gain or loss equal to the difference, if any, between the merger consideration and your adjusted tax basis in the common stock surrendered. We urge you to consult your own tax advisor regarding the specific tax consequences that may result from your individual circumstances, as well as the foreign, state and local tax consequences of the disposition of shares pursuant to the merger.

For more information, see **SPECIAL FACTORS** Material U.S. Federal Income Tax Consequences of the Merger.

**Q15: Do I have appraisal rights in connection with the merger?**

**A15:** If you comply with the procedures required under Delaware law, you may elect to pursue your appraisal rights to receive the statutorily determined fair value of your shares, which could be more than, the same as or less than the \$28.37 per share merger consideration. In order to qualify for these rights, you must (1) not vote in favor of the merger, (2) make a written demand for appraisal prior to the taking of the vote on the merger agreement at the special meeting and (3) otherwise comply with the Delaware law procedures for exercising appraisal rights. An executed proxy card that is not marked **AGAINST** or **ABSTAIN** will be voted for the adoption of the merger agreement and will disqualify you from demanding appraisal rights.

For more information, see **SPECIAL FACTORS** Appraisal Rights of Cruzan Stockholders.

**Q16: What should I do now? How do I vote?**

**A16:** After you read and consider carefully the information contained in this proxy statement, please fill out, sign and date your proxy card and mail your signed proxy card in the enclosed return

envelope as soon as possible so that your shares may be represented at the annual meeting. Failure to return your proxy card or vote in person at the meeting will have the same effect as a vote AGAINST the approval of the merger and the adoption and approval of the merger agreement.

For more information, see INFORMATION CONCERNING THE SPECIAL MEETING Voting of Proxies.

**Q17: Can I vote in person?**

**A17:** Yes. You may attend the special meeting and vote your shares in person whether or not you sign and return a proxy card or otherwise vote by proxy.

**Q18: If my shares are held in street name by my broker, will my broker vote my shares for me?**

**A18:** Yes, but only if you provide instructions to your broker on how to vote. You should fill out, sign, date and return the proxy card and otherwise follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

For more information, see INFORMATION CONCERNING THE SPECIAL MEETING Voting of Proxies.

**Q19: Can I change my vote or revoke my proxy after I have mailed my signed proxy card?**

**A19:** You may revoke your proxy or change your vote at any time before the final vote at the meeting. If you are the owner of record, you may do this by:

giving written notice of revocation to the Corporate Secretary, Cruzan International, Inc., 222 Lakeview Avenue, Suite 1500, West Palm Beach, FL 33401;

submitting another valid proxy card bearing a later date;

submitting a proxy at a later date by telephone or by using the Internet; or

voting in person at the meeting.

If you hold stock in street name, you must contact your broker or financial institution for information on how to revoke your proxy or change your vote.

**Q20: Can I send in my stock certificates now?**

**A20:** No. If the merger is completed, shortly thereafter you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to our exchange agent. You should use the letter of transmittal to exchange your stock certificates for the \$28.37 per share to which you will be entitled as a result of the merger. You should not send any stock certificates with your proxy cards. You should follow the procedures described in **SPECIAL FACTORS Surrender of Stock Certificates.**

**Q21: What happens if I abstain from voting?**

**A21:** Abstentions from voting will be counted in the determination of a quorum and will have the same effect as votes **AGAINST** approval of the merger and adoption and approval of the merger agreement.

**Q22: What will happen to Cruzan following the completion of the merger?**

**A22:** If the merger is completed, our common stock will be delisted from the American Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act ). As a result, we will no longer be a public company.

**Q23: What would happen to Cruzan if the merger is not completed?**

**A23:** In the event that the merger is not completed, you will not receive any payment for your shares. Neither we nor Absolut, our controlling stockholder, has any present plans or proposals for Cruzan in the event the merger is not completed, but we and Absolut expect that, regardless of whether or not the merger is completed, it is possible that we will explore changes in Cruzan's business to increase profitability and enhance stockholder value. For more information, see SPECIAL FACTORS Plans for Cruzan if the Merger Is Not Completed.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**



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This proxy statement and the other documents attached to this proxy statement as annexes may contain forward-looking statements with respect to the financial condition, results of operations, business plans and strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management, markets for the stock of Cruzan and other matters, including the projections set forth under SPECIAL FACTORS Certain Financial Projections and statements relating to Cruzan's plans, intentions and expectations to consummate the merger. We hereby identify statements in this proxy statement and the other documents attached to this proxy statement that are not historical facts as forward-looking statements. These forward-looking statements, including, without limitation, those relating to future business prospects, the projections set forth under SPECIAL FACTORS Certain Financial Projections, revenues and income, in each case relating to Cruzan, wherever they occur in this proxy statement or the other documents attached to this proxy statement, are necessarily based on assumptions and estimates reflecting the best judgment of the management of Cruzan and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Although we believe that Cruzan's plans, intentions and expectations are reasonable, we can give no assurance that Cruzan will achieve its plans, intentions and expectations. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement and attached to this proxy statement. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

the satisfaction of the conditions to consummate the merger, including, but not limited to, the receipt of the required stockholder and regulatory approvals;

the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement;

the failure of the merger to close for any other reason;

the amount of the costs, fees, expenses and charges related to the merger;

the strength of the economy in general, including changes in consumer purchasing power and/or spending patterns;

changes in federal and state laws and regulations;

interest rate fluctuations and changes in capital market conditions or other events affecting our ability to obtain necessary financing on favorable terms to fund the anticipated growth of our business;

liability and other claims asserted against us;

changes in our operating strategy or development plans;



our ability to attract, hire and retain qualified personnel;

labor disturbances;

changes in our acquisition and capital expenditure plans;

demographic changes;

changes in cost of goods and services; and

other risks and uncertainties detailed from time to time in our filings with the SEC.

In addition, actual results could differ materially from the forward-looking statements contained in this proxy statement as a result of the timing of the completion of the merger or the impact of the merger on operating results, capital resources, profitability, cash requirements, management resources and liquidity.

Words such as estimate, project, plan, intend, expect, anticipate, believe and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement and the other documents attached to this proxy statement. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement, or, in the case of documents attached to this proxy statement, as of the respective dates of those documents. We undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect circumstances or events occurring after the date of this proxy statement or to reflect the occurrence of unanticipated events, except as required by law.

**SPECIAL FACTORS**



**Background of the Merger**



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We regularly evaluate different strategies for improving our competitive position and maximizing shareholder value. As part of these evaluations, we have, from time to time, considered various strategic alternatives in pursuing our business plan as an independent entity, including acquisitions, divestitures and business combinations.

We have historically relied upon third-party distribution agreements to market CRUZAN products in non-U.S. countries. In March 2001, we were approached by V&S to discuss a possible distribution arrangement.

On October 10, 2003, we entered into a distribution agreement with V&S and appointed V&S the sole and exclusive distributor of CRUZAN rum and other Cruzan products in Scandinavia, Northern Europe and Canada. Pursuant to the V&S distribution agreement, V&S also agreed to act as our sole and exclusive distributor to all global duty free and travel retail markets other than the U.S., Caribbean, Bermuda, the Philippines and Israel. Our intent when the agreement was entered into was to expand the relationship into additional countries through the Maxxium network, a global distribution partnership, in which V&S holds a 25% interest.

In October 2004, V&S began considering the possibility of a business combination with Cruzan in order to add our CRUZAN rum brand to V&S's existing portfolio of premium branded spirits. During the fourth quarter of 2004, V&S indicated to members of Cruzan's management that a continuation and expansion of the existing distribution relationship would be predicated on V&S obtaining a controlling interest in the company. In January 2005, V&S made its first formal proposal to Angostura to purchase its controlling equity stake in Cruzan. In May 2005, V&S engaged Lazard AB (Lazard) to act as its financial advisor with respect to a potential business combination with Cruzan.

Between May 5, 2005 and June 1, 2005, representatives of V&S and Angostura, and V&S and Absolut's counsel, McDermott Will & Emery LLP (McDermott) and Angostura's counsel, Sokolow, Carreras & Associés (Sokolow) negotiated the terms of a stock purchase agreement whereby V&S, or its assignee, would agree to purchase the 4,294,583 shares of Cruzan common stock held by Angostura for \$28.37 per share, or approximately \$121.8 million in the aggregate. The stock purchase agreement included a condition to closing that V&S or its assignee shall have completed its due diligence investigation of Cruzan and not identified any matter or matters that individually, or in the aggregate, could reasonably be considered to have had, or could reasonably be expected to have, a material adverse effect. The stock purchase agreement also included a condition to V&S or its assignee's obligation to close that Cruzan's prior board of directors approve the sale transaction.

On June 1, 2005, Jay Maltby, Chief Executive Officer, Ezra Shashoua, Chief Financial Officer, and Thomas Valdes, Executive Vice President, of Cruzan received a phone call from Lawrence Duprey, Chairman of the Board of Angostura, requesting their presence at a meeting in Geneva, Switzerland on June 2, 2005. Upon arriving in Geneva, the Cruzan officers were informed of Angostura's intentions to sell its controlling equity stake in Cruzan to V&S.

On June 2, 2005, representatives of V&S met with Lawrence Duprey and Arnaud de Trabuc, Executive Director of CL Financial, Angostura's parent company, in Geneva, Switzerland, and the stock purchase agreement was executed that same day (but made effective as of June 3, 2005). Jay Maltby, Ezra Shashoua and Thomas Valdes of Cruzan were also present at the meeting. On this same day, Angostura and Jay Maltby, Ezra Shashoua, and Thomas Valdes executed an agreement providing for the payment of \$9 million by Angostura (for which Cruzan is not obligated) to Cruzan's senior management,

including Messrs. Maltby, Shashoua and Valdes, if the sale of Angostura's Cruzan stock to V&S or its assignee was completed successfully. Also on June 2, 2005, Angostura's board had a telephonic board meeting whereby they formally approved the sale of the shares of Cruzan common stock held by Angostura to V&S and the execution of the stock purchase agreement.

On June 2, 2005, Cruzan's prior board of directors met telephonically to discuss the execution of the stock purchase agreement. Because of the prospect that V&S might make an offer to acquire the Cruzan shares held by stockholders unaffiliated with Angostura in a subsequent business combination, at the meeting Cruzan's prior board of directors also appointed a special committee consisting of three directors for the purpose of considering the sale of Angostura's controlling stake in Cruzan, as well as to consider any business combination proposal from V&S.

On June 3, 2005, the V&S board approved the execution of the stock purchase agreement with Angostura, and Cruzan issued a press release announcing the execution of the stock purchase agreement. On the same date, V&S announced that it intended to offer the minority stockholders in Cruzan equitable treatment. One of the conditions to the closing of the sale of Angostura's shares to V&S was obtaining the approval of such sale by Cruzan's prior board of directors.

On June 7, 2005, V&S exercised its right under the stock purchase agreement to assign its rights under such agreement to Absolut, including its right to purchase the Angostura shares. On the same day, Absolut's board of directors executed a unanimous written consent accepting the assignment of V&S's rights under the stock purchase agreement.

On June 10, 2005, Donald L. Kasun and Leonard G. Rogers, two Cruzan directors who had been appointed to the special committee, and both of whom were determined to be independent by the prior board of directors due to their lack of affiliation with Cruzan, Cruzan management or Angostura, met with the special committee's counsel, Morris, Nichols, Arsht & Tunnell (MNAT). MNAT had determined prior to this first meeting of the special committee that one of the three directors originally appointed to the special committee, Edward F. McDonnell, should not be a member of the committee, but should be a consultant to the committee. Mr. McDonnell was, therefore, not asked to participate in the committee meeting. MNAT discussed with Messrs. Kasun and Rogers the applicability of Section 203 of the DGCL to the agreement by V&S to purchase the shares of Cruzan common stock owned by Angostura and any potential second-step merger, including the possibility that any second-step merger would be subject to the approval of the unaffiliated stockholders of the company holding at least two-thirds of all of the company's outstanding common stock held by unaffiliated stockholders. Section 203 of the DGCL generally prohibits, subject to certain exceptions, a business combination between a Delaware company and any interested stockholder (which is defined in Section 203 as any stockholder owning or beneficially owning 15% or more of such company's voting securities) within three years of such stockholder becoming an interested stockholder. Cruzan had previously added a specific provision to its certificate of incorporation, which opted in to the protections afforded by Section 203. MNAT agreed to contact McDermott and company counsel, Gunster, Yoakley & Stewart, P.A. to discuss the Section 203 issue.

On June 13, 2005 through June 15, 2005, representatives of V&S met with Cruzan management in West Palm Beach to discuss a possible business combination and to prepare for the due diligence process.

On June 14, 2005, Cruzan's prior board of directors met and determined that the special committee would be composed of Messrs. Kasun and Rogers, and that Mr. McDonnell, the other Cruzan director originally appointed to the special committee would be a consultant to the special committee.



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On June 17, 2005, MNAT discussed with McDermott the applicability of Section 203 of the DGCL to the agreement by V&S to purchase the stock owned by Angostura, as well as the applicability of Section 203 to any second-step merger. MNAT advised McDermott that in its view V&S, by signing the stock purchase agreement with Angostura, became an interested stockholder of the company subject to the restrictions of Section 203, including the requirement that any second-step merger would require a two-thirds vote of the unaffiliated stockholders. McDermott took the position that V&S had not become an interested stockholder. MNAT discussed with McDermott the possibility of the parties seeking a declaratory judgment with respect to the applicability of Section 203. MNAT also advised McDermott that the special committee was not willing to move forward on any basis other than V&S agreeing to require any second-step merger to be approved by holders of two-thirds of the outstanding common stock not beneficially owned by V&S, Absolut or their affiliates or associates. McDermott advised MNAT that

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V&S would consider the special committee's position and submit a proposal to the committee for its consideration.

From June 20 through June 24, 2005, representatives of McDermott performed legal due diligence at Cruzan's headquarters and at Cruzan's distillery in Lake Alfred, Florida. Representatives of Lazard also performed financial due diligence at Cruzan's headquarters that week. Additional due diligence visits were made by V&S, McDermott and other consultants engaged by V&S from June 27 through June 29; July 6 through July 8 and July 20 through July 24. These visits included site visits to Cruzan's facilities in Lake Alfred and Winterhaven, Florida, Louisville, Kentucky and St. Croix, U.S. Virgin Islands.

On June 22, 2005, Cruzan and V&S executed a confidentiality agreement. Pursuant to the terms of the agreement, V&S agreed to keep, and to cause its representatives, including McDermott and Lazard, to keep confidential the information regarding Cruzan and its business and affairs disclosed to V&S or its representatives by Cruzan during the due diligence process.

On June 23, 2005, the special committee met telephonically to again discuss the effect of Section 203 of the DGCL on a business combination between Absolut and Cruzan. MNAT updated the special committee on the discussions with McDermott regarding Section 203. The special committee decided to wait until the Section 203 issue was resolved to interview financial advisors. Later that same day, MNAT informed McDermott that the special committee would not hire an investment advisor until it knew more about V&S's proposed plans with respect to Cruzan.

On July 1, 2005, V&S delivered a merger proposal to the special committee to acquire the Cruzan shares held by stockholders unaffiliated with Angostura. The merger proposal was for \$28.37 per share in cash. V&S also agreed, as requested by the special committee, that closing of the merger be conditioned upon the approval of the holders of at least two-thirds of Cruzan's outstanding shares held by unaffiliated stockholders. The merger proposal was accompanied by a draft merger agreement. MNAT informed Lazard that the special committee would promptly retain a financial advisor and respond to the V&S merger proposal in due course. Absolut filed its HSR Act pre-merger notification with respect to its proposed purchase of Angostura's controlling stake in Cruzan with the Federal Trade Commission on the same day.

On July 5, 2005, Angostura filed its own HSR Act pre-merger notification with respect to its proposed sale of its controlling stake in Cruzan with the Federal Trade Commission.

On July 15, 2005, Absolut received notice of early termination with respect to its HSR Act filing.

On July 26, 2005, the special committee engaged Houlihan Lokey to act as its financial advisor and, if requested by the special committee, to provide a fairness opinion to the special committee and the Cruzan board of directors.

On August 16, 2005, the special committee met with MNAT and Houlihan Lokey. Houlihan Lokey provided the special committee with its preliminary analysis of the \$28.37 per share price proposed by V&S to acquire the shares held by the company's minority public stockholders. Houlihan Lokey reviewed with the special committee each valuation methodology it had used, including a market multiple approach, a comparable transaction approach and a discounted cash flow approach based on projections assuming that V&S did not acquire a controlling stake in Cruzan and assuming V&S did acquire a controlling stake in Cruzan. The special committee tentatively determined to demand that V&S increase the merger price to \$30.00 per share. The special committee concluded that it would discuss the merger proposal and Houlihan

Lokey's analysis with its consultant, Edward F. McDonnell, before responding to the V&S proposal.

On August 17, 2005, the special committee conferred with Edward F. McDonnell and MNAT. Mr. McDonnell advised the special committee, based upon his industry experience, that V&S would like to diversify and add a rum brand to its portfolio, that V&S was the most likely buyer for the whole company, that V&S was the one buyer in the industry likely to pay the highest price, and that the committee's proposed \$30.00 price demand was reasonable.

The special committee and its advisors participated in a telephonic meeting with V&S and its advisors on August 19, 2005. On the call, Leonard G. Rogers informed V&S, on behalf of the special committee, that a price of \$30.00 per share for Cruzan's unaffiliated stockholders would increase the likelihood that the required two-thirds vote on the merger would be obtained and was justified by the committee's views on valuation. V&S informed the special committee that it would consider the special committee's demand and would respond in a few days.

On August 22, 2005, V&S delivered a letter to the special committee formally rejecting the special committee's counterproposal and reiterating its view that the proposed price to the unaffiliated minority stockholders was fair. In support of its position, V&S informed the special committee that the offer price of \$28.37 reflected a 102% premium over the closing price of \$14.05 on June 3, 2005, the last trading day prior to the announcement of the stock purchase agreement between Angostura and V&S. V&S also stated that the price included a substantial control premium. V&S also pointed out in the letter that the unaffiliated stockholders were being offered the same price per share as V&S had agreed to pay to Angostura without bearing the same indemnification obligations and other risks that Angostura is subject to through the stock purchase agreement it entered into with V&S. A telephonic meeting was convened for later that same afternoon between the special committee and its advisors and V&S and its advisors. V&S again communicated directly to the special committee its position regarding the fairness of the \$28.37 per share price. The special committee informed V&S that it would discuss V&S's response with its legal and financial advisors.

After the telephonic meeting with V&S and its advisors, the special committee met with MNAT. The special committee discussed V&S's rejection of the special committee's counterproposal. The special committee then discussed the treatment of the unvested options in the proposed merger agreement. The special committee members concluded that before they made a final decision on the proposed \$28.37 per share merger consideration to be paid to the unaffiliated stockholders, they wanted to determine whether V&S was considering a change in its prior position that it would not cash-out the unvested options. MNAT agreed to contact McDermott to determine whether V&S was prepared to cash-out the unvested options. The special committee determined that if V&S was reconsidering its position with respect to the unvested options, the special committee intended to negotiate with V&S to obtain such additional consideration for the unaffiliated stockholders.

On August 23, 2005, MNAT, on behalf of the special committee, contacted McDermott and inquired as to whether V&S intended to pay management any additional consideration for their unvested stock options as management had requested. Under the draft merger agreement as proposed by V&S, unvested stock options were to be replaced with an incentive plan to be determined by the board of directors of the surviving corporation following the closing of the merger. MNAT advised McDermott that if V&S intended to pay additional consideration for the unvested options, the special committee would negotiate with V&S on behalf of the unaffiliated stockholders to instead increase the per share merger price to be paid to the unaffiliated stockholders by that amount. McDermott responded that V&S's position remained as stated in the draft merger agreement. MNAT, on behalf of the special committee, also asked whether V&S had completed its due diligence, whether such due diligence uncovered any information that V&S might later rely on to terminate the Angostura stock purchase agreement, and whether V&S intended to waive the condition to the closing of such stock purchase that Cruzan's board of directors approve such transaction.

On August 24, 2005, V&S, through McDermott, informed the special committee, through MNAT, that, subject to the satisfactory completion of its due diligence, which remained ongoing, it was prepared to close the stock purchase agreement with Angostura regardless of the status of discussions with the special committee.

On August 29, 2005, representatives of McDermott and MNAT convened a telephonic meeting to continue to negotiate basic issues with respect to the draft merger agreement, including whether the special committee could draft a response to the V&S merger proposal on the assumption, contrary to the V&S proposal's assumption, that V&S would have purchased the Angostura shares prior to the execution of the merger agreement and that V&S would not require prior approval of that stock purchase by the Cruzan board. Discussions between McDermott and MNAT concerning these issues took place for the next two days. On August 31, McDermott informed MNAT that the closing of the stock purchase agreement with Angostura had been scheduled for September 26, 2005 in Trinidad.

On August 31, 2005, the special committee met with MNAT and Houlihan Lokey. MNAT informed the special committee that McDermott had confirmed that, subject to the satisfactory completion of its due diligence, V&S was prepared to purchase the Angostura shares on September 26, 2005, and that V&S's position with respect to the unvested options remained as stated in the draft merger agreement. Houlihan Lokey presented its updated valuation analysis and advised the special committee that in its opinion the \$28.37 per share merger price was fair, from a financial point of view, to the minority public stockholders. Based on Houlihan Lokey's analysis, the committee's own views with respect to Cruzan and its prospects and the firm position of V&S that it would not increase the merger price, the members of the special committee determined to accept the proposed merger price of \$28.37 per share subject to the negotiation of an acceptable definitive merger agreement and the receipt of Houlihan Lokey's written fairness opinion.

On September 1, 2005, MNAT advised McDermott that the special committee had met and had agreed to move forward in negotiating a definitive merger agreement with V&S on the basis of a price of \$28.37 per share and that a formal letter from the special committee to that effect would follow.

On September 6, 2005, V&S received a letter from the special committee indicating that the special committee was prepared to recommend approval of the V&S merger proposal subject to negotiation of the definitive merger agreement and other conditions.

On September 8, 2005, MNAT, on behalf of the special committee, submitted a mark-up of V&S's proposed merger agreement to McDermott that took the approach to the basic issues relating to (1) the independence of the stock purchase agreement and the merger agreement, (2) the prior approval of the stock purchase agreement by the Cruzan board and (3) the unvested options, that had been agreed to by V&S.

Negotiations relating to the terms of the merger agreement continued over the next several weeks. On September 22, 2005, the special committee met with MNAT for an update on the merger agreement negotiations.

On September 26, 2005, Absolut completed its acquisition of a controlling interest in Cruzan from Angostura pursuant to the stock purchase agreement. Absolut purchased all 4,294,583 shares of Cruzan's common stock beneficially owned by Angostura, which represented approximately 63.6% of Cruzan's outstanding common stock, for an aggregate consideration of approximately \$121.8 million, or \$28.37 per share.

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The special committee met by telephone with MNAT daily from September 26, 2005 through September 29, 2005 for updates regarding the merger agreement negotiations. At the September 27, 2005 meeting, Houlihan Lokey confirmed its opinion, subject to its review of the definitive merger agreement,

that the \$28.37 per share merger price was fair, from a financial point of view, to the minority public stockholders. At the September 28, 2005 meeting, the special committee approved the merger agreement in the form presented at that meeting. The Cruzan board of directors also approved that merger agreement. Prior to the execution of that agreement, Absolut raised some additional issues relating to the timing of the effectiveness of the appointment of Absolut's designees to Cruzan's board of directors, the mechanics of the filing of a Schedule 14f-1 relating to the changes on Cruzan's board of directors and the conduct of Cruzan's business prior to the effectiveness of the appointment of Absolut's representatives on the Cruzan board of directors. On September 28 and 29, 2005, MNAT and McDermott negotiated changes to the merger agreement relating to these issues. At the September 29, 2005 meeting, MNAT confirmed that Houlihan Lokey had reviewed the definitive merger agreement and had confirmed its opinion that the \$28.37 merger price was fair, from a financial point of view, to the minority public stockholders. The special committee unanimously determined that the merger agreement and the merger are advisable, fair to, and in the best interests of, the company and its minority public stockholders; recommended that Cruzan's prior board of directors approve the merger agreement and the merger; recommended that the Cruzan prior board of directors recommend to the stockholders of the company that they vote to approve the merger and adopt and approve the merger agreement; and recommended that the stockholders of the company vote to approve the merger and adopt and approve the merger agreement.

On the same date, Cruzan's prior board of directors unanimously (i) approved the merger agreement and the merger, (ii) determined the terms of the merger are fair to and in the best interests of Cruzan's stockholders other than Absolut and its affiliates, (iii) recommended that Cruzan's stockholders approve the merger and adopt and approve the merger agreement, and (iv) declared that the merger agreement is advisable. On September 30, 2005, Cruzan, Absolut and Merger Sub executed the merger agreement.

Prior to the company's entry into the merger agreement, Jay S. Maltby, Thomas A. Valdes, D. Chris Mitchell, Joseph R. Cook and Michael E. Carballo resigned as directors of Cruzan effective as of the time of execution of the merger agreement. Prior to such resignations, the prior board of directors (other than the members of the special committee) appointed Mats Andersson, Ola Salmén, Ketil Eriksen and Lisa Derman, each nominated by Absolut, to Cruzan's board of directors, to fill the vacancies created by such resignations, with such appointments to take effect as of 9:00 a.m. on October 11, 2005. As a condition to the closing of the merger, Leonard G. Rogers, Donald L. Kasun and Edward F. McDonnell are required to tender their resignations from Cruzan's board of directors, effective upon the closing of the proposed merger.

As described below in Opinion of Houlihan Lokey, Houlihan Lokey valued the company based in part on two sets of financial projections provided by the company's management—one set based on the assumption that V&S acquired its controlling stake in the company from Angostura, referred to as the Synergistic Projections in the Opinion of Houlihan Lokey section below, and the other set based on the assumption that V&S did not complete its purchase of a controlling stake from Angostura. When Houlihan Lokey originally provided its estimated range of values to the special committee, however, it did not provide a valuation range that reflected the Synergistic Projections because V&S's acquisition of Angostura's controlling stake had not at that time been completed. On November 29, 2005, the full board convened a brief informational meeting by telephone at which Houlihan Lokey formally provided updated valuation ranges under the market multiple and discounted cash flow valuation methodologies which reflected the Synergistic Projections, the substance of which is included below in the section entitled Opinion of Houlihan Lokey. Houlihan Lokey confirmed that these updated valuation ranges did not affect Houlihan Lokey's opinion that the \$28.37 merger consideration was fair to the minority stockholders from a financial point of view.

## **Reasons for the Merger**





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We believe that the merger provides us the opportunity to return value to all stockholders at the time when our former controlling stockholder, Angostura, decided to dispose of its interest in us. The special committee also considered additional reasons for the transactions as set forth below. See - Recommendation of the Special Committee and the Prior Board of Directors. As a result of the merger, we will become a privately-held company.

### **Interests of Executive Officers, Members of the Special Committee and Members of the Prior Board of Directors in the Merger**



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In considering the recommendation of the special committee and our prior board of directors to vote for the proposal to approve the merger and adopt and approve the merger agreement, you should be aware that all of our executive officers, each member of the special committee and each member of our prior board of directors have personal interests in the merger that are, or may be, different from, or in addition to, your interests. These personal interests are described in greater detail below.

*Special Payments to Our Executive Officers from Angostura*

Pursuant to a letter agreement entered into between Angostura and Thomas A. Valdes, Ezra Shashoua and Jay Maltby on June 2, 2005, Angostura agreed to pay to Cruzan's managers, including these three executive officers, an aggregate amount of \$9 million if the sale of Angostura's controlling equity stake in Cruzan to Absolut were completed.

*Severance Provisions of Executive Officer Employment Agreements*

We entered into employment agreements with Thomas A. Valdes, Ezra Shashoua, D. Chris Mitchell, Ousik Yu and Jay Maltby on June 17, 2003 that provide that if any of these executives is terminated by us without Cause, or by the executive for Good Reason, then we will be obligated to continue to pay such executive his base salary, his base guaranteed bonus and to continue to permit such executive to participate in and receive the benefits offered under our employee benefit plans or arrangements for the greater of (i) one year from the date of termination, or (ii) the remainder of the term of employment under such executive's employment agreement. Mr. Valdes' term of employment ends on September 30, 2008. Mr. Shashoua's term of employment ends on June 30, 2008. Mr. Mitchell's term of employment ends on December 31, 2008. Mr. Yu's term of employment ends on December 31, 2007. Mr. Maltby's term of employment ends on June 30, 2009. Good Reason is defined in the employment agreements to include (i) diminution of duties, (ii) reduction of salary or benefits (unless such reduction is applicable to all executive officers equally), or (iii) relocation of our headquarters outside of Palm Beach County or Broward County, Florida. Cause is defined in the employment agreements to include (i) an executive being convicted of a felony which, in the exclusive determination of our board of directors, would have a material adverse effect on our business, our reputation or on such executive's ability to perform his employment duties, (ii) the executive's gross misconduct resulting in material harm to us, our business or our reputation, (iii) the executive willfully misappropriating our assets or otherwise willfully defrauding us, including by way of theft, embezzlement or breach of a fiduciary duty involving the executive's personal profit, or (iv) the executive intentionally failing to perform his employment duties.

Additional severance payments are payable if, within one year following a Change of Control, an executive's employment is terminated without Cause or for Good Reason within the two-year period immediately preceding the end of the executive's term. Such severance payments would be equal to (i) two times the executive's base salary plus two times the executive's base bonus and employee benefits, less (ii) the amounts otherwise payable in connection with a without Cause or Good Reason termination, as described in the preceding paragraph.

Under the executive employment agreements, a Change of Control took place on September 26, 2005 when Absolut completed the purchase of its controlling equity stake in Cruzan from Angostura.

In the event Mr. Yu was terminated by us after December 31, 2005 but prior to September 26, 2006, he would be entitled to receive additional Change of Control related severance from us in an amount up to \$227,866.

In the event Mr. Shashoua was terminated by us after June 30, 2006, but prior to September 26, 2006, he would be entitled to receive additional Change of Control related severance from us in an amount up to \$103,289.

As the applicable two year periods in the employment agreements of Messrs. Valdes, Mitchell and Maltby do not begin to run until after the one-year anniversary of the Change of Control, these executives will not be entitled to any additional Change of Control related severance

payments upon termination.

*Treatment of Outstanding Stock Options*

An aggregate of 677,500 shares of our common stock are subject to stock options granted to our executive officers and directors under various stock option plans, and all of these options have exercise prices below \$28.37 per share. Messrs. Maltby, Valdes, Mitchell, Shashoua, Yu and McDonnell hold vested in-the-money options exercisable for 118,750, 102,500, 52,031, 15,000, 57,031 and 60,000 shares of our common stock, respectively. In the merger, each outstanding vested option to purchase our common stock will be converted into the right to receive a cash payment equal to the excess of the \$28.37 per share merger consideration over the per share exercise price, multiplied by the number of shares of our common stock subject to the vested option. If the merger is completed, our executive officers and directors will receive total cash payments of \$7,808,544, in respect of vested stock options, including \$2,302,375, \$1,993,738, \$1,015,228, \$222,300, \$1,116,453 and \$1,158,450 to Messrs. Maltby, Valdes, Mitchell, Shashoua, Yu and McDonnell, respectively.

*Inability to Terminate Supplemental Executive Retirement Plan Without Consent*

During fiscal 2004, we implemented a defined benefit supplemental executive retirement plan ( SERP ) for Jay Maltby, Thomas A. Valdes, Ezra Shashoua, D. Chris Mitchell, Ousik Yu and three other non-executive officers. The SERP is a nonqualified deferred compensation plan providing life insurance protection during employment and subsequent retirement benefits. The SERP replaced the Company's Executive Nonqualified Deferred Compensation Program, which was cancelled during fiscal 2004.

For each of the executives, upon the termination of the executive's employment after attainment of age 65, we will pay the executive a monthly retirement benefit over a period of 15 years. Retirement prior to age 65 with our consent shall result in a reduced retirement benefit based on years of service. In the event the executive becomes permanently and totally disabled while in our employ, we will pay the executive a monthly disability benefit over a period of five years in an amount equal to the monthly retirement benefit pro rated over a five-year vesting period, with full vesting on February 20, 2009. In the event of the death of the executive prior to retirement, the executive's beneficiary is entitled to receive a death benefit.

In the event of cessation of employment with us for any reason other than death, disability or retirement, the executive will not be entitled to benefits under the SERP. In addition, the executive will forfeit all rights to benefits under the SERP if the executive engages in competition with us during the two years following cessation of employment with us.

Under the terms of the SERP, unless the executive is terminated for cause, we may not terminate the SERP without the executive's consent beginning nine months before a Change of Control. Under the SERP, a Change of Control took place on September 26, 2005, when Absolut completed the purchase of its controlling equity stake in Cruzan from Angostura.

*Continued Indemnification, Advancement of Expenses and D&O Insurance Coverage*

The terms of the merger agreement provide for continued indemnification and advancement of expenses for our executive officers and directors, as well as an additional six years of directors and officers liability insurance coverage. See THE MERGER AGREEMENT Indemnification of Directors and Officers; Advancement of Expenses and Insurance.

**Recommendation of the Special Committee and the Prior Board of Directors**





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At a meeting of the special committee held on September 29, 2005, and at a separate meeting of the prior board of directors held on the same date, the special committee and the prior board of directors both separately by unanimous vote:

approved the merger agreement and the merger;

determined that the terms of the merger are fair to and in the best interests of our stockholders other than Absolut and its affiliates;

recommended that our stockholders approve the merger and adopt and approve the merger agreement; and

declared that the merger agreement is advisable.

The material factors considered by the prior board of directors and by the members of the special committee in making the approval determination, recommendation and declaration set forth above were as follows:

the presentation of and opinion delivered by Houlihan Lokey that the \$28.37 per share cash consideration to be received by our minority public stockholders in the merger was fair, from a financial point of view, to our minority public stockholders. The special committee concluded that the valuation analyses performed by Houlihan Lokey supported the special committee's conclusion that the merger is fair to, advisable and in the best interests of us and our stockholders. A summary of Houlihan Lokey's presentation and analyses is described under - Opinion of Houlihan Lokey, and the written opinion of Houlihan Lokey dated September 29, 2005 is included as **Annex B** to this proxy statement;

the fact that the merger consideration is all cash, which provides certainty of value to all of our stockholders;

the fact that the merger agreement is subject to the two-thirds vote of the unaffiliated stockholders;

the opinion of Edward F. McDonnell, consultant to the special committee, that V&S was the most likely buyer of Cruzan and the one most likely to pay the highest price; and

the relationship between the \$28.37 price per share to be paid pursuant to the merger and the recent and historical market prices of our common stock. The special committee deliberated over the \$28.37 merger consideration and considered information presented by Houlihan Lokey with respect to the fact that the \$28.37 cash consideration was above the then current market price for our common stock. In its presentation to the special committee, Houlihan Lokey noted that on June 3, 2005 the \$28.37 merger price represented a premium of 102% to Cruzan's market price of \$14.05 per share. Houlihan Lokey advised the special committee that because of Cruzan's small public float, small trading volume and lack of analyst coverage and because Cruzan has few institutional investors, its market trading price prior to the announcement of V&S's purchase of the Angostura block of Cruzan stock did not necessarily provide an accurate indication of value.

Although the special committee was formed to consider fairness of the terms of the merger to the unaffiliated stockholders, the special committee did not retain a separate unaffiliated representative to act solely on behalf of our unaffiliated stockholders. The special committee felt that there were sufficient procedures in place to ensure fairness for the unaffiliated stockholders, especially the requirement that the merger and merger agreement be approved by two-thirds of the unaffiliated stockholders.

We believe that all of the executive officers and directors who own shares of our common stock intend to vote FOR approval of the merger. See SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN OTHER BENEFICIAL OWNERS.

#### **Opinion of Houlihan Lokey**



The special committee retained Houlihan Lokey as its financial advisor to advise the special committee and to render an opinion as to whether the \$28.37 per share cash consideration to be received in the merger is fair to the minority stockholders from a financial point of view. At the September 29, 2005 Cruzan board meeting, based on and subject to the matters described in the fairness opinion, Houlihan Lokey rendered its opinion that, as of that date, the consideration to be received by the minority stockholders in connection with the merger was fair to the minority stockholders from a financial point of view. At a subsequent Cruzan board meeting held on November 29, 2005, Houlihan Lokey formally provided, for the Cruzan board's information, valuation indications for each of the valuation approaches described below which reflected management's projected increase in Cruzan value that would likely result from V&S's acquisition of a controlling stake in Cruzan on September 26, 2005 (the "Synergistic Projections"). Prior to September 26, 2005, Houlihan Lokey had previously provided the special committee its estimate of the value of the company under the discounted cash flow approach assuming the Synergistic Projections, but Houlihan Lokey had not formally provided the special committee with an updated valuation range based on such Synergistic Projections.

**The full text of the fairness opinion is attached as Annex B to this proxy statement. You are urged to read the fairness opinion in its entirety, for, among other things, assumptions made, procedures followed, matters considered and limits on Houlihan Lokey's review and analysis. The summary of the fairness opinion set forth below is qualified in its entirety by reference to the full text of the opinion.**

The special committee retained Houlihan Lokey based upon Houlihan Lokey's experience in the valuation of businesses and their securities in connection with going private transactions, recapitalizations and similar transactions. Houlihan Lokey is a nationally recognized investment banking firm that is engaged in providing financial advisory services and rendering fairness opinions in connection with mergers and acquisitions, leveraged buyouts, and business and securities valuations, recapitalizations, financial restructurings and private placements of debt and equity securities.

During the past two years, Houlihan Lokey was engaged by a prior special committee consisting of the same two committee members to render a fairness opinion with respect to Angostura's purchase of \$10 million of newly-issued shares of Cruzan common stock. Houlihan Lokey received a fee of \$200,000 for its work on that transaction, along with reimbursed out-of-pocket expenses. In addition, during the past two years, Houlihan Lokey was engaged by that prior special committee to render fairness opinions for two joint ventures Cruzan was contemplating. The first involved the possible transfer by Cruzan of the rights to the Cruzan trade name for certain countries into a joint venture with Cruzan Holdings, a wholly-owned subsidiary of CL Financial, an affiliate of Angostura. The second involved the possible transfer of rights to the Cruzan trade name for other countries into a second joint venture involving Cruzan Holdings and V&S. Neither of these joint ventures was consummated and Houlihan Lokey rendered no fairness opinions concerning either. Houlihan Lokey received a fee of \$130,000 for work provided on those two possible transactions, along with reimbursed out-of-pocket expenses.

Houlihan Lokey's fairness opinion is directed only to the fairness, from a financial point of view, of the consideration to be received by the minority stockholders in the merger and is not intended to constitute and does not constitute a recommendation as to how any stockholder should vote with respect to the merger or as to any other matters relating to the merger. The special committee did not put any limitations on Houlihan Lokey or its investigations or procedures. Houlihan Lokey was not requested to, and did not, initiate any discussions with third parties with respect to a possible acquisition of the company.

In rendering the fairness opinion, among other things, Houlihan Lokey did the following:

reviewed the company's annual reports to shareholders on Form 10-K for the fiscal years ended September 30, 2002, September 30, 2003, and September 30, 2004, and quarterly reports on Form 10-Q for the quarters ended December 31, 2004, March 31, 2005, and June 30, 2005, which the company's management had identified as being the most current financial statements then available;

spoke with certain members of the management of the company regarding the operations, financial condition and prospects of the company and regarding the merger;

visited the business offices of the company in West Palm Beach, Florida;

reviewed the merger agreement;

reviewed the stock purchase agreement;

reviewed the distribution agreement dated October 10, 2003 between the company and V&S;

reviewed a services license agreement and a product license agreement, each dated January 31, 2005, between the company, Virgin Islands Rum Industries, Ltd., and Cruz Land, Ltd.;

reviewed a proposed marketing service agreement between the company and the Government of the U.S. Virgin Islands, Department of Property and Procurement;

reviewed a production agreement between the company and Wilson Daniels, Ltd., a licensed Seagrams Vodka bottler;

reviewed two financial projection models for the company provided by management which detail the expected financial performance of the company for fiscal years ended September 30, 2005 through September 30, 2009, one as if V&S did not have a controlling stake in the company and the Synergistic Projections, which assumed that the company was able to expand its international presence through an expanded distribution network, resulting in incremental profits that would not occur in the projections that assumed V&S did not have control of the company;

reviewed the historical market prices and trading volume for the company's publicly traded securities for the past three years and those of certain publicly traded companies which were deemed relevant;

reviewed certain other publicly available financial data for certain companies that were deemed relevant and publicly available transaction prices and premiums paid in other transactions that were deemed relevant for companies in related industries; and

conducted such other financial studies, analyses and inquiries as deemed appropriate.

Houlihan Lokey used several analyses in connection with providing the fairness opinion. Each analysis provides an indication of the company's per share equity value in order to assess the fairness from a financial point of view of the consideration to be received by the minority stockholders. Houlihan Lokey utilized each of the following analyses, based upon its view that each is appropriate and reflective of generally accepted valuation analyses given the company's trading volume relative to total shares outstanding, the accessibility of comparable publicly traded companies, the availability of forecasts from management of the company, and the available information regarding transactions that Houlihan Lokey deemed similar to the merger:

a public market pricing and premiums analysis based upon the company's closing sale price as of June 3, 2005, the last trading date prior to the announcement of the stock purchase agreement;

a comparable public company analysis whereby the company's projected 2006 fiscal year and 2007 fiscal year revenues and earnings before interest, taxes, depreciation and amortization ( EBITDA ), considering both the financial projections that assumed that V&S did not have a controlling stake in the company and the Synergistic Projections, were multiplied by risk adjusted multiples based upon a comparison of the company and comparable public companies;

a discounted cash flow analysis whereby the company's projected cash flows, considering both the financial projections that assumed that V&S did not have a controlling stake in the company and the Synergistic Projections, were discounted to determine the company's enterprise value; and

a comparable transaction analysis whereby the company's latest twelve months revenues as of June 30, 2005, were multiplied by risk adjusted multiples based upon a comparison of the company and the targets in certain comparable transactions.

*Public Market Pricing Analysis.* Houlihan Lokey reviewed the historical market prices and trading volume for the company's publicly traded common stock and reviewed publicly available analyst reports, news articles, and press releases related to the company. Houlihan Lokey analyzed the company's closing sale price of \$14.05 for common stock as of June 3, 2005. In addition, Houlihan Lokey reviewed the company's closing sale prices for common stock on a 30-day and 60-day average basis as of June 3, 2005, which were \$13.78 and \$13.43, respectively. Houlihan Lokey also considered the company's 52-week high, 52-week low, and the average closing sale prices during the 52 weeks prior to June 3, 2005, with such pricing ranging from \$11.80 to \$14.16 per share.

*Market Multiple Analysis.* Houlihan Lokey reviewed certain financial information of publicly traded companies it deemed comparable to the company. The comparable companies included: Brown-Forman Corp., Constellation Brands, Inc., Corby Distilleries Ltd., Davide Campari Milano S.p.A., Diageo PLC, Pernod Ricard S.A., Remy Cointreau S.A. and MGP Ingredients, Inc. No company used in the



market multiple analysis was determined to be directly comparable to the company. Accordingly, Houlihan Lokey performed this analysis to understand the range of multiples of revenue and EBITDA of these companies based upon market prices. Houlihan Lokey calculated certain financial ratios of these companies based on the most recent publicly available information, including multiples of:

enterprise value (that is, the equity value of the company plus all interest-bearing debt and less cash and cash equivalents) to projected next fiscal year plus one ( NFY+1 ) revenue and next fiscal year plus two ( NFY+2 ) revenue; and

enterprise value to projected NFY+1 EBITDA and NFY+2 EBITDA.

The analysis showed that the multiples exhibited by these companies based on the closing stock price as of September 26, 2005, were as follows:

	Enterprise Value/Revenue (NFY+1)	Enterprise Value/EBITDA (NFY+1)	Enterprise Value/Revenue (NFY+2)	Enterprise Value/EBITDA (NFY+2)
Low	1.9x	9.9x	1.8x	8.7x
High	4.9x	12.3x	4.0x	11.3x
Median	2.4x	10.6x	2.2x	10.1x
Mean	3.0x	10.9x	2.5x	10.0x

Based in part on these multiples, Houlihan Lokey derived indications of the enterprise value of the company by:

applying selected revenue multiples ranging from 1.2x to 1.3x to the company's NFY+1 projected revenues ending September 30, 2006, and 1.1x to 1.2x to the company's NFY+2 revenues ending September 30, 2007; and

applying selected EBITDA multiples ranging from 9.0x to 10.0x to the company's NFY+1 EBITDA ending September 30, 2006, and from 8.0x to 9.0x to the company's NFY+2 EBITDA ending September 30, 2007.

Houlihan Lokey utilized these selected multiples after considering the size and diversification of operations of the companies, the volatility of the company's earnings and the relative risk of the company's product offering vis-à-vis the companies.

Houlihan Lokey also considered that the multiples exhibited by these companies reflect marketable minority ownership, but not prices for change of control transactions. Accordingly, Houlihan Lokey applied a 10% premium to the resulting equity indication to arrive at an enterprise value for the company.

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The resulting indications of the enterprise value of the company, utilizing the financial projections that assumed that V&S did not have a controlling stake in the company, ranged from approximately \$141.0 million to \$155.7 million. To arrive at an indicated per share value, certain adjustments were made, including adding the value of the company's non-operating assets including its cash, proceeds from the exercise of in-the-money stock options, the value of the marketing services agreement and production agreement, and subtracting the company's interest-bearing debt obligations and non-operating liabilities (collectively, the Adjustments). The resulting indicated range of value from the market multiple analysis, utilizing the financial projections that assumed that V&S did not have a controlling stake in the company, was \$19.63 to \$22.72 per share.

The resulting indications of the enterprise value of the company, utilizing the Synergistic Projections, ranged from approximately \$147.0 million to \$162.5 million. To arrive at an indicated per share value, the same Adjustments were made as described above and an additional dividend tax liability was subtracted related to a repatriation of funds which the company intended to pay in anticipation of the company no longer being publicly held. The resulting indicated range of value from the market multiple analysis was \$20.30 to \$23.49 per share.

*Discounted Cash Flow Analysis.* Houlihan Lokey performed a discounted cash flow analysis of the company utilizing both the Synergistic Projections and the set of projections that assumed V&S did not have a controlling stake in the company. Utilizing these projections and publicly available information, Houlihan Lokey calculated

the theoretical discounted present value for the company by adding together the present value of the future cash flows that the company could be expected to produce over approximately a five-year period (beginning with the fourth quarter of fiscal year 2005 through fiscal year 2009) and the present value of the terminal value. The terminal value is the value of the enterprise at the end of the projected period and is determined by using a market multiple approach. Houlihan Lokey utilized a range of EBITDA multiples of 9.0x to 10.0x to determine the terminal value. The after-tax discount rate analyzed by Houlihan Lokey in the discounted cash flow analysis ranged from 12% to 14%.

Based on the company's projections that assumed that V&S did not have a controlling stake in the company and this analysis, Houlihan Lokey calculated the company's enterprise value to be approximately \$164.2 million to \$193.4 million. To arrive at an indicated per share value, the same Adjustments were made as were made in the Market Multiple Analysis described above. The resulting indicated range of value from the discounted cash flow analysis was \$22.85 to \$27.97 per share.

Based on the Synergistic Projections and this analysis, Houlihan Lokey calculated the company's enterprise value to be approximately \$191.8 million to \$227.0 million. To arrive at an indicated per share value, the same Adjustments were made as were made in the Market Multiple Analysis described above and an additional dividend tax liability was subtracted related to a repatriation of funds which the company intended to pay in anticipation of the company no longer being publicly held. The resulting indicated range of value from the discounted cash flow analysis was \$26.52 to \$32.47 per share.

*Comparable Transaction Analysis.* Using publicly available information, Houlihan Lokey reviewed the multiples exhibited and control premiums paid in certain change of control transactions involving companies deemed comparable to the company by Houlihan Lokey. The review focused on transactions announced after July 31, 2000 between approximately \$85.0 million and \$19.0 billion involving manufacturers of wines, brandy and brandy spirits, or distilled and blended liquors. Houlihan Lokey identified those transactions involving these comparable companies in which transaction multiples were available. Houlihan Lokey considered that the merger and acquisition transaction environment varies over time because of, among other things, interest rate and equity market fluctuations and industry results and growth expectations. No company or transaction used in this comparable transaction analysis was determined to be directly comparable to the company or the merger.

The analysis showed that the multiples exhibited in the change of control transactions were as follows:

**Latest Twelve Months ( LTM )**

	<b>Enterprise Value/Revenue</b>	<b>Enterprise Value/EBITDA</b>
Low	0.7x	8.7x
High	5.0x	25.4x
Median	2.9x	16.2x
Mean	2.7x	15.7x

Based in part on these multiples, Houlihan Lokey derived indications of the enterprise value of the company by applying selected revenue multiples ranging from 1.6x to 1.7x to the company's LTM revenues ended June 30, 2005. The application of an EBITDA multiple to the company's LTM EBITDA did not yield a meaningful value indication and was therefore not considered. The selection of multiples based on the

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comparable companies considered the risk profile, product mix, relative profitability, and other factors relative to Cruzan in comparing it to the comparable companies. The multiples used for Cruzan were lower than the mean due in part to Cruzan's significantly lower EBITDA margin than the comparable companies, the relatively small revenue generated by the Cruzan brand itself compared to the branded spirit and wine segments of most of the comparable companies, and Cruzan's product mix, which was more heavily weighted towards commodity manufacturing than were most of the comparable companies.

Houlihan Lokey utilized these selected multiples after considering the size and diversification of operations of the comparable transactions, the volatility of the company's earnings and the relative risk of the company's product offering vis-à-vis the target companies in the comparable transactions.

Based on this comparable transaction analysis, the resulting indications of the enterprise value of the company ranged from approximately \$166.3 million to \$176.7 million. To arrive at an indicated per

share value, the same Adjustments were made as were made in the Market Multiple Analysis described above. The resulting range of value was \$23.15 to \$25.65 per share.

*Determination of Equity Value.* Houlihan Lokey determined the enterprise value of the operations of the company (before the Adjustments) based on (i) the market multiple analysis, (ii) the discounted cash flow analysis and (iii) the comparable transaction analysis. The valuation indications, utilizing the financial projections that assumed V&S did not have a controlling stake in the company are summarized as follows:

Analysis	Low Indication of Enterprise Value	High Indication of Enterprise Value
Market Multiple	\$ 141.0 million	\$ 155.7 million
Discounted Cash Flow	\$ 164.2 million	\$ 193.4 million
Comparable Transaction	\$ 166.3 million	\$ 176.7 million

Based upon these three analyses, Houlihan Lokey selected a range of the company's enterprise value of \$160.2 million to \$180.9 million, utilizing the financial projections that assumed V&S did not have a controlling stake in the company. Houlihan Lokey then made the same Adjustments as were made in the Market Multiple Analysis described above to conclude a range of equity value for the company of \$160.3 million to \$188.5 million, or \$22.30 to \$26.22 per share.

The valuation indications, utilizing the Synergistic Projections, are summarized as follows:

Analysis	Low Indication of Enterprise Value	High Indication of Enterprise Value
Market Multiple	\$ 147.0 million	\$ 162.5 million
Discounted Cash Flow	\$ 191.8 million	\$ 227.0 million
Comparable Transaction	\$ 166.3 million	\$ 176.7 million

Based upon these three analyses and utilizing the Synergistic Projections, Houlihan Lokey selected a range of the company's enterprise value of \$175.2 million to \$199.0 million. Houlihan Lokey then made the same Adjustments as were made in the Market Multiple Analysis described above and an additional dividend tax liability was subtracted related to a repatriation of funds which the company intended to pay in anticipation of the company no longer being publicly held to conclude a range of equity value for the company of \$174.1 million to \$205.4 million, or \$24.22 to \$28.57 per share.

Houlihan Lokey also noted that the consideration of \$28.37 for each share of common stock in the merger represents (i) a premium of 102% over the closing price as of June 3, 2005, for the common stock, and (ii) a premium of approximately 106% and 111% over the average closing prices during the 30 trading days and 60 trading days, respectively, prior to and including June 3, 2005, the last trading date prior to the announcement of the stock purchase agreement.

*Determination of Fairness.* After determining the equity value of the company, Houlihan Lokey noted that the consideration of \$28.37 per share as provided for in the merger is above the range of the indications of value, utilizing

the financial projections that assumed V&S did not have a controlling stake in the company. Prior to Houlihan Lokey rendering its final written fairness opinion, Absolut completed its acquisition of the common stock of Cruzan held by Angostura and obtained effective control of Cruzan. Houlihan Lokey subsequently reconsidered the synergistic projections to determine whether relying on these projections in its final analysis would affect its final conclusions as to fairness. Management had previously stated that these synergies would not be available to the company without V&S having a controlling stake and therefore, Houlihan Lokey did not rely upon the Synergistic Projections in the analysis it had conducted prior to V&S taking control. The results of its analysis, utilizing the Synergistic Projections, indicated that, although the Synergistic Projections resulted in a higher indicated range of value for Cruzan, they did not affect Houlihan Lokey's fairness opinion. Accordingly, Houlihan Lokey determined that as of September 29, 2005, the consideration to be received by the minority stockholders in the merger is fair to them from a financial point of view.

Houlihan Lokey's fairness opinion was based on the business, economic, market and other conditions as they existed as of September 29, 2005, and on the financial projections of the company provided to Houlihan Lokey.

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information (including, without limitation, the financial projections) furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available.

The summary set forth above describes material points of more detailed analyses performed by Houlihan Lokey in arriving at the fairness opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and application of those methods to the particular circumstances and is therefore not readily susceptible to summary description. In arriving at its opinion, Houlihan Lokey made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, its analyses and summary set forth herein must be considered as a whole and selecting portions of its analyses, without considering all analyses and factors, or portions of this summary, could create an incomplete or inaccurate view of the processes underlying the analyses set forth in the fairness opinion. In its analyses, Houlihan Lokey made numerous assumptions with respect to the company, the merger, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the respective entities. The estimates contained in such analyses are not necessarily indicative of actual values or predictive of future results or values, which may be more or less favorable

than suggested by such analyses. Additionally, analyses relating to the value of businesses or securities of the company are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

The company agreed to pay Houlihan Lokey a fee of \$150,000 for its services, plus reasonable out-of-pocket expenses. No portion of Houlihan Lokey's fee is contingent upon the conclusions reached in the fairness opinion. The company has agreed to indemnify Houlihan Lokey or any employee, agent, officer, director, attorney, shareholder, affiliate or any person who controls Houlihan Lokey, against all losses arising out of its engagement by the special committee, including losses arising under the federal securities laws.

**The Position of Absolut and V&S as to the Fairness of the Merger to the Unaffiliated Stockholders**





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Under a potential interpretation of the Exchange Act rules governing going private transactions, both Absolut and V&S may be deemed to be affiliates of Cruzan. Absolut and V&S are making the statements included in this sub-section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The positions of Absolut and V&S as to the fairness of the merger is not a recommendation to any stockholder as to how such stockholder should vote on the merger.

Absolut and V&S believe that the merger is substantively and procedurally fair to Cruzan's unaffiliated stockholders. However, neither Absolut nor V&S has undertaken any formal evaluation of the fairness of the merger to Cruzan's unaffiliated stockholders and has relied, without independent investigation, on the evaluation performed by the special committee. Moreover, neither Absolut nor V&S participated in the deliberations of the special committee or received advice from Houlihan Lokey. However, Absolut and V&S have considered the same factors examined by the special committee described above under - Recommendation of the Special Committee and the Prior Board of Directors and have adopted the conclusion, and the analysis underlying such conclusion, of the special committee, based upon its view as to the reasonableness of that analysis. Based on their consideration of these factors, Absolut and V&S believe that the merger is substantively and procedurally fair to Cruzan's unaffiliated stockholders. Absolut and V&S believe that the merger is procedurally fair to Cruzan's unaffiliated stockholders for all of the reasons and factors described above under - Recommendation of the Special Committee and the Prior Board of Directors, even though no unaffiliated representative was retained to act solely on behalf of the unaffiliated stockholders. Absolut and V&S believe these analyses and factors provide a reasonable basis upon which to form their belief that the merger is fair to Cruzan's unaffiliated stockholders.

### **Certain Financial Projections**



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In the course of discussions between Cruzan and V&S, Cruzan provided V&S with selected, non-public financial projections prepared by its senior management. Cruzan does not as a matter of course make public any projections as to future financial performance or earnings, and the projections set forth below are included in this proxy statement only because this information was provided to the prior board of directors, the special committee, Houlihan Lokey and/or V&S, in connection with their evaluation of a potential merger.

Management of Cruzan does not normally project earnings and is especially wary of making projections for extended earnings periods due to their unpredictability. However, in connection with the special committee's review of the merger transaction, management of Cruzan prepared various financial projections. V&S, who entered into a confidentiality agreement, was provided with projections of Cruzan's future performance for the fiscal years ending 2005 through 2009 in June 2005.

Cruzan advised the recipients of the projections that its internal financial forecasts, upon which the projections were based, are subjective in many respects. The projections reflect numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, all of which are difficult to predict and beyond Cruzan's control. The projections also reflect numerous estimates and assumptions related to the business of Cruzan (including with respect to the growth and viability of certain segments of Cruzan's business) that are inherently subject to significant economic, political, and competitive uncertainties, all of which are difficult to predict and many of which are beyond Cruzan's control. Two sets of projections were provided and are set forth below.

**The projections set forth below were not prepared with a view to public disclosure or compliance with published guidelines of the SEC, any state securities commission or the American Institute of Certified Public Accountants regarding preparation and presentation of prospective financial information. The projections were prepared by, and are the responsibility of, Cruzan. McGladrey & Pullen, LLP, our auditors, have neither compiled nor examined our projections, and, accordingly, McGladrey & Pullen, LLP does not express an opinion or any other form of assurance with respect to the projections. The McGladrey & Pullen, LLP report included in Annex D, which is attached to this proxy statement, relates to Cruzan's historical financial information; it does not extend to prospective financial information and should not be read to do so. The projections reflect numerous assumptions, all made by management of Cruzan, with respect to industry performance, general business, economic, market and financial conditions and other matters, all of which are difficult to predict and many of which are beyond Cruzan's control. There can be no assurance that the assumptions made in preparing the projections set forth below will prove accurate, and actual results may be materially greater or lower than those contained in the projections set forth below.**

**The inclusion of the projections in this proxy statement should not be regarded as an indication that Cruzan or its officers and directors consider such information to be an accurate prediction of future events or necessarily achievable. In light of the uncertainties inherent in forward-looking information of any kind, Cruzan cautions you against reliance on such information. Neither Cruzan nor its respective officers and directors intend to update or revise the projections to reflect the circumstances existing after the date when prepared or to reflect the occurrence of future events, except to the extent required by law. See CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS.**

*First Set of Projections (Assuming V&S Did Have a Controlling Stake in the Company)*

The first set of projections were based on the company's actual results through March 31, 2005 as adjusted for certain assumptions relating to pricing, unit volume, cost of raw materials and overhead. The projections assume that V&S did have a controlling stake in the company and that Cruzan is able to expand its international presence, resulting in incremental profits that did not occur in the projections that did not contemplate the merger. Material assumptions included:

Net sales of bulk alcohol products increase slightly reflecting both price and volume increases and decreases of the underlying products. Net sales of premium branded spirits were based on increasing volumes using the fiscal year ended September 30, 2004 as the base year. Significant volume growth for CRUZAN rum is projected (at a minimum of 20% annually throughout the forecast period) and modest price increases through the term of projection, principally as a result of increased marketing spending and resulting market awareness, together with the growing popularity of the flavored rums category. Net sales of the company's bottling operations are projected to decrease 9% during 2006 primarily due to the loss of business from a major customer. Thereafter, net sales of the company's bottling operations are projected to decrease from 2% to 3% during the



projection period. Net sales of vinegar and cooking wine are projected to increase by 1%, on an annualized basis, during the projection period.

Cost of goods sold consists of material, direct labor, overhead costs and depreciation expense and is generally assumed to be consistent with historical quarterly experience on a percentage basis.

Operating expenses include selling, general, administrative, marketing, amortization and non-manufacturing depreciation expense and are generally assumed to be consistent with historical quarterly experience on a percentage basis, with the exception of the premium branded spirits segment. Corporate operating expenses are projected to increase 5% per year beginning in 2006. Selling, general, administrative and marketing expenses for the premium branded spirits segment increase modestly during the projection period (prior to the adjustment due to the agreement described in the next paragraph) as the company continues to expand its selling infrastructure and reinvest gross profits into an expanding marketing program.

In October 2003, the company entered into a distribution agreement with V&S by which V&S would market and be the distributor of CRUZAN rums in certain countries outside of the United States (for further details, see PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS Distribution Agreement between V&S and Cruzan on page 74). The agreement provides for the company and V&S to share equally in the costs of marketing CRUZAN rum and then split equally the net income or loss of the CRUZAN rum marketed and sold by V&S. The projections assume that V&S will introduce CRUZAN rum into several foreign countries through its existing distribution networks, including the Maxxium partnership, during the projection period and include the company's share of income or loss as an addition to, or subtraction from, operating expenses. During the first two years of the projection period, the company records pre-tax losses in the aggregate of approximately \$0.9 million and in the last three years records pre-tax gains aggregating \$10.5 million.

Historically, the company has experienced a low tax rate which is attributable to its U.S. Virgin Islands subsidiary. The company's U.S. Virgin Islands subsidiary has an exemption from U.S. Virgin Islands income taxes on 90% of its operating income. A tax rate of 37.5% of U.S. income before income taxes, which includes deferred income tax expense, and 4% of foreign income before income taxes, was used.

The projected balance sheets of the company are based on analyses of historical ratios, operating performance during the projection period and other assumptions relating to the company's capital structure. The projections assume the company's credit facilities are refinanced prior to their maturity in January 2006 under the same terms as the existing revolving line of credit and term loan.

**Management Projections Prepared in June 2005****(Assuming V&S Did Have a Controlling Stake in Cruzan)****(in thousands)**

	2005	2006	2007	2008	2009
Revenue	\$ 106,126	\$ 119,010	\$ 134,459	\$ 151,507	\$ 170,865
Gross Profit	38,411	44,215	50,411	57,070	63,984
Income Tax expense (benefit)	(2,670)	38	2,483	5,304	8,839
Net Income (Loss)	(267)	4,233	8,308	13,009	18,901
Assets	130,906	130,078	134,504	143,694	157,938
Liabilities	45,742	40,681	36,800	32,980	28,323

*Second Set of Projections (Assuming V&S Did Not Have a Controlling Stake in the Company)*

The second financial projection model assumed that Absolut's purchase of controlling interest in Cruzan from Angostura did not occur. The only change in the assumptions from the assumptions contained in the first set of financial projections relates to the distribution agreement with V&S. In the following projections, it was assumed that the relationship with V&S would be discontinued in its present form, as V&S indicated to members of Cruzan's management that V&S would not agree to a continuation and expansion of the relationship unless V&S were to obtain a controlling interest in the company. The projections assume that the relationship with V&S in current markets would revert to a standard distribution relationship for the countries currently under the agreement.

**Management Projections Prepared in June 2005****(Assuming V&S Did Not Have a Controlling Stake in Cruzan)****(in thousands)**

	2005	2006	2007	2008	2009
Revenue	\$ 106,563	\$ 116,299	\$ 129,957	\$ 145,481	\$ 162,061
Gross Profit	38,744	44,800	51,055	57,778	64,764
Income Tax expense (benefit)	(2,514)	208	1,989	4,264	6,658
Net Income (Loss)	(6)	4,516	7,484	11,276	15,267
Assets	131,161	130,109	134,755	143,058	155,432
Liabilities	45,737	40,169	37,332	34,359	31,465

While this set of projections was used by Houlihan Lokey in its original analysis, Houlihan Lokey did not consider them to be relevant in rendering its final fairness opinion because V&S did acquire a controlling interest in the company on September 26, 2005, when it purchased Angostura's 63.6% stake in the company.

**Plans for Cruzan if the Merger Is Completed**





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Following the merger, Cruzan will remove its common stock from listing on the American Stock Exchange, such stock will no longer be publicly traded on any exchange or market system, and the registration of Cruzan common stock under the Exchange Act will be terminated.

### **Plans for Cruzan if the Merger Is Not Completed**



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In the event that the merger agreement is not approved and the merger is not completed, you will not receive any payment for your shares. Neither we nor Absolut, our controlling stockholder, has any present plans or proposals for Cruzan in the event the merger is not completed, but we and Absolut expect that, regardless of whether or not the merger is completed, we will explore changes in Cruzan's business to increase profitability and enhance stockholder value. It is possible that such changes may include

extraordinary corporate transactions such as reorganizations or liquidation, sale or transfer of a material amount of assets. We would also expect that, regardless of whether or not the merger is completed, we will seek to integrate our distribution operations with Absolut to take advantage of the cost synergies that would arise out of such integration.

**Required Regulatory Approvals**



*Alcohol Regulatory Approvals*

The transactions contemplated by the merger agreement require that several state alcohol regulatory agencies approve the transaction in order for Cruzan to continue holding certain alcohol beverage licenses. The transactions will trigger certain filing requirements with both federal and certain state alcohol regulatory agencies.

**HSR Act Approvals**



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The merger is subject to the requirements of the HSR Act, which prevents certain acquisitions from being consummated until required information and materials are furnished to the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission and certain waiting periods are terminated or expire. Absolut made the required filings with the U.S. Department of Justice and the Federal Trade Commission, and was granted early termination effective July 15, 2005. The early termination of the HSR Act waiting period does not preclude the Antitrust Division or the Federal Trade Commission from challenging the acquisition on antitrust grounds.

### **Anticipated Accounting Treatment**





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In accordance with United States generally accepted accounting principles, Absolut will account for the merger using the purchase method of accounting. Accordingly, it is expected that the basis of Cruzan in its assets and liabilities will be adjusted to fair market value upon completion of the merger, including the establishment of additional goodwill.

### **Material U.S. Federal Income Tax Consequences of the Merger**



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The following is a summary of the material U.S. federal income tax consequences of the merger to our stockholders with respect to their exchange of common stock for cash pursuant to the merger, such exchanging stockholders referred to herein as stockholders, and to us. This summary does not purport to be a description of all tax consequences that may be relevant to our stockholders. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing regulations promulgated under the Code, and current administrative rulings and court decisions, all of which are subject to change, possibly retroactively. Any such change could alter the tax consequences to our stockholders described in this proxy statement. No ruling from the Internal Revenue Service has been or will be sought with respect to any aspect of the transactions described in this proxy statement. It is assumed that the shares of common stock are held as capital assets. This summary does not address the consequences of the merger under state, local or foreign law, nor does it address all aspects of U.S. federal income taxation that may be important to some or all of our stockholders in light of their individual circumstances. In addition, this discussion does not address the tax consequences of transactions effectuated prior to or after the merger (whether or not such transactions occur in connection with the merger). It also does not address tax issues that may be significant to stockholders subject to special rules, such as financial institutions; broker-dealers or traders in securities; pass-through entities (such as partnerships) and investors in such entities; persons who acquired their common stock pursuant to the exercise of a stock option or otherwise as compensation; persons that hold common stock which constitutes qualified small business stock for purposes of section 1202 of the Code; persons who are not citizens or residents of the United States or that are foreign corporations, partnerships, estates or trusts;

mutual funds; insurance companies; tax-exempt entities; holders who acquired their shares through stock option or stock purchase programs or otherwise as compensation; holders who are subject to alternative minimum tax; or holders who hold their shares as part of a hedge, straddle or other risk-reduction transaction. The following summary also does not address holders of stock options.

Stockholders are encouraged to consult their own tax advisors to determine the particular tax consequences to them (including the application and effect of any federal, state, local and foreign income and other tax laws) of the merger.

#### *Consequences to Our Stockholders*

The merger will be treated for U.S. federal income tax purposes as a taxable sale by our stockholders of their shares of common stock. A stockholder will recognize gain or loss equal to the difference between (1) the amount of the cash consideration received pursuant to the merger and (2) the stockholder's adjusted tax basis in the shares of our common stock surrendered in the merger. Gain or loss will be calculated separately for each block of shares surrendered in the merger (i.e., shares acquired at the same cost in a single transaction). Any gain or loss will be capital gain or loss and will be long-term capital gain or loss if, as of the date of the merger, the stockholder held such shares of common stock for more than one year. For individual stockholders, long-term capital gain generally is subject to preferential rates. There are limitations on the deductibility of capital losses.

#### *Backup Withholding Tax*

Under U.S. federal income tax law, the payment of the cash consideration to a stockholder (other than certain exempt stockholders, including among others, corporations) pursuant to the merger may be subject to backup withholding at a rate of 28%. To avoid backup withholding with respect to payments made pursuant to the merger, each stockholder must (a) provide his, her or its correct taxpayer identification number and certify that such stockholder is not subject to backup withholding on the Substitute Form W-9 included in the letter of transmittal or (b) provide a certification of foreign status on Internal Revenue Service Form W-8BEN or an appropriate substitute form. Any amount withheld from the payment of the merger consideration under the backup withholding rules will be allowed as a refund or credit against the stockholder's U.S. federal income tax liability if the stockholder furnishes the required information to the Internal Revenue Service in a timely manner. Stockholders should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such exemption.

#### *Consequences to Us*

There will be no U.S. federal tax consequences to us as a result of the merger.

**The tax law is very complex. The foregoing discussion of the U.S. federal income tax consequences of the merger is for our stockholders general information only and contains statements regarding general tax principles that may not be specific to your tax situation. Accordingly, we strongly encourage our stockholders to consult their own tax advisors to determine the particular tax consequences to them (including the application and effect of any federal, state, local and foreign income and other tax laws) of the merger.**

**Appraisal Rights of Cruzan Stockholders**



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The following is not a complete statement of appraisal rights under Delaware law and is qualified in its entirety by the full text of Section 262 of the DGCL, which is attached as **Annex C**. All references in Section 262 and in this summary to a stockholder are to the record holder of the shares of common stock as to which appraisal rights are asserted. Stockholders intending to exercise appraisal rights should



carefully review **Annex C. Failure to comply strictly with all of the procedures specified in Annex C will result in the loss of appraisal rights.**

If the merger is consummated, holders of our common stock who follow the procedures specified in Section 262 of the DGCL within the appropriate time periods will be entitled to have their shares of our common stock appraised and receive the fair value of such shares in cash as determined by the Delaware Court of Chancery (the Court) in lieu of the consideration that such stockholder would otherwise be entitled to receive under the merger agreement.

The following is a brief summary of Section 262 of the DGCL, which explains the procedures and requirements for exercising statutory appraisal rights. Failure to precisely follow the procedures described in Section 262 could result in the loss of appraisal rights. This proxy statement constitutes notice to holders of our common stock concerning the availability of appraisal rights under Section 262. A stockholder of record wishing to exercise appraisal rights must hold the shares of stock on the date of making a demand for appraisal rights with respect to such shares and must continuously hold such shares through the effective date of the merger.

Stockholders who desire to exercise their appraisal rights must satisfy all of the conditions of Section 262, including:

as more fully described below, the stockholder must deliver to Cruzan a written demand for appraisal of his, her or its shares before the vote on the merger agreement at the special meeting of stockholders on \_\_\_\_\_;

the stockholder must not vote his, her or its shares of our common stock in favor of the merger. A submitted signed proxy not marked **AGAINST** and not marked **ABSTAIN** will be voted for the proposal to approve the merger and adopt and approve the merger agreement and the transactions contemplated by the merger agreement and such a proxy will, therefore, result in the waiver of appraisal rights. A stockholder that has not submitted a proxy will not waive his, her or its appraisal rights solely by abstaining if the stockholder satisfies all other requirements of Section 262 of the DGCL; and

the stockholder must continuously hold his, her or its shares from the date of making the demand through the effective date of the merger. A stockholder who is the record holder of shares of Cruzan common stock on the date the written demand for appraisal is made but who thereafter transfers those shares prior to the effective date of the merger will lose any right to appraisal in respect to those shares.

A demand for appraisal must be executed by or on behalf of the stockholder of record and must reasonably inform Cruzan of the identity of the stockholder of record. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, this demand must be executed by or for the fiduciary. If the shares are owned by or for more than one person, as in a joint tenancy or tenancy in common, such demand must be executed by or for all joint owners. An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record. However, the agent must identify the record owner and expressly disclose the fact that, in exercising the demand, he is acting as agent for the record owner. **A person having a beneficial interest in our common stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow the steps summarized below in a timely manner to perfect whatever appraisal rights the beneficial owners may have.**

A stockholder who elects to exercise appraisal rights should mail or deliver his, her or its written demand to Cruzan International, Inc. at our principal executive offices at 222 Lakeview Avenue, Suite 1500,

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West Palm Beach, FL 33401, Attention: Secretary. The written demand for appraisal should state the stockholder's name and mailing address, and must reasonably inform us that the stockholder intends thereby to demand appraisal of his, her or its shares of Cruzan common stock.

A record holder, such as a broker, fiduciary, depository or other nominee, who holds shares of Cruzan common stock as a nominee for others, may exercise appraisal rights with respect to the shares held for all or less than all beneficial owners of shares as to which that person is the record owner. In that case, the written demand must set forth the number of shares covered by such demand. Where the number of shares is not expressly stated, the demand will be presumed to cover all shares of Cruzan common stock outstanding in the name of that record owner.

Within 120 days after the effective date of the merger (but not thereafter), any stockholder who has satisfied the requirements of Section 262 may deliver to us a written demand for a statement listing the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Cruzan must mail that written statement to the stockholder within ten days after the stockholder's request is received by Cruzan or within ten days after the latest date for delivery of a demand for appraisal under Section 262, whichever is later.

Within 120 days after the effective date of the merger (but not thereafter), either Cruzan or any stockholder who has complied with the required conditions of Section 262 and who is otherwise entitled to appraisal rights may file a petition in the Court demanding a determination of the fair value of the Cruzan shares of stockholders entitled to appraisal rights. Cruzan has no present intention to file such a petition if a demand for appraisal is made and stockholders seeking to exercise appraisal rights should not assume that Cruzan will file such a petition or that Cruzan will initiate any negotiations with respect to the fair value of such shares.

Upon the filing of a petition in the Court by a stockholder demanding a determination of the fair value of Cruzan's stock, service of a copy of the petition must be made upon Cruzan, which must, within 20 days after service, file in the office of the Register in Chancery in which the petition was filed, a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by Cruzan. If we file a petition, the petition must be accompanied by the duly verified list. The Register in Chancery, if so ordered by the Court, will give notice of the time and place fixed for the hearing of such petition by registered or certified mail to us and to the stockholders shown on the list at the addresses therein stated, and notice also will be given by publishing a notice at least one week before the day of the hearing in a newspaper of general circulation published in the City of Wilmington, Delaware, or such publication as the Court deems advisable. The Court must approve the forms of the notices by mail and by publication, and we must bear the costs of the notices.

At the hearing on the petition, the Court will determine which stockholders have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares (and who hold stock represented by certificates) to submit their stock certificates to the Register in Chancery for notation of the pendency of the appraisal proceedings and the Court may dismiss the proceedings as to any stockholder that fails to comply with such direction.

After determining which stockholders are entitled to appraisal rights, the Court will appraise the shares owned by these stockholders, determining the fair value of such shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest to be paid, if any, upon the amount determined to be the fair value. In determining fair value, the Court is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.* the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in



the financial community and otherwise admissible in court should be considered and that [f]air price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered. **Our stockholders considering seeking appraisal of their shares should note that the fair value of their shares determined under Section 262 could be more than, the same as or less than the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares.**

The costs of the appraisal proceeding may be determined by the Court and taxed against the parties as the Court deems equitable under the circumstances. Costs, however, do not include attorneys' fees or the fees of expert witnesses. Upon application of a stockholder who has perfected appraisal rights, the Court may order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, be charged pro rata against the value of all shares entitled to appraisal.

No stockholder who has duly demanded appraisal in compliance with Section 262, and has not properly withdrawn such demand, will, after the effective date of the merger, be entitled to vote for any purpose the shares subject to demand or to receive payment of dividends or other distributions on such shares, except for dividends or distributions payable to stockholders of record at a date prior to the effective date of the merger.

At any time within 60 days after the effective date of the merger, any stockholder will have the right to withdraw his, her or its demand for appraisal and to accept the terms offered in the merger agreement. After this period, a stockholder may withdraw his demand for appraisal and receive payment for his shares as provided in the merger agreement only with our consent. If no petition for appraisal is filed with the court within 120 days after the effective date of the merger, the stockholders' rights to appraisal (if available) will cease and all holders of shares of our common stock will be entitled to receive the consideration offered pursuant to the merger agreement. Inasmuch as we have no obligation to file such a petition, any stockholder who desires a petition to be filed is advised to file it on a timely basis. No petition timely filed in the court demanding appraisal may be dismissed as to any stockholder without the approval of the court, which approval may be conditioned upon such terms as the court deems just.

**Any Cruzan stockholder wishing to exercise appraisal rights is urged to consult legal counsel before attempting to exercise appraisal rights. Failure to comply strictly with all of the procedures set forth in Section 262 of the DGCL may result in the loss of a stockholder's statutory appraisal rights.**

#### **Provisions for Unaffiliated Stockholders**



**Cruzan did not retain an unaffiliated representative to act solely on behalf of the unaffiliated stockholders nor were unaffiliated stockholders provided with access to Cruzan's company files.**

**Purpose and Structure of the Merger**





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The principal purposes of the merger are to provide Cruzan stockholders cash for their shares at a premium over the market price at which shares of Cruzan common stock traded before the announcement of the stock purchase agreement on June 3, 2005 and to terminate the status of Cruzan as a company with publicly traded equity. The transaction has been structured as a cash merger in order to provide the unaffiliated stockholders of Cruzan (other than those who perfect their appraisal rights under Delaware law) with cash for all of their shares and to provide a prompt and orderly transfer of ownership of Cruzan with reduced transaction costs. The merger agreement provides for the merger of Merger Sub, a newly formed, wholly-owned subsidiary of Absolut, with and into Cruzan. Cruzan will survive the merger as a wholly-owned subsidiary of Absolut.

### **Effective Time of the Merger**



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The merger will be consummated and become effective at the time a certificate of merger is filed with the Secretary of State of the State of Delaware or at such later time as we and Absolut shall agree and specify in the certificate of merger.

### **The Merger Consideration**



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At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger will automatically be canceled and will cease to exist and will be converted into the right to receive \$28.37 in cash, without interest, other than shares of our common stock:

that we hold as treasury stock, which will be canceled without any payment;

held by Absolut or Merger Sub, which will be cancelled without any payment; and

held by stockholders validly perfecting appraisal rights in accordance with the DGCL.

After the effective time of the merger, each of our outstanding stock certificates (other than certificates (i) representing shares of common stock as to which appraisal rights are asserted, and (ii) held by Absolut and its affiliates) will represent only the right to receive the merger consideration, without interest (less any applicable withholding taxes). The merger consideration paid upon surrender of each certificate will be paid in full satisfaction of all rights pertaining to the shares of our common stock represented by that certificate.

### **Treatment of Cruzan Stock Options in the Merger**



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At the effective time of the merger, each vested and exercisable option outstanding immediately prior to the effective time shall be converted into the right to receive a cash amount equal to the excess, if any, of (i) the merger consideration per share of our common stock over (ii) the per share exercise price of the option for each share of our common stock. All unvested or unexercisable options shall be cancelled and terminated and replaced with an incentive plan to be determined by the board of directors of the surviving corporation following the closing of the merger.

### **Surrender of Stock Certificates**





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Immediately prior to the effective time of the merger, Absolut will cause to be deposited with an exchange agent an amount of cash sufficient to pay the merger consideration to each holder of shares of common stock entitled to receive the merger consideration in the merger. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail a letter of transmittal and

instructions to our stockholders. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the exchange agent without a letter of transmittal.

You will not be entitled to receive the merger consideration until you surrender your common stock certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person requesting payment must either pay any applicable stock transfer taxes or establish to the satisfaction of the surviving corporation that those stock transfer taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates. Each of the exchange agent, Absolut, Merger Sub and Cruzan will be entitled to deduct and withhold any applicable taxes from the merger consideration.

After the effective time of the merger, there will be no further registration of transfers of outstanding shares of our common stock. If, after the effective time of the merger, certificates formerly representing shares of our common stock are presented to the surviving corporation or the exchange agent for any reason, they will be canceled and exchanged for the merger consideration.

#### **Lost Certificates**



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If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit that your certificate was lost, stolen or destroyed and, if the surviving corporation requires, you will have to post a bond in a reasonable amount determined by the surviving corporation, as indemnity against any claim that may be made against it with respect to that certificate.

### **Unclaimed Amounts**



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To the fullest extent permitted by law, neither the exchange agent, Absolut, Merger Sub nor Cruzan will be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the exchange agent that remains undistributed to the holders of certificates evidencing shares of our common stock for one year after the effective time of the merger, will be delivered, upon demand, to Absolut. Holders of certificates who have not surrendered their certificates within one year after the effective time of the merger may only look to Absolut for the payment of the merger consideration.

### **Fees and Expenses of the Merger**





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Pursuant to the merger agreement, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, whether or not the merger is consummated.

We estimate that the total fees and expenses incurred or to be incurred in connection with the merger transaction will be as follows:

SEC filing fees: \$8,483.80

Legal fees and expenses: \$600,000

Accounting fees and expenses: \$5,000

Investment banking fees and expenses: \$170,000

Proxy solicitation fees and expenses: [\$ ]

We would be obligated to pay Absolut a fee of \$3,000,000 if Absolut terminates the merger agreement because of (i) a withdrawal or modification of the special committee's approval or recommendation of the merger, (ii) an approval or recommendation of, or a proposal to approve or recommend, a competing proposal to acquire us, or (iii) our breach of the non-solicitation provision in the merger agreement, except for any action taken at the direction of or with the written approval of Absolut. In addition, if Absolut is entitled to terminate the merger agreement on any of the grounds referred to above, or if we or the special committee breach a representation, warranty or covenant in the merger agreement which breach causes a failure of certain of the conditions to closing, we would be obligated to reimburse Absolut for all of its documented out-of-pocket expenses actually incurred up to a maximum of \$1,500,000 in connection with the merger agreement or the merger. The termination fee is subject to a credit for any expense reimbursement paid and no expense reimbursement shall be due if we have previously paid the termination fee. See THE MERGER AGREEMENT Payment of Fees and Expenses.

**INFORMATION CONCERNING THE SPECIAL MEETING**



**Date, Time and Place**



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We are furnishing this proxy statement to holders of our common stock in connection with the solicitation of proxies by our board of directors for use at the special meeting to be held on , 2005 at 11:00 a.m., local time, at the offices of Gunster, Yoakley & Stewart, P.A., located at 777 South Flagler Drive, Suite 500 East, West Palm Beach, FL 33401, and at any adjournments or postponements of the special meeting. This proxy statement, the attached notice of special meeting and the accompanying proxy card are first being sent or given to our stockholders on or about , 2005.

### **Matters to be Considered**





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At the special meeting, holders of record of our common stock as of the close of business on     , 2005, will consider and vote to:

- (1) Approve the merger and adopt and approve the Agreement and Plan of Merger dated as of September 30, 2005, among Cruzan, Absolut and Merger Sub, a wholly-owned subsidiary of Absolut, pursuant to which, upon the merger becoming effective, each share of common stock, par value \$0.01 per share, of Cruzan will, subject to certain exceptions, be converted into the right to receive \$28.37 in cash, without interest. No other business will be transacted at the special meeting other than possible postponements or adjournments of the special meeting.
  
- (2) Adjourn the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting or any adjournment thereof to approve the merger and adopt and approve the merger agreement.
  
- (3) Transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

**Record Date and Shares Entitled to Vote; Procedures for Voting; Quorum**



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Our board of directors has fixed the close of business on     , 2005, as the record date for determining the holders of shares of our common stock who are entitled to notice of, and to vote at, the special meeting. As of the record date,     shares of our common stock were issued and outstanding. You are entitled to one vote for each share of our common stock that you hold as of the record date.

If you are a record holder of shares of our common stock on the record date, you may vote those shares of our common stock in person at the special meeting or by proxy as described below under     -Voting of Proxies. If you hold shares of our common stock in     street name     through a broker or other financial institution, you must follow the instructions provided by the broker or other financial institution regarding how to instruct it to vote those shares. Your broker does not have the discretion to vote our shares of common stock without your specific instruction.

The presence, in person or by proxy, of shares representing at least a majority of all the outstanding shares of common stock as of the record date is necessary to constitute a quorum for the transaction of business at the special meeting.

### **Vote Required**



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The approval of the merger and the adoption and approval of the merger agreement require the affirmative vote of (i) a majority of the outstanding shares of Cruzan common stock and (ii) 66 2/3% of the outstanding shares of Cruzan common stock not owned (within the meaning of Section 203 of the DGCL) by Absolut and its affiliates or associates. Absolut covenanted in the merger agreement to vote

all of its shares for the merger and the approval and adoption of the merger agreement. If you do not send in your proxy, do not instruct your broker to vote your shares or abstain from voting, it will have the same effect as a vote AGAINST the merger and the approval and adoption of the merger agreement.

Approval of the adjournment of the special meeting, if necessary, to permit further solicitation of proxies, requires the affirmative vote of a majority of the shares present in person or represented by proxy at the special meeting and voting on the matter. Absolut has enough votes to pass any adjournment proposal on its own, if required. Therefore, if you do not send in your proxy, do not instruct your broker to vote your shares or abstain from voting, it will have no practical effect on the approval of the adjournment.

**Abstentions**



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Abstentions from voting will be counted in the determination of a quorum and will have the same effect as votes AGAINST the merger and adoption of the merger agreement.

**Voting of Proxies**





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Whether or not you plan to attend the special meeting in person, you are requested to submit a proxy in advance by using the Internet, telephone or the enclosed proxy card to ensure that your shares are voted. Shares of our common stock represented by properly executed proxies received at or prior to the special meeting that have not been revoked will be voted at the special meeting in accordance with the instructions indicated on the proxies as to the proposal to approve the merger and to adopt and approve the merger agreement and the adjournment proposal and in accordance with the judgment of the persons named in the proxies on all other matters that may properly come before the special meeting. Shares of our common stock represented by properly executed proxies for which no instruction is given on the proxy card will be voted FOR approval of the merger and the adoption and approval of the merger agreement and the adjournment proposal.

If the special meeting is postponed or adjourned, at any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as these proxies would have been voted at the original convening of the special meeting (except for any proxies that previously have been revoked or withdrawn effectively).

### **Revocability of Proxies**



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You may revoke your proxy or change your voting instructions at any time before the final vote at the meeting. If you are the owner of record, you may do this by:

giving written notice of revocation to the Corporate Secretary, Cruzan International, Inc., 222 Lakeview Avenue, Suite 1500, West Palm Beach, FL 33401;

submitting another valid proxy card bearing a later date;

submitting a proxy at a later date by telephone or by using the Internet; or

voting in person at the meeting.

If you hold stock in street name, you must contact your broker or financial institution for information on how to revoke your proxy or change your vote.

**Proxy Solicitation**



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This proxy solicitation is being made on behalf of our board of directors. We will solicit proxies initially by mail. Further solicitation may be made by our directors, officers and employees personally, by telephone, facsimile, e-mail, Internet or otherwise, but they will not be specifically compensated for these services. Upon request, we will reimburse brokers, dealers, banks or similar entities acting as nominees for their reasonable expenses incurred in forwarding copies of the proxy materials to the beneficial owners of the shares of our common stock they hold of record. We have retained **[Name of Proxy Solicitor]** to assist us in the solicitation of proxies, and **[Name of Proxy Solicitor]** will receive fees of up to approximately \$[ ] in the aggregate, plus reimbursement of out-of-pocket expenses.

**THE MERGER AGREEMENT**





*On September 30, 2005, Cruzan entered into the merger agreement with Absolut and Merger Sub. The following description may not contain all of the information that is important to you and is qualified in its entirety by reference to the merger agreement, which we have attached as **Annex A** to this proxy statement and which we incorporate by reference into this proxy statement. You should carefully read the merger agreement in its entirety because it, not the proxy statement, is the legal document that governs the merger.*

**The merger agreement has been included to provide you with information regarding its terms, and we recommend that you read carefully the merger agreement in its entirety. Except for its status as the contractual document that establishes and governs the legal relations among the parties thereto with respect to the merger, we do not intend for its text to be a source of factual, business or operational information about Cruzan. That kind of information can be found elsewhere in this proxy statement. The merger agreement contains representations, warranties and covenants of the parties as of specific dates and may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. Those representations, warranties and covenants are qualified in several important respects, which you should consider as you read them in the merger agreement, including contractual standards of materiality that may be different from what may be viewed as material to stockholders. Except for the parties themselves, under the terms of the merger agreement only certain other specifically identified persons are third party beneficiaries of the merger agreement who may enforce it and rely on its terms. As stockholders, you are not third party beneficiaries of the merger agreement and therefore may not directly enforce or rely upon its terms and conditions and you should not rely on its representations, warranties or covenants as characterizations of the actual state of facts or conditions of Cruzan or any of its affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may have changed since the date of the merger agreement and subsequently developed or new information qualifying a representation, warranty or covenant may have been included in this proxy statement.**

#### **Form of the Merger**



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The merger agreement provides for the merger of Merger Sub, a newly formed, wholly-owned subsidiary of Absolut, with and into Cruzan. Cruzan will survive the merger as a wholly-owned subsidiary of Absolut.

### **Closing and Effective Time**



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The merger will be consummated as soon as practicable following satisfaction or waiver (to the extent permitted by applicable law) of the conditions precedent that are described under - Conditions to the Merger. The merger will become effective at the time a certificate of merger is filed with the Secretary of State of the State of Delaware or at such later time as we and Absolut shall agree and specify in the certificate of merger.

### **Directors and Executive Officers of Surviving Corporation**



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The directors of Merger Sub in office immediately prior to the effective time of the merger will be the directors of the surviving corporation.  
The officers of Cruzan in office immediately prior to the effective time of the merger will be the officers of the surviving corporation.

### **Conversion of Shares; Procedures for Exchange of Certificates**





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Prior to the effective time of the merger, Absolut will cause to be deposited with an exchange agent an amount of cash sufficient to pay the merger consideration to each holder of shares of common

stock entitled to receive the merger consideration pursuant to the merger. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail a letter of transmittal and instructions to our stockholders. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the exchange agent without a letter of transmittal.

You will not be entitled to receive the merger consideration until you surrender your common stock certificate or certificates to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents the exchange agent may reasonably require. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person requesting payment must either pay any applicable stock transfer taxes or establish to the satisfaction of the surviving corporation that those stock transfer taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates. Each of the exchange agent and the surviving corporation will be entitled to deduct and withhold any applicable taxes from the merger consideration.

After the effective time of the merger, there will be no further registration of transfers of outstanding shares of our common stock. If, after the effective time of the merger, certificates formerly representing shares of our common stock are presented to the surviving corporation or the exchange agent for any reason, they will be canceled and exchanged for the merger consideration.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit that your certificate was lost, stolen or destroyed and, if the surviving corporation requires, you will have to post a bond in a reasonable amount determined by the surviving corporation, as indemnity against any claim that may be made against it with respect to that certificate.

To the fullest extent permitted by law, neither the exchange agent, Absolut, Merger Sub nor we will be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the exchange agent that remains undistributed to the holders of certificates evidencing shares of our common stock for 1 year after the effective time of the merger, will be delivered, upon demand, to Absolut. Holders of certificates who have not surrendered their certificates within 1 year after the effective time of the merger may only look to Absolut for the payment of the merger consideration.

#### **Treatment of Cruzan Stock Options**



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At the effective time of the merger, each vested and exercisable option outstanding immediately prior to the effective time shall be converted into the right to receive a cash amount equal to the excess, if any, of (i) the merger consideration per share of our common stock over (ii) the per share exercise price of the option for each share of our common stock. All unvested or unexercisable options shall be cancelled and terminated and replaced with an incentive plan to be determined by the board of directors of the surviving corporation following the closing of the merger.

### **Representations and Warranties**



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Each of the parties to the merger agreement made certain representations and warranties related to their due organization, good standing, and authorization to enter into the merger agreement, the merger and the other transactions contemplated by the merger agreement, consents of governmental entities

required as a result of the transactions contemplated by the merger agreement and the absence of any violation of or conflict with such party's organizational documents, applicable law or material contracts of such party as a result of entering into the merger agreement and consummating the transactions contemplated by the merger agreement, among others. In addition, each party made certain representations and warranties particular to such party. These representations and warranties are, in some cases, subject to specified exceptions and qualifications contained in the merger agreement or in the disclosure schedules delivered in connection therewith. You should read the merger agreement in its entirety to understand the nature of these representations and warranties and risks that they represent to completion of the merger.

We also made representations and warranties that relate to, among other things:

our and our subsidiaries' capitalization;

the approval and recommendation by our board of directors and the special committee of the merger agreement, the merger and the other transactions contemplated by the merger agreement and the required stockholder vote for their adoption of the merger agreement;

our filings with the SEC since October 1, 2002;

our financial statements contained in our SEC filings since October 1, 2002 and the absence of liabilities, other than those disclosed in our filings with the SEC;

our internal controls and procedures;

the absence of certain changes and events since September 30, 2004;

the absence of litigation or outstanding court orders against us;

employment and labor matters affecting us, including matters relating to our employee benefit plans;

our compliance with laws and possession of all licenses and permits necessary to conduct our business;



taxes and transactions with our affiliates;

receipt by us of a fairness opinion from Houlihan Lokey; and

resignation of all members of our board of directors except for the special committee (Leonard G. Rogers and Donald L. Kasun) and Edward F. McDonnell effective as of execution of the merger agreement and the appointment by the prior board of directors of Mats Andersson, Ola Salmén, Ketil Eriksen and Lisa Derman effective as of 9 a.m. New York City time on October 11, 2005.

The representations and warranties of each of the parties to the merger agreement will expire upon completion of the merger, which means that no party will have the right to pursue a claim for an alleged breach of any representation or warranty after the effective time of the merger.

**Covenants**



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The parties have agreed to use all commercially reasonable efforts to take all actions, and to do, and to assist and cooperate with the other parties in doing all things necessary, proper or advisable to consummate and make effective the merger and the other transactions, including:

obtaining all necessary actions or nonactions, waivers, consents and approvals from governmental entities and the making of all necessary registrations and filings (including filings with governmental entities, if any) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity;

obtaining all necessary consents, approvals or waivers from third parties;

defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the merger agreement or the consummation of the transactions, including seeking to have any stay or temporary restraining order entered by any court or other governmental entity vacated or reversed; and

the execution and delivery of any additional instruments necessary to consummate the transactions and to fully carry out the purposes of the merger agreement.

The parties have also agreed to give prompt notice to the other parties of (i) any representation or warranty made by it contained in the merger agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the merger agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under the merger agreement.

Absolut is not required to dispose of any of its assets or to limit its freedom of action with respect to any of its businesses, or to consent to any disposition of Cruzan's assets or limits on Cruzan's freedom of action with respect to any of its businesses, or to commit or agree to any of the foregoing, and Cruzan agreed that it is not authorized to commit or agree to any of the foregoing, to obtain any consents, approvals, permits or authorizations to remove any impediments to the merger relating to the HSR Act or other antitrust, competition or premerger notification, trade regulation law, regulation or order ( Antitrust Laws ) or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding relating to Antitrust Laws, other than dispositions, limitations or consents, commitments or agreements that in each such case may be conditioned upon the consummation of the merger and that, in the reasonable judgment of Absolut, individually or in the aggregate, have not had and could not reasonably be expected to (i) have a material adverse effect on it, (ii) have a material adverse effect on Cruzan, or (iii) materially impair the benefits or advantages which Absolut expects to be realized from the merger and the transactions.

Absolut and Merger Sub also agreed to vote or to cause to be voted all shares of Cruzan's common stock owned by them or any of their affiliates or associates for the merger and the approval and adoption of the merger agreement.

### **Access to Information; Confidentiality**



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We have agreed to, and to cause our subsidiaries to, cooperate with Absolut and its representatives in their investigation of our business, and to grant them reasonable access to our offices,

records and employees. We have also agreed to furnish them with a copy of each report, schedule, registration statement and other document filed by us pursuant to the requirements of federal or state securities laws during their review period as well as all other information concerning our business, properties and personnel as Absolut may reasonably request. Absolut and its representatives have agreed to hold this information in confidence.

**Cruzan's Conduct of the Business before Completion of the Merger**





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We and Absolut (including in its capacity as controlling stockholder and through its representatives on our board of directors) have agreed that we will not, and will not permit any of our respective subsidiaries to, take any action that would reasonably be expected to result in:

any of our representations or warranties, or for Absolut and Merger Sub, Absolut's or Merger Sub's representations or warranties, as set forth in the merger agreement that is qualified as to materiality becoming untrue;

any of our representations or warranties, or for Absolut and Merger Sub, Absolut's or Merger Sub's representations or warranties, as set forth in the merger agreement that is not qualified as to materiality becoming untrue in any material respect; or

except as otherwise permitted as described under - No Solicitation of Alternative Transactions, any condition to the merger not being satisfied.

**No Solicitation of Alternative Transactions**



We have agreed that neither we nor any of our subsidiaries nor any of our respective representatives will:

directly or indirectly solicit, initiate, knowingly encourage or take any action designed to facilitate any inquiries or the making by any person of any competing takeover proposal;

enter into any agreement relating to any competing takeover proposal; or

directly or indirectly enter into, participate in or continue any discussions or negotiations regarding, or furnish to any person any information with respect to, any competing takeover proposal.

For purposes of the merger agreement, competing takeover proposal means (i) any proposal or offer from any person or group (except for Absolut and its affiliates) relating to any direct or indirect acquisition or purchase of 10% or more of the assets of Cruzan and its subsidiaries, taken as a whole, or 10% or more of any class of equity securities of Cruzan then outstanding; (ii) any tender offer or exchange offer that if consummated would result in any person beneficially owning 10% or more of any class of equity securities of Cruzan then outstanding; and (iii) any merger, consolidation, business, combination, recapitalization, liquidation, dissolution or similar transaction involving Cruzan, other than the transactions contemplated by the merger agreement.

At any time before our stockholders have adopted the merger agreement, we may furnish information with respect to Cruzan to the person making a competing takeover proposal and participate in discussions and negotiations with such person and its representatives regarding such competing takeover proposal; provided, that:

the competing takeover proposal (i) was not solicited by us; (ii) did not otherwise result from a breach of our obligations under the merger agreement; (iii) our board of directors

or special committee determined that it was reasonably likely to lead to a superior proposal; and (iv) our board determines in good faith that it is required to take these actions in order to fulfill its fiduciary obligations; and

we execute a customary confidentiality agreement.

In addition, our board of directors or the special committee may withdraw or modify its approval or recommendation of the merger and the merger agreement if it determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with their fiduciary obligations.

For purposes of the merger agreement, superior proposal means any proposal made by a third party to acquire 10% or more of the equity securities or assets of Cruzan, pursuant to a tender or exchange offer, a merger, a consolidation, a liquidation or dissolution, a recapitalization, or a sale of its assets, (i) on terms which our board of directors or the special committee determines in good faith to be superior from a financial point of view to the holders of Cruzan common stock than the merger with Absolut, taking into account all the terms and conditions of such proposal and the merger agreement, (ii) that is reasonably capable of being completed, taking into account all financial, regulatory, legal and other aspects of such proposal and (iii) for which any necessary financing is committed or, in the good faith determination of our board of directors, likely to be obtained.

We have agreed to advise Absolut orally and in writing of any competing takeover proposal or any inquiry with respect to or that could reasonably be expected to lead to any competing takeover proposal and the identity of the person making any such competing takeover proposal or inquiry. The special committee has agreed to (i) keep Absolut fully informed of the status including any change to the details of any such competing takeover proposal or inquiry and (ii) provide to Absolut as soon as practicable after receipt or delivery thereof with copies of all correspondence and other written material sent or provided to Cruzan from any third party in connection with any competing takeover proposal or sent or provided by Cruzan to any third party in connection with any competing takeover proposal.

#### **Conditions to the Merger**



The obligations of the parties to complete the merger are subject to the following mutual conditions:

(i) the approval of the merger and merger agreement by the affirmative vote of the holders of at least two-thirds of Cruzan's outstanding common stock not owned (as defined in Section 203 of the DGCL) by Absolut or its affiliates or associates and (ii) the adoption of the merger agreement by the affirmative vote of the holders of at least a majority of Cruzan's outstanding common stock;

the termination or expiration of the waiting period (and any extension thereof) applicable to the merger under the HSR Act;

all other consents, approvals and filings under any other Antitrust Laws, the absence of which would prohibit the consummation of the merger or would reasonably be expected to have a material adverse effect on Absolut, must have been obtained or made; and

no temporary judgment issued by any court of competent jurisdiction or other law preventing the consummation of the merger can be in effect, and the parties shall have used all commercially reasonable efforts to prevent the entry of any such injunction or other order and appealed as promptly as possible any such judgment that was entered.

Our obligation to complete the merger is subject to the following additional conditions:

the representations and warranties of Absolut and Merger Sub are true and correct as of the closing date as though made on the closing date (without giving effect to the words and terms material, in all material respects and material adverse effect ), except to the extent such representations and warranties expressly relate to a particular date (in which case such representations and warranties are true and correct on and as of such particular date (without giving effect to the words and terms material, in all material respects and material adverse effect )) and receipt of certificates signed by officers of Absolut and Merger Sub certifying the same, provided, however, that notwithstanding anything in this paragraph to the contrary, the condition set forth in this paragraph will be deemed to have been satisfied even if any representations and warranties of Absolut and Merger Sub are not true and correct, unless the failure of such representations and warranties of Absolut and Merger Sub to be true and correct, individually or in the aggregate, would reasonably be expected to prevent the consummation of the merger or prevent Absolut or Merger Sub from performing its obligations under the merger agreement;

Absolut and Merger Sub will have performed in all material respects all obligations required to be performed by each of them, and receipt of certificates signed by officers of Absolut and Merger Sub certifying that Absolut and Merger Sub have performed in all material respects the obligations required to be performed by them; and

deposit of cash by Absolut with the exchange agent to pay for the merger consideration.

The consummation of the merger is also subject to the following additional conditions that are for the benefit of Absolut and Merger Sub:

our representations and warranties, other than in Sections 3.01, 3.03, 3.04, 3.14 and 3.16 of the merger agreement, shall be true and correct as of the closing date as though made on the closing date (without giving effect to the words and terms material, in all material respects and material adverse effect ), except to the extent such representations and warranties expressly relate to a particular date (in which case such representations and warranties shall be true and correct, on and as of such particular date (without giving effect to the words and terms material, in all material respects and material adverse effect )), provided, however, that notwithstanding anything in this paragraph to the contrary, the condition set forth in this paragraph will be deemed to have been satisfied even if our representations and warranties are not true and correct, unless the failure of our representations and warranties to be true and correct, individually or in the aggregate, would reasonably be expected to have a company material adverse effect, and receipt of a certificate signed by one of our officers certifying the same;

our representations and warranties in Sections 3.01, 3.03, 3.04, 3.14 and 3.16 of the merger agreement shall be true and correct in all material respects, as of the closing date as though made on the closing date, except (A) to the extent such representations and warranties expressly relate to a particular date (in which case such

representations and warranties shall be true and correct in all material respects, on and as of such particular date) and (B) that the representations and warranties as to the number of outstanding and reserved shares of Cruzan common stock shall be true and correct, except that an aggregate of up to 1,000 additional shares of Cruzan common stock may be outstanding and reserved, and receipt of a certificate signed by one of our officers certifying the same;



we must have performed in all material respects all obligations required to be performed and delivered a certificate from one of our officers certifying that we have performed in all material respects the obligations required to be performed by us;

the special committee must have performed in all material respects all obligations required to be performed and receipt of a certificate signed on behalf of the special committee certifying the same;

there is no pending or threatened suit, action or proceeding by any governmental entity or any other person, that has a reasonable likelihood of success, (i) challenging the acquisition by Absolut or Merger Sub of any of our capital stock, seeking to restrain or prohibit the consummation of the merger or any other transaction or seeking to obtain from us, Absolut or Merger Sub any damages that are material in relation to us and our subsidiaries taken as a whole, (ii) seeking to prohibit or limit the ownership or operation by us, Absolut or any of our respective subsidiaries of any material portion of the business or assets of Cruzan, Absolut or any of our respective subsidiaries, or to compel us, Absolut or any of our respective subsidiaries to dispose of or hold separate any material portion of the business or assets of Cruzan, Absolut or any of our respective subsidiaries, as a result of the merger or any other transaction, (iii) seeking to impose limitations on the ability of Absolut to acquire or hold, or exercise full rights of ownership of, any shares of our capital stock, including the right to vote the shares of our capital stock purchased by it on all matters properly presented to the stockholders of Cruzan, (iv) seeking to prohibit Absolut or any of its subsidiaries from effectively controlling in any material respect the business or operations of Cruzan and our subsidiaries or (v) which is reasonably likely to have a material adverse effect on us;

there has not been any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on Cruzan since the date of the most recent audited financial statements included in our SEC documents except as previously disclosed in our SEC documents or in our disclosure letter; and

each member of our special committee and each other member of our board of directors who is an independent director will have submitted their resignations from their position as a director of Cruzan.

#### **Termination of the Merger Agreement**



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The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after stockholder approval has been obtained, as follows:

by the mutual written consent of us, Absolut and Merger Sub;

by either us or Absolut, if:

the merger has not been consummated by April 30, 2006, unless the failure to consummate the merger is the result of a breach of the merger agreement by the party seeking to terminate the agreement; provided, however, that the passage of such period will be tolled for any part thereof during which any party is subject to a nonfinal order, decree, ruling or action restraining, enjoining or otherwise prohibiting the consummation of the merger;

any governmental entity issues a permanent injunction or order enjoining, restraining or otherwise prohibiting the consummation of the transactions contemplated by the merger agreement and such action has become final and nonappealable; or

our stockholders do not approve the merger and adopt and approve the merger agreement upon taking a vote at a special meeting;

by us, if:

there has been a failure to perform in any material respect by Absolut or Merger Sub of any of their representations, warranties or covenants in the merger agreement, which would give rise to the failure of any of the applicable closing conditions set forth in the merger agreement and the breach cannot be or has not been cured within 30 days of receipt of notice of the breach;

by Absolut, if:

there has been a failure to perform in any material respect by us or the special committee of any representations, warranties or covenants in the merger agreement, which would give rise to the failure of any of the applicable closing conditions set forth in the merger agreement and the breach cannot be or has not been cured within 30 days of receipt of notice of the breach;

the special committee withdraws or modifies, in a manner adverse to Absolut or Merger Sub, or proposes to withdraw or modify, in a manner adverse to Absolut or Merger Sub, its approval or recommendation of the merger agreement or the merger, fails to recommend to our stockholders that they give approval for this transaction or approves or recommends, or proposes to approve or recommend, any competing takeover proposal; or

the special committee or any of its representatives (i) solicits, initiates, knowingly encourages or takes any action designed to facilitate the making by any person of any competing takeover proposal; (ii) enters into any agreement relating to any competing takeover proposal; or (iii) enters into, participates in or continues any discussions or negotiations regarding, or furnishes to any person any information with respect to, any competing takeover proposal, in breach of certain provisions of the merger agreement.

If the merger agreement is terminated, it will become void and have no effect, other than the provisions relating to broker fees, confidentiality, termination, fees and expenses and other miscellaneous provisions. Termination, however, will not relieve any party from liability or damages

resulting from any willful breach by that party of the merger agreement.

**Payment of Fees and Expenses**



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We have agreed to pay Absolut a termination and expense reimbursement fee of \$3 million if Absolut terminates the merger agreement because of any of the following reasons:

the special committee withdraws or modifies, in a manner adverse to Absolut or Merger Sub, or proposes to withdraw or modify, in a manner adverse to Absolut or Merger Sub, its approval or recommendation of the merger agreement or the merger, fails to recommend to our stockholders that they give approval for this transaction or approves or recommends, or proposes to approve or recommend, any competing takeover proposal; or

the special committee or any of its representatives (i) solicits, initiates, knowingly encourages or takes any action designed to facilitate the making by any person of any competing takeover proposal; (ii) enters into any agreement relating to any competing takeover proposal; or (iii) enters into, participates in or continues any discussions or negotiations regarding, or furnishes to any person any information with respect to, any competing takeover proposal, in breach of certain provisions of the merger agreement.

In addition, if Absolut is entitled to terminate the merger agreement on any of the grounds referred to above, or if we or the special committee breach a representation, warranty or covenant in the merger agreement which breach causes a failure of one or more of the conditions to closing which has not been cured within 30 days of receipt of notice of the breach, we would be obligated to reimburse Absolut for all of its documented out-of-pocket expenses actually incurred up to a maximum of \$1.5 million in connection with the merger agreement or the merger. The termination fee is subject to a credit for any expense reimbursement paid and no expense reimbursement shall be due if we have previously paid the termination fee.

**Indemnification of Directors and Officers; Advancement of Expenses and Insurance**





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Pursuant to the terms of the merger agreement, for a period of six years after the effective date of the merger, the certificate of incorporation and bylaws of the surviving corporation and its subsidiaries must contain provisions regarding the indemnification and advancement of expenses to directors and officers which are no less favorable than those in the company's or its subsidiaries' certificate of incorporation and bylaws in effect as of the date of the merger agreement. Absolut agreed to and agreed to cause the surviving corporation to indemnify and advance reasonable expenses to each present and former director of the company or any of its subsidiaries (in and to the extent of their capacities as such but not as stockholders) in respect of actions, omissions or events through the effective time of the merger to the fullest extent permitted by law.

The surviving corporation will either (i) obtain a tail insurance policy with a claims period of at least six years from the effective time of the merger with respect to the directors' and officers' liability insurance in an amount and scope at least as favorable as the company's policies existing as of the date of the merger agreement for claims arising from facts or events that occurred prior to the effective time of the merger or (ii) maintain the directors' and officers' liability insurance policies maintained by the company as of the date of the merger agreement for a period of six years after the effective time of the merger so long as the annual premium therefor is not in excess of 200% of the current annual premium.

If Absolut or the surviving corporation or any of its successors or assigns (i) consolidates with or merges into any other corporation or entity and is not the continuing or surviving corporation of such consolidation or merger or ceases to continue to exist for any reason or (ii) transfers all or substantially all of its properties and assets to any individual, corporation or other entity, provisions will be made so that the successors and assigns of Absolut or the surviving corporation and the transferee or transferees of such properties and assets will assume the foregoing obligations.

### **Amendments, Extensions and Waivers**



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Any provision of the merger agreement may be amended at any time before or after stockholder approval. However, after our stockholders have approved the merger agreement, no amendment may be made that by law would require further approval by our stockholders without obtaining that approval. Any amendment must be in writing and signed on behalf of each of the parties. Any such amendment must be approved by the special committee.

At any time prior to the effective time of the merger, the parties may extend the time for the performance of any of the obligations or other acts of the other parties or waive any inaccuracies in the

representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement. The parties may also waive to the fullest extent permitted by law compliance with any of the agreements or conditions contained in the merger agreement. Any extension or waiver must be approved by the special committee, and will only be valid if in writing and signed on behalf of the waiving party.

**Continuing Authority of the Special Committee**



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In order to protect the interests of the unaffiliated stockholders in Cruzan, certain actions taken on behalf of Cruzan prior to the earlier of the effective time of the merger or the termination of the merger agreement must be approved by the special committee. Such actions include (a) the exercise, enforcement or waiver of Cruzan's rights under the merger agreement; (b) any action or failure to act on the part of Cruzan that could reasonably be expected to constitute or result in a breach of, or to delay or interfere with the performance of, the merger agreement; (c) any agreement or transaction involving the payment, transfer or disposition by Cruzan and our subsidiaries of consideration having a fair market value of \$1,100,000 or more annually or the transfer of tangible or intangible assets by Cruzan and our subsidiaries with a fair market value of \$1,100,000 or more between (x) Cruzan and any of our subsidiaries and (y) Absolut, Merger Sub or any of their affiliates other than a transaction pursuant to an arrangement in place on the date of the merger agreement; (d) any amendment to Cruzan's certificate of incorporation or bylaws that would adversely affect the holders of our common stock; and (e) any change in the authority or membership of the special committee.

**CRUZAN SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION**





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The selected historical consolidated financial information as of and for each of the fiscal years ended September 30, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements and notes thereto included in Cruzan's Annual Report on Form 10-K and filed with the SEC for the year ended September 30, 2004, which is attached hereto as **Annex D** and made a part of this proxy statement. The selected historical consolidated financial data for the nine months ended June 30, 2005 and June 30, 2004 have been derived from the unaudited consolidated financial statements of Cruzan. In the opinion of Cruzan's management, all adjustments (consisting of normal recurring items) necessary for a fair presentation of the results of operations, financial position and cash flows of Cruzan for such periods have been reflected therein. Historical results are not necessarily indicative of any results to be expected in the future and partial year results are not necessarily indicative of the results that may be expected for the full year. The information presented below should be read in conjunction with the consolidated financial statements and notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Cruzan's Annual Report on Form 10-K/A for the year ended September 30, 2004 which is attached hereto as **Annex E** and made part of this proxy statement and in Cruzan's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, which is attached hereto as **Annex F** and made part of this proxy statement.

In thousands, except per share amounts

	Year ended September 30,			Nine Months Ended	
	2004	2003	2002	2005	2004
(In thousands, except per share data)					
<b>Statements of Income Data:</b>					
Net sales	\$ 96,416	\$ 90,444	\$ 96,839	\$ 77,496	\$ 69,967
Cost of goods sold	68,684	61,174	65,700	51,607	46,095
Gross profit	27,732	29,270	31,139	25,889	23,872
Selling, general and administrative expenses	31,311	23,205	22,539	27,038	23,110
Operating income (loss)	(3,579)	6,065	8,600	(1,149)	762
Other income (expense):					
Interest income	371	709	754	283	433
Interest expense	(2,226)	(3,377)	(3,073)	(2,010)	(1,958)
Other, net	834	(950)	288	405	831
Income (loss) before income taxes	(4,600)	2,447	6,569	(2,471)	68
Income tax expense (benefit)	(3,692)	(956)	1,122	(2,293)	(1,677)
Net income (loss)	\$ (908)	\$ 3,403	\$ 5,447	\$ (178)	\$ 1,745
Net income (loss) per share					
Basic Income (loss)	\$ (0.16)	\$ 0.61	\$ 0.99	\$ (0.03)	\$ 0.31
Diluted Income (loss)	\$ (0.16)	\$ 0.60	\$ 0.97	\$ (0.03)	\$ 0.30
Weighted average shares outstanding					
Basic	5,801	5,574	5,527	6,352	5,620
Diluted	5,801	5,644	5,624	6,352	5,737
<b>Balance Sheet Data (at period end):</b>					
Working capital	\$ 40,556	\$ 56,791	\$ 55,315	\$ 19,111	\$ 45,576
Total assets	127,833	139,299	137,883	131,640	127,989
Short-term debt	4,000	4,000	4,000	27,100	4,000
Long-term debt	25,674	47,316	53,017	22	25,463
Stockholders equity	79,824	70,612	67,069	85,184	82,496

#### Book Value Per Share



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As of June 30, 2005, our book value per share was approximately \$12.44. Book value per share is not a term defined under accounting principles generally accepted in the United States of America. Book value per share is calculated by dividing total stockholders' equity by the number of shares of common stock outstanding as of the date of determination.

### **Ratio of Earnings to Fixed Charges**



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The following table sets forth our ratio of earnings to fixed charges for the periods indicated. For purposes of calculating the ratio of earnings available to cover fixed charges:

earnings consist of income (loss) before income taxes; and

fixed charges consist of interest inclusive of the amortization of debt issuance costs.

	Year Ended September 30,		Nine Months Ended June 30,	
2004	2003		2005	2004
	(2.07)	0.72	(1.23)	0.03

For the nine months ended June 30, 2005, our earnings were insufficient to cover our fixed charges by approximately \$4,481,000.



**CRUZAN COMMON STOCK MARKET PRICE AND DIVIDEND INFORMATION**



**Market Price**



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Our common stock is listed on the American Stock Exchange under the symbol RUM. The following table sets forth the high and low daily closing prices as reported by the American Stock Exchange during each of the quarters for the last two-year period, and for the period from October 1, 2005 to .

Quarter Ended	High	Low
December 30, 2003	11.55	9.95
March 31, 2004	12.15	10.50
June 30, 2004	14.50	11.92
September 30, 2004	14.05	12.10
December 31, 2004	13.18	11.70
March 31, 2005	13.91	12.42
June 30, 2005	26.75	12.85
September 30, 2005	28.19	25.15
Through , 2005 (the most recent practicable date before printing of this document)		

At , 2005, there were registered stockholders of our common stock. Since a significant portion of our common stock is held in street name or nominee name, we are unable to determine the exact number of beneficial holders.

The merger consideration of \$28.37 per share to be received by Cruzan's stockholders represents an approximate 102% premium over the \$14.05 per share closing price of Cruzan common stock on June 3, 2005, the last full trading day prior to the public announcement of the stock purchase agreement. On , 2005, the most recent practicable date before the printing of this document, the closing price of Cruzan common stock was \$ .

YOU SHOULD OBTAIN CURRENT MARKET PRICE QUOTATIONS FOR CRUZAN COMMON STOCK IN CONNECTION WITH THE VOTING OF YOUR CRUZAN COMMON STOCK.

### Dividend Information



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We paid no dividends in our fiscal years ended September 30, 2005 and 2004, and do not currently anticipate paying cash dividends in the foreseeable future. The merger agreement prohibits Cruzan from declaring, setting aside or paying dividends or distributions until the effective date of the merger without the prior written consent of Absolut. In addition, the Amended and Restated Credit Agreement, dated as of October 19, 2001, as amended, among Cruzan, as the Borrower, and Wachovia Bank, N.A., as the Lender, contains a covenant that restricts, subject to certain exceptions, our ability to pay dividends or distributions to our stockholders.

**INFORMATION CONCERNING CRUZAN COMMON STOCK TRANSACTIONS**





**Common Stock Offerings**



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### *2004 Private Placement to Angostura*

During June 2004, Cruzan and Angostura completed a transaction whereby Angostura agreed to invest \$10 million in Cruzan in exchange for 714,285 shares of common stock, which equates to an equity issue price of \$14.00 per share. The transaction was approved by the prior board of directors after having been determined to be fair to the public stockholders of Cruzan by a special committee of independent directors. In addition, Angostura reimbursed one-half of Cruzan's expenses in connection with this transaction. The subscription agreement for this transaction also required that Cruzan use its best efforts to complete a rights offering pursuant to a registration statement to be filed with the Commission. The rights offering (as described below) was intended to allow each stockholder of Cruzan, other than Angostura and its affiliates, to purchase such holder's approximate pro rata amount of the number of shares of the common stock of Cruzan that would permit the public stockholders in the aggregate to maintain the percentage stock ownership the public stockholders owned prior to the stock purchase by Angostura.

### *2005 Rights Offering*

On August 30, 2004, Cruzan filed a Form S-2 registration statement for a rights offering of 408,787 shares of common stock. The offering granted holders of Cruzan's common stock (except Cruzan's former principal stockholder, Angostura and its affiliates) nontransferable subscription rights to purchase in the aggregate up to 408,787 shares of Cruzan's common stock at a subscription price of \$13.91 (the closing price of Cruzan's common stock on the American Stock Exchange on May 19, 2005). Under the terms of the offering, holders of Cruzan's common stock (except Angostura and its affiliates) were entitled to one nontransferable basic subscription right to purchase one share of common stock for each five shares of common stock held at the close of business on the May 20, 2005 record date. If any holders of subscription rights did not exercise their basic subscription rights in full, Cruzan permitted stockholders who did exercise their basic subscription rights in full to subscribe for additional shares at the same subscription price per share, on a pro rata basis. The rights offering closed on June 21, 2005, and was fully subscribed.

### **Common Stock Purchases**



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Except as set forth below, none of Cruzan, Absolut, V&S, Merger Sub, or their respective directors and executive officers has purchased any shares of Cruzan common stock during the past two years.

Jay Maltby, our Chief Executive Officer:

acquired 2,000 shares of Cruzan common stock on April 6, 2004 through the laws of descent and distribution;

acquired 500 shares of Cruzan common stock on June 23, 2004 through the laws of descent and distribution;

was granted stock options representing 100,000 shares of Cruzan common stock on February 24, 2005; and

acquired 2,367 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

Thomas Valdes, our Executive Vice President:

was granted stock options representing 80,000 shares of Cruzan common stock on February 24, 2005; and

acquired 209 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

Chris D. Mitchell, our Senior Vice President Sales:

was granted stock options representing 37,500 shares of Cruzan common stock on February 24, 2005; and

acquired 1,051 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

Ousik Yu, our Senior Vice President Research & Development:

was granted stock options representing 37,500 shares of Cruzan common stock on February 24, 2005; and

acquired 4,205 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

Ezra Shashoua, our Chief Financial Officer:

was granted stock options representing 80,000 shares of Cruzan common stock on February 24, 2005; and

acquired 20 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

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Leonard G. Rogers, an independent director, acquired 209 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

Edward F. McDonnell, an independent director, acquired 200 shares of Cruzan common stock on June 21, 2005 as a result of our 2005 rights offering.

### **Transactions Within 60 Days**





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Except as set forth below, none of Cruzan, Absolut, V&S, Merger Sub, or their respective directors and executive officers has effected any transactions with respect to Cruzan common stock during the 60 days prior to the date of this proxy statement.

On September 26, 2005, Absolut purchased 4,294,583 shares of Cruzan common stock from Angostura, for aggregate consideration of \$121,837,320, or \$28.37 per share.

**CURRENT EXECUTIVE OFFICERS AND DIRECTORS OF CRUZAN**



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The following persons are the directors and executive officers of Cruzan as of the date of this proxy statement. Each executive officer will serve until a successor is elected by the board of directors or until the earlier of his resignation or removal. Except as noted below, the directors and executive officers of Cruzan are citizens of the United States. The mailing address for the executive officers and directors of Cruzan is 222 Lakeview Avenue, Suite 1500, West Palm Beach, FL 33401 and their telephone number is (561) 655-8977. None of our executive officers or directors was convicted in a criminal proceeding (other than traffic violations or similar misdemeanors) or party to any judicial or administrative proceeding during the past five years that resulted in a judgment decree or a final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Our executive officers and directors, their ages, the year they became a director, their current principal occupation and their material employment during the last five years as of , 2005 are as follows:

Name	Age	Position
<p><b>Jay S. Maltby</b></p> <p>Mr. Maltby joined Cruzan in 1995 as President, Chief Operating Officer and a director and was appointed as Chairman of the Board and Chief Executive Officer in 2002. Mr. Maltby resigned from our board of directors effective as of September 30, 2005. Prior to joining Cruzan, Mr. Maltby served with Bacardi Imports, Ltd. from 1978 in various executive capacities, including as a member of Bacardi s Executive Committee and Vice President of Finance and Operations. Mr. Maltby also serves as a director of Angostura Holdings, Ltd.</p>	55	Chief Executive Officer and President
<p><b>Thomas A. Valdes</b></p> <p>Mr. Valdes joined Cruzan in 1995 as Executive Vice President and, prior to his resignation from our board of directors on September 30, 2005, had been a director of Cruzan since 1996. Prior to joining Cruzan, Mr. Valdes held various executive positions with Bacardi Imports, Ltd., a beverage alcohol manufacturing and marketing company, from 1979, the latest of which was Vice President of Marketing and Operations.</p>	62	Executive Vice President, Assistant Secretary

<p><b>D. Chris Mitchell</b></p> <p>Mr. Mitchell joined Cruzan in 1984 as manager of Cruzan's bottling operations. Mr. Mitchell was promoted to Vice President Sales in 1989 and appointed as Senior Vice President in 1994. Prior to his resignation from our board of directors on September 30, 2005, Mr. Mitchell had been a director of Cruzan since 1991. Prior to joining Cruzan, Mr. Mitchell was general manager of bottling operations for United States Distilled Products, a beverage alcohol marketing company, from 1980 to 1984.</p>	56	Senior Vice President Sales
<p><b>Ezra Shashoua</b></p> <p>Mr. Shashoua joined Cruzan as Executive Vice President, Chief Financial Officer and Secretary in June 2003. Prior to joining Cruzan, Mr. Shashoua worked at NationsRent, Inc., a national equipment rental chain, where he served in the same role from January 2001 to June 2003. Prior to joining NationsRent, Mr. Shashoua worked at 7-Eleven, Inc., a national convenience store chain, in Dallas, Texas, where he served in various capacities of increasing responsibility from 1982 to January 2001, most recently as Vice President and Chief Financial Officer. Mr. Shashoua began his career as an attorney at Sonnenschein, Nath and Rosenthal in Chicago, Illinois.</p>	50	Executive Vice President and Chief Financial Officer
<p><b>Ousik Yu</b></p> <p>Mr. Yu joined Cruzan in 1990 and served as Vice President Bottling Operations since that time until his appointment as Senior Vice President Beverage Division in 1994. In 1996, Mr. Yu was appointed as Senior Vice President Manufacturing. From 1986 to 1989, Mr. Yu was employed by Brown-Forman Corporation, a beverage alcohol manufacturing and marketing company, most recently as manager of packaging/process engineering. From 1981 to 1986, he was employed in plant engineering by The Stroh's Brewery Company, a beverage alcohol company.</p>	52	Senior Vice President Manufacturing
<p><b>Donald L. Kasun</b></p> <p>Since 1978, Mr. Kasun has been president of Kasun Development Corp., an industrial real estate development and management company, and senior vice president of Southern Container Corp., a privately-held manufacturer of paperboard and corrugated boxes.</p>	66	Director since 2001



<b>Edward F. McDonnell</b>	70	Director since 1998
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Mr. McDonnell is Chairman and Chief Executive Officer of The Premier Group, a company he founded in 1995. The Premier Group owns beverage alcohol distributing companies in the Caribbean, Philippines and South Pacific. Prior to founding The Premier Group, Mr. McDonnell served with The Seagram Company Ltd. from 1981 in various executive capacities, including as a director and Executive Vice President of The Seagram Company Ltd. and President of The Seagram Spirits and Wine Group. Mr. McDonnell owns an interest in a distributorship partially owned by Cruzan.

<b>Leonard G. Rogers</b>	76	Director since 1992
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Mr. Rogers was Chairman of the Board of Cruzan from 1974 to 1985 and since 1985 has been a private investor. From 1969 to 1974, Mr. Rogers was Senior Vice President Consumer Products Division for American conglomerate Gulf & Western Industries.

<b>Mats Andersson</b>	49	Director since 2005
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Mr. Andersson has been Senior Vice President Business Development of V&S since 1999. Prior to serving in this capacity, Mr. Andersson was the Vice President of the Wines Division of V&S from 1994 through 1999. Mr. Andersson is a citizen of Sweden.

<b>Ketil Eriksen</b>	42	Director since 2005
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Mr. Eriksen has been president of V&S Absolut Spirits since January 2005. Prior to joining V&S, he was Chief Executive Officer of Colgate-Palmolive Sweden & Finland from May 1999 to January 2005. Mr. Eriksen is a citizen of Norway.

<b>Ola Salmén</b>	51	Director since 2005
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Mr. Salmén has been Senior Vice President Finance of V&S since 2002. Prior to joining V&S, Mr. Salmén was Chief Financial Officer of Adcore AB, a Swedish public IT consulting firm. From 1997 until 2002, Mr. Salmén served as Financial Director and Director of Risk Control for Handelsbanken Markets. Mr. Salmén is a citizen of Sweden.





**Lisa Derman**

40

Director since 2005

Ms. Derman has been the General Counsel of ASCI since January 2005. Prior to joining ASCI, Ms. Derman was employed by Schieffelin & Somerset, the national importer for Dom Perignon, Hennessy, Tanqueray and Johnnie Walker, where she served as Senior Counsel from July 2001 to January 2004. From 1994 to 2000, she was employed by the national law firm McDermott Will & Emery LLP as an associate or consultant where she specialized in alcohol beverage regulatory law and distributor relations.









**CURRENT EXECUTIVE OFFICERS AND DIRECTORS OF ABSOLUT**





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The following persons are the directors and executive officers of Absolut as of the date of this proxy statement. Each executive officer will serve until a successor is elected by the board of directors of Absolut or until the earlier of his resignation or removal. The mailing address for the executive officers and directors of Absolut is 1370 Avenue of the Americas, New York, New York 10019 and their telephone number is (212) 641-8700. None of Absolut's executive officers or directors was convicted in a criminal proceeding (other than traffic violations or similar misdemeanors) or was a party to any judicial or administrative proceeding during the past five years that resulted in a judgment decree or a final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Absolut's executive officers and directors, their ages, the year they became a director of Absolut, their current principal occupation and their material employment during the last five years as of , 2005 are as follows:

Name	Age	Position
<p><b>Carl Horton</b></p> <p>Mr. Horton has been the President and Chief Executive Officer of Absolut since 2001. Prior to joining Absolut, Mr. Horton was employed by Seagram Spirits &amp; Wine Group as Vice President of Marketing for Absolut. Mr. Horton is a citizen of the United States.</p>	61	President and Chief Executive Officer. Director since 2001
<p><b>Bengt Baron</b></p> <p>Mr. Baron has been President and CEO of V&amp;S since 2001. Previously, Mr. Baron served as Nordic Business Area Manager for StepStone Sweden. Mr. Baron is a member of the board of directors of Future Brands and Cloetta Fazer. Mr. Baron is a citizen of Sweden.</p>	43	Director since 2002
<p><b>Ketil Eriksen</b></p> <p>Mr. Eriksen has been president of V&amp;S Absolut Spirits since January 2005. Prior to joining V&amp;S, he was Chief Executive Officer of Colgate-Palmolive Sweden &amp; Finland from May 1999 to January 2005. Mr. Eriksen is a citizen of Norway.</p>	42	Director since 2005
<p><b>Matthias Aeppli</b></p> <p>From 2002 through 2004, Mr. Aeppli served as Vice President of Marketing at Diageo NA. Prior to Diageo, Mr. Aeppli was a marketing Vice President with Seagram Spirits &amp; Wine Group. Mr. Aeppli is a citizen of Switzerland.</p>	46	Vice President of Marketing

**Michael Misiorski**

43

Vice President of Finance and Administration,  
Chief Financial Officer, Secretary and  
Treasurer

Mr. Misiorski has been Chief Financial Officer and Vice President of Finance and Administration of Absolut since October 2001. Prior to joining Absolut, Mr. Misiorski was the Director of Finance Global of Seagram Company Limited. Mr. Misiorski is a citizen of the United States.

**James Schleifer**

49

Vice President of Sales

Mr. Schleifer has been the Vice President of Sales for Absolut since 2001. Prior to joining Absolut, Mr. Schleifer served as Marketing Director at Seagram's Spirits & Wine Group. Mr. Schleifer is a citizen of the United States.









**CURRENT EXECUTIVE OFFICERS AND DIRECTORS OF V&S**





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The following persons are the directors and executive officers of V&S as of the date of this proxy statement. Each executive officer will serve until a successor is elected by the board of directors of V&S or until the earlier of his resignation or removal. The mailing address for the executive officers and directors of V&S is 117 97 Stockholm, Sweden and their telephone number is +46 8 744 70 00. None of V&S's executive officers or directors was convicted in a criminal proceeding (other than traffic violations or similar misdemeanors) or was a party to any judicial or administrative proceeding during the past five years that resulted in a judgment decree or a final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

V&S's executive officers and directors, their ages, the year they became a director of V&S, their current principal occupation and their material employment during the last five years as of , 2005 are as follows:

Name	Age	Position
<p><b>Claes Dahlbäck</b></p> <p>Mr. Dahlbäck has been a director of the V&amp;S board since 1991 and has served as Chairman of the Board since 1993. Mr. Dahlbäck is a member of the V&amp;S board's audit committee and remuneration committee. Mr. Dahlbäck also serves as Chairman of the Board of Stora Enso Oy and Gambro AB. Mr. Dahlbäck is a citizen of Sweden.</p>	58	Chairman of the Board. Director since 1991
<p><b>Lars Danielsson</b></p> <p>Mr. Danielsson has been a director of the V&amp;S board since 2003. Mr. Danielsson is also a member of the V&amp;S board's remuneration committee. Mr. Danielsson has served as Under-Secretary in the Swedish Prime Minister's Office since 1999. Mr. Danielsson is a citizen of Sweden.</p>	52	Non-Executive Director since 2003
<p><b>Inger Lundberg</b></p> <p>Mr. Lundberg has been a director of the V&amp;S board since 2005. Mr. Lundberg has been a member of the Swedish Parliament since 1991. Mr. Lundberg is a citizen of Sweden.</p>	57	Non-Executive Director since 2005
<p><b>Arne Mårtensson</b></p> <p>Mr. Mårtensson has been a director of the V&amp;S board since 1993. Mr. Mårtensson is also a member of the V&amp;S board's audit committee. Mr. Mårtensson has been Chairman of the Board of Svenska Handelsbanken AB since 2001 and before that he was the CEO of Svenska Handelsbanken AB. Mr. Mårtensson is a citizen of Sweden.</p>	54	Non-Executive Director since 1993

<b>Mats G. Ringesten</b>	55	Non-Executive Director since 2004
Mr. Ringesten has been a director of the V&S board since 2004. Mr. Ringesten has served as Senior Partner of Neuman & Nydahl since 1995. Mr. Ringesten is a citizen of Sweden.		
<b>Anders Björck</b>	61	Non-Executive Director since 2000
Mr. Björck has been a director of the V&S board since 2000. Mr. Björck has served as County Governor for the province of Uppsala since 2003. Mr. Björck was a member of the Swedish Parliament from 1968 through 2002 and served as First Deputy Speaker of Parliament from 1994 through 2002. Mr. Björck is a citizen of Sweden.		
<b>Jonas Iversen</b>	40	Non-Executive Director since 2003
Mr. Iversen has been a director of the V&S board since 2003. Mr. Iversen has served as Director/Senior Adviser of the Ministry of Industry since 2000. He is also a member of the V&S board's audit committee. Mr. Iversen is a citizen of Sweden.		
<b>Ebbe M. Loiborg</b>	60	Non-Executive Director since 2000
Mr. Loiborg has been a director of the V&S board since 2000. He is also a member of the V&S board's remuneration committee and a board member of various companies. Mr. Loiborg is a citizen of Denmark.		
<b>Helle Kruse Nielsen</b>	52	Non-Executive Director since 2004
Ms. Nielsen has been a director of the V&S board since 2004. Ms. Nielsen also serves as a board member of various companies. Ms. Nielsen is a citizen of Denmark.		
<b>Johan Lund</b>	47	Employee Representative Director since 2003
Mr. Lund has been an employee representative of the V&S board since 2003. Mr. Lund has served as Senior Editor at V&S since 1995. Mr. Lund is a citizen of Sweden.		
<b>Kent Karlsson</b>	55	Deputy Employee Representative Director since 2004
Mr. Karlsson has been a deputy employee representative of the V&S board since 2004. Mr. Karlsson has served as Planning Manager at V&S since 2000. Mr. Karlsson is a citizen of Sweden.		



<b>Jan Lundin</b>	59	Employee Representative Director since 1998
Mr. Lundin has been an employee representative of the V&S board since 1998. Mr. Lundin has served as line employee at V&S since 1989. Mr. Lundin is a citizen of Sweden.		
<b>Roger Möller</b>	49	Deputy Employee Representative Director since 2000
Mr. Möller has been a deputy employee representative of the V&S board since 2000. Mr. Möller has served as warehouse worker at V&S since 1975. Mr. Möller is a citizen of Sweden.		
<b>Bengt Baron</b>	43	President and Chief Executive Officer
Mr. Baron has been President and CEO of V&S since 2004. Previously, Mr. Baron served as President of V&S Absolut Spirits from 2001. Former positions include Nordic Business Area Manager for Stepstone Sweden. Mr. Baron is a member of the board of directors of Future Brands and Cloetta Fazer. Mr. Baron is a citizen of Sweden.		
<b>Håkan Matz</b>	55	President, V&S Wine
Mr. Matz has been President of V&S Wine since 2001. Previously, Mr. Matz served as CEO of Hemköpskedjan AB from 1999 through 2001. Mr. Matz is a citizen of Sweden.		
<b>Mats Andersson</b>	49	Senior Vice President Business Development
Mr. Andersson has been Senior Vice President Business Development of V&S since 1999. Prior to serving in this capacity, Mr. Andersson was the Vice President of the Wines Division of V&S from 1994 through 1999. Mr. Andersson is a citizen of Sweden.		
<b>Rolf Cassergren</b>	47	Executive Vice President
Mr. Cassergren has been Executive Vice President of V&S since 2001. Previously, Mr. Cassergren served as Head of V&S Finance since 1996 and President of V&S Distillers since 2004. Mr. Cassergren is a citizen of Sweden.		
<b>Ketil Eriksen</b>	42	President, V&S Spirits
Mr. Eriksen has been President of V&S Absolut Spirits since January 2005. Prior to joining V&S, he was Chief Executive Officer of Colgate-Palmolive Sweden & Finland from May 1999 to January 2005. Mr. Eriksen is also a member of the boards of directors of Future Brands and Maxxium Worldwide. Mr. Eriksen is a citizen of Norway.		



<p><b>Ola Salmén</b></p> <p>Mr. Salmén has been Senior Vice President Finance of V&amp;S since 2002. Prior to joining V&amp;S, Mr. Salmén was Chief Financial Officer of Adcore AB, a Swedish public IT consulting firm. From 1997 until 2002, Mr. Salmén served as Financial Director and Director of Risk Control for Handelsbanken Markets. Mr. Salmén is a member of the board of directors of Maxxium Worldwide. Mr. Salmén is a citizen of Sweden.</p>	51	Senior Vice President Finance
<p><b>Mikael Spångberg</b></p> <p>Mr. Spångberg has been Senior Vice President Legal Affairs of V&amp;S from 1996 through 2001 and again since 2003. From 2001 through 2003, Mr. Spångberg served as Senior Consultant to Cogent IPC AB. Mr. Spångberg is a citizen of Sweden.</p>	48	Senior Vice President Legal Affairs
<p><b>Gunilla Winlund</b></p> <p>Ms. Winlund has been Senior Vice President Human Resources of V&amp;S since 2000. Ms. Winlund is a citizen of Sweden.</p>	54	Senior Vice President Human Resources
<p><b>Jacob Broberg</b></p> <p>Mr. Broberg has been Senior Vice President Corporate Affairs of V&amp;S since 2005. Prior to joining V&amp;S, he was Vice President Media Relations of Electrolux from 2001 to 2005. He was also Vice President Corporate Communications of Länsförsäkringar from 2000 to 2001. Mr. Broberg is a citizen of Sweden.</p>	41	Senior Vice President Corporate Affairs











**CURRENT EXECUTIVE OFFICERS AND DIRECTORS OF MERGER SUB**



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The following persons are the directors and executive officers of Merger Sub as of the date of this proxy statement. Each executive officer will serve until a successor is elected by the board of directors of Merger Sub or until the earlier of his resignation or removal. The directors and executive officers of Merger Sub are citizens of the United States. The mailing address for the directors and executive officers of Merger Sub is 1370 Avenue of the Americas, New York, New York 10019 and their telephone number is (212) 641-8700. None of Merger Sub's executive officers or directors was convicted in a criminal proceeding (other than traffic violations or similar misdemeanors) or party to any judicial or administrative proceeding during the past five years that resulted in a judgment decree or a final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws:

Merger Sub's executive officers and directors, their ages, the year they became a director of Merger Sub, their current principal occupation and their material employment during the last five years as of , 2005 are as follows:

Name	Age	Position
<b>Michael Misiorski</b>	43	President, Vice President, Treasurer, Secretary

Mr. Misiorski has been the President, Vice President, Treasurer and Secretary of Merger Sub since its incorporation in September 2005. Mr. Misiorski also has served as Chief Financial Officer and Vice President of Finance and Administration of Absolut since October 2001. Prior to joining Absolut, Mr. Misiorski was the Director of Finance Global of Seagram Company Limited.

<b>Lisa Derman</b>	40	Director since 2005
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Ms. Derman has been the sole director of Merger Sub since its incorporation in September 2005. Ms. Derman has also served as General Counsel of Absolut since January 2005. Prior to joining ASCI, Ms. Derman was employed by Schieffelin & Somerset, the national importer for Dom Perignon, Hennessy, Tanqueray and Johnnie Walker, where she served as Senior Counsel from July 2001 to January 2004. From 1994 to 2000, she was employed by the national law firm McDermott Will & Emery LLP as an associate or consultant where she specialized in alcohol beverage regulatory law and distributor relations.











**SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN OTHER BENEFICIAL OWNERS**



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The following tables set forth information at , 2005 with respect to the beneficial ownership of shares of Cruzan common stock by (i) the directors of Cruzan, (ii) the Chief Executive Officer and the four other most highly compensated executive officers, (iii) all executive officers and directors of Cruzan, as a group, and (iv) each person known to Cruzan to beneficially own more than 5% of the shares of Cruzan common stock outstanding.

**AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)**

Name of Executive Officer or Director	Number of Shares	Presently Exercisable Options(1)	Total Beneficial Ownership	Percentage Owned(2)
Jay S. Maltby	13,667	125,000	138,667	2.0%
Ezra Shashoua	120	20,000	20,120	*
Thomas A. Valdes	1,209	107,500	108,709	1.6%
D. Chris Mitchell	6,051	54,374	60,425	*
Ousik Yu	24,205	59,374	83,579	1.2%
Donald L. Kasun(3)				
Edward F. McDonnell(4)	1,200	60,000	61,200	*
Leonard G. Rogers(5)	1,209		1,209	*
Mats Andersson				
Ola Salmén				
Ketil Eriksen				
Lisa Derman				
All executive officers and directors as a group (10 persons)	47,661	426,248	473,909	6.6%

\* Less than 1%

Name and Address of Other Beneficial Owners	Number of Shares	Presently Exercisable Options(1)	Total Beneficial Ownership	Percentage Owned(2)
The Absolut Spirits Company, Incorporated (7) 1370 Avenue of the Americas New York, New York 10019	4,294,583(6)		4,294,583(6)	63.6%

(1) The number of shares beneficially owned by each director, executive officer and stockholder is determined under rules of the Securities and Exchange Commission (the Commission), and the information provided under those rules is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares that the individual has the right to acquire within 60 days after , 2005, including through the exercise of options granted under Cruzan's 1992 Employee Stock Option Plan and 2004 Stock Option Plan ( Presently Exercisable Options ). The inclusion of shares covered by Presently Exercisable Options, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Unless otherwise indicated, each person or entity named in the table has sole voting power

and investment power (or shares such power with his spouse) with respect to all shares of common stock listed as owned by such person or entity. Unless otherwise stated, the address for each executive officer or Director is Cruzan's principal office, 222 Lakeview Avenue, Suite 1500, West Palm Beach, Florida 33401.

(2) Number of shares outstanding consists of the 6,748,992 shares of Common Stock outstanding at November 15, 2005, plus any shares subject to Presently Exercisable Options held by the person in question.

(3) Mr. Kasun's address is 1080 N. Ocean Boulevard, Palm Beach, Florida 33480.

(4) Mr. McDonnell's address is The Premier Group, 10 Office Park Road, Suite 212, Hilton Head Island, South Carolina 29928.

(5) Mr. Rogers' address is 575 Island Drive, Palm Beach, Florida 33480.

(6) Absolut has reported in a Schedule 13D/A that, as of September 26, 2005, it beneficially owned, and had sole voting and investment power with respect to, 4,294,583 shares of Cruzan's common stock.

(7) Absolut is a wholly-owned subsidiary of V&S Vin & Sprit AB (publ), a company incorporated in Sweden and wholly-owned by the Kingdom of Sweden.

**PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS**



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Except as described more fully under **SPECIAL FACTORS** Background of the Merger, there have not been any negotiations, transactions or material contacts during the past two years concerning any merger, consolidation, acquisition, tender offer or other acquisition of any class of Cruzan's securities, election of Cruzan's directors or sale or other transfer of a material amount of Cruzan's assets (i) between Cruzan or any of its affiliates, on the one hand, and Absolut, V&S or its affiliates, on the other hand, (ii) between any affiliates of Cruzan or (iii) between Cruzan and its affiliates, on the one hand, and any person not affiliated with Cruzan who would have a direct interest in such matters, on the other hand.

### **Distribution Agreement between V&S and Cruzan**





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Cruzan entered into a distribution agreement on October 10, 2003 with V&S. Pursuant to the terms of the agreement, V&S acts as the sole and exclusive distributor for Cruzan products in Denmark, Finland, Norway, Sweden, Estonia, Poland, Czech Republic, Slovakia, Canada and all global duty free and travel retail markets other than those located in the U.S., Caribbean, Bermuda, Philippines and Israel (the Territory). V&S pays us a royalty in an amount equal to 50% of V&S's revenue from the sale of the Cruzan products excluding all taxes, excise duties, rebates and discounts, less (i) V&S's selling costs, and (ii) the purchase price paid for the Cruzan products.

The agreement continues until terminated by either V&S or us and such notice of termination must be not less than 12 months prior to the end of a calendar year. In addition, either Cruzan or V&S may terminate the agreement (i) upon 30 days' written notice for the other party's violations of the agreement which are not cured within 30 days, (ii) upon 5 days' written notice if the other party does not have the necessary licensing to carry out its obligations under the agreement for a period of 30 days or more, (iii) upon 30 days' written notice if in the opinion of the terminating party the basis for cooperation no longer exists because changes in the de facto control of the other party's activities due to changes in the ownership of the other party, (iv) due to bankruptcy, insolvency, or other similar circumstances of the other party, or (v) immediately if there has been a lien placed on the terminating party's inventory due to the actions of the other party which is not removed within 10 days.

Neither we nor V&S may assign the agreement without the written consent of the other party; provided, however, that we may assign the agreement to an affiliate if the rights to the intellectual property relating to the Cruzan products in the Territory have also been assigned to such affiliate. In addition, Cruzan agreed to indemnify V&S for (i) expenses and losses arising from defects in its representations and warranties in the agreement and (ii) for damages in connection with any actions or claims against V&S by any subdistributor, wholesaler, agent or customer of V&S related to the Cruzan products or Cruzan's performance or transactions under the agreement except for damages which result from product defects caused by V&S or V&S's violation of the agreement. Cruzan and V&S both agreed to indemnify one another against all taxes attributable to its income received under the agreement.

### **Potential Refinancing of Credit Agreement**

In October 2001, we entered into a \$70 million credit agreement with Wachovia Bank, consisting of a \$40 million term loan and a \$30 million revolving loan facility. In March 2004, the revolving loan facility was reduced to \$15 million. The credit agreement is due to expire in January 2006. We are considering our alternatives with respect to refinancing its existing credit agreement. We have had discussions with V&S regarding a potential unsecured loan at market rates and terms from V&S to refinance the credit agreement. There can be no assurance that these discussions will result in a refinancing.

**MISCELLANEOUS OTHER INFORMATION**



**Stockholder Proposals**



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Cruzan has not yet determined when it will hold its 2006 annual meeting of stockholders if the merger is not consummated. If the merger is not consummated for any reason, stockholder proposals intended to be included in our proxy statement in connection with our 2006 annual meeting of stockholders were required to be received by September 24, 2005. However, if the 2006 annual meeting of stockholders is held on a date more than 30 days before or after the corresponding date of the 2005 annual meeting, any stockholder who wishes to have a proposal included in our proxy statement and proxy for that meeting must deliver to us a copy of the proposal within a reasonable time before the proxy solicitation is made.

In accordance with Article I, Section 1.9 of our bylaws, for notice of a stockholder proposal to be considered timely, but not included in the proxy materials, a stockholder's proposal must be delivered to, or mailed and received by, Cruzan's Secretary by December 8, 2005. Proposals must comply with certain information requirements set forth in our bylaws. You may obtain a copy of the bylaws from Ezra Shashoua, Secretary, Cruzan International, Inc., 222 Lakeview Avenue, Suite 1500, West Palm Beach, FL 33401. Any Cruzan stockholder desiring to submit a proposal should do so by certified mail, return receipt requested.

### **Where You Can Find More Information**





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We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference room at 100 F Street, N.E. Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street N.E., Room 1580 Washington, D.C. 20549 at prescribed rates. Our public filings with the SEC are also available from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

We have filed a Schedule 13E-3 with the SEC with respect to the merger. As permitted by the SEC, this proxy statement omits certain information contained in the Schedule 13E-3. The Schedule 13E-3, together with any amendments and exhibits filed with or incorporated by reference in the Schedule 13E-3 (including written reports by Houlihan Lokey to the special committee in connection with the merger) is available for inspection or copying as set forth above.

ANNEX A

AGREEMENT AND PLAN OF MERGER

by and among

**THE ABSOLUT SPIRITS COMPANY, INC.**

**CRUZAN ACQUISITION, INC.**

and

**CRUZAN INTERNATIONAL, INC.**

Dated as of September 30, 2005

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This Agreement and Plan of Merger (this Agreement ) is made and entered into as of September 30, 2005, among THE ABSOLUT SPIRITS COMPANY, INC., a Delaware corporation (Parent ), CRUZAN ACQUISITION, INC., a Delaware corporation and a wholly owned subsidiary of Parent (Sub ), and CRUZAN INTERNATIONAL, INC., a Delaware corporation (the Company ). Certain terms used in this Agreement are used as defined in Section 9.03.

WHEREAS, Parent is party to a Stock Purchase Agreement (the Angostura Agreement ) with Angostura Limited (Angostura ) wherein Parent has agreed to purchase, and Angostura has agreed to sell, the 4,294,583 shares of common stock, par value \$0.01 per share of the Company (the Company Common Stock ) owned by Angostura (the Angostura Shares ), representing approximately 64% of the total amount of outstanding Company Common Stock, on the terms and subject to the conditions set forth therein; and

WHEREAS, Parent has, prior to the execution of this Agreement, purchased the Angostura Shares and has thereby become the owner of approximately 64% of the total amount of outstanding Company Common Stock; and

WHEREAS, pursuant to this Agreement, Parent, Sub and the Company have agreed that Sub will merge with and into the Company (the Merger ) on the terms and subject to the conditions set forth in this Agreement, whereby each issued share of Company Common Stock not owned by Parent, Sub or the Company shall be converted into the right to receive \$28.37 in cash; and

WHEREAS, the Board of Directors of the Company (the Company Board ) and a special committee of the Board of Directors of the Company consisting of independent directors not affiliated with Angostura (the Special Committee ) (a) have determined that the Merger and the other transactions provided for herein (the Transactions ) are fair to and in the best interests of the Company and its stockholders other than Parent and its affiliates, it being understood that the Company Board and Special Committee have not approved the acquisition of the Angostura Shares by Parent, and for purposes of this Agreement, the defined term Transactions does not include such acquisition, the Angostura Agreement or any other transactions contemplated thereby, (b) have approved this Agreement and the Transactions and (c) have recommended that the Company's stockholders adopt and approve this Agreement and the Merger; and

WHEREAS, the Board of Directors of Sub has approved and declared advisable, and the Board of Directors of Parent has approved, this Agreement and the Transactions; and

WHEREAS, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, Parent, Sub and the Company hereby agree as follows:

ARTICLE I

The Merger

Section 1.01 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the DGCL ), at the Effective Time Sub shall be merged with and into the Company, the separate corporate existence of Sub shall thereupon cease, and the Company shall be the surviving corporation of the Merger (the Surviving Corporation ).

Section 1.02 Closing. The closing (the Closing ) of the Merger shall take place at the offices of McDermott Will & Emery LLP, 50 Rockefeller Plaza, New York, New York 10020 at 10:00 a.m. local time on the second (2<sup>nd</sup>) business day following the satisfaction (or, to the extent permitted by Law, waiver by all parties) of the conditions set forth in Section 7.01, or, if on such day any condition set forth in Section 7.02 or 7.03 has not been satisfied (or, to the extent permitted by Law, waived by the party or parties entitled to the benefits thereof), as soon as practicable after all the conditions set forth in Article VII have been satisfied (or, to the extent permitted by Law, waived by the parties entitled to the benefits thereof), or at such other place, time and date as shall be agreed in writing between Parent and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date .

Section 1.03 Effective Time. On the Closing Date or as soon as practicable thereafter the Company shall file with the Secretary of State of the State of Delaware, a certificate of merger (the Certificate of Merger ) executed in accordance with the relevant provisions of the DGCL. The Merger shall become effective at such time as the Certificate of Merger is duly filed or at such later time as Parent and the Company shall agree and specify in the Certificate of Merger (the time the Merger becomes effective being the Effective Time ).

Section 1.04 Effects. The Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the properties, rights, privileges, powers and franchises of the Company and Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Sub shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.05 Certificate of Incorporation and By-laws.

(a) The Certificate of Incorporation of the Surviving Corporation shall be amended at the Effective Time without any further action on the part of Company or Sub to read in the form of Exhibit A and, as so amended, such Certificate of Incorporation shall be the Certificate of Incorporation of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable Law.

(b) The By-laws of the Surviving Corporation shall be amended at the Effective Time without any further action on the part of Company or Sub to read in the form of Exhibit B and, as so amended, such By-Laws shall be the By-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable Law.





Section 1.06 Directors. Subject to requirements of applicable Law, the directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Section 1.07 Officers. The officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

## ARTICLE II

### Effect of the Merger on the Capital Stock of the Constituent Corporations; Surrender of Certificates; Options

Section 2.01 Effect on Common Stock. At the Effective Time, as a result of the Merger and without any further action on the part of the Company, Parent, Sub or any holder of any shares of Company Common Stock or any shares of capital stock of Sub:

(a) Common Stock of Sub. Each issued and outstanding share of common stock, par value \$0.01 per share, of Sub shall be converted into and become one (1) fully paid and nonassessable share of common stock, par value \$0.01 per share, of the Surviving Corporation.

(b) Cancellation of Treasury Stock and Parent-Owned Stock. Any shares of Company Common Stock that are owned by the Company as treasury stock, and any shares of Company Common Stock owned by Parent or Sub shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and no cash or other consideration shall be delivered or deliverable in exchange therefor.

(c) Conversion of Company Common Stock. Subject to Section 2.01(b) and 2.03, each issued share of Company Common Stock shall be converted into the right to receive \$28.37 in cash, without interest (the Merger Consideration ). As of the Effective Time, all shares of Company Common Stock shall no longer be outstanding, and each holder of a certificate representing any such shares of Company Common Stock shall cease to have any rights with respect thereto, except, subject to Section 2.03, the right to receive Merger Consideration upon surrender of such certificate in accordance with Section 2.02(b), without interest.

(d) Options. At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any Option, each Option outstanding immediately prior to the Effective Time shall, as provided herein, be either (i) canceled and terminated for no consideration or (ii) converted into the right to receive a cash amount equal to the Option Consideration for each share of Company Common Stock issuable pursuant to any then vested and exercisable Option, if any. Prior to the Effective Time, the Company shall take all actions necessary to provide that each then vested and exercisable Option outstanding immediately prior to the Effective Time shall be converted at the Effective Time into the right to receive a cash



amount equal to the Option Consideration for each share of Company Common Stock issuable pursuant to any then vested and exercisable Option, if any. All unvested or unexercisable Options shall be canceled and terminated and shall be replaced with an incentive plan to be determined by the Board of Directors of the Surviving Corporation following the Closing. Except as otherwise provided below, the Option Consideration shall be paid as soon (but in any event within five (5) business days) after the Closing Date as shall be practicable. Prior to the Effective Time, the Company shall make any amendments to the terms of the Company Stock Plans, and to the terms of any agreement or instrument evidencing the grant of any Options issued other than pursuant to the Company Stock Plans, and use its best efforts to obtain any consents from holders of Options that, in each case, are necessary to give effect to the transactions contemplated by this Section 2.01(d) and, notwithstanding anything to the contrary, payment may be withheld in respect of any Option until any necessary consents are obtained. Without limiting the foregoing, the Company shall take all actions necessary to ensure that the Company will not at the Effective Time be bound by any options, SARs, warrants or other rights or agreements which would entitle any Person, other than Parent and its Subsidiaries, to own any capital stock of the Surviving Corporation or to receive any payment in respect thereof (other than pursuant to this Section 2.01(d)). Prior to the Effective Time, the Company shall take all actions necessary to terminate all its Company Stock Plans, such termination to be effective at or before the Effective Time.

(e) Adjustments. If, between the date of this Agreement and the Effective Time, there is a reclassification, recapitalization, stock split, stock dividend, subdivision, combination or exchange of shares with respect to, or rights issued in respect of, the issued and outstanding shares of Company Common Stock, the Merger Consideration shall be adjusted accordingly, without duplication, to provide the holders of issued and outstanding shares of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

Section 2.02 Surrender of Certificates.

(a) Paying Agent. Prior to the Effective Time, Parent shall select a bank or trust company reasonably acceptable to the Company to act as paying agent (the Paying Agent ) for the payment of the Merger Consideration. Immediately prior to the Effective Time, Parent shall deposit with the Paying Agent cash necessary to pay for the shares of Company Common Stock converted into the right to receive cash pursuant to Section 2.01(c) (such cash being hereinafter referred to as the Exchange Fund ). The Exchange Fund shall not be used for any other purpose.

(b) Payment Procedure. As soon as reasonably practicable after the Effective Time, but in any event within five (5) business days following the Effective Time, the Surviving Corporation and Parent shall cause the Paying Agent to mail to each holder of record of a certificate or certificates (the Certificates ) that immediately prior to the Effective Time represented outstanding shares of Company Common Stock whose shares were converted into the right to receive Merger Consideration pursuant to Section 2.01(c), (i) a letter of transmittal (which shall be in customary form and shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as Parent may reasonably

specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash payable in respect of the shares of Company Common Stock formerly represented thereby pursuant to Section 2.01(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the transfer records of the Company, payment may be made to a person other than the person in whose name the Certificate so surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.02, each Certificate shall, subject to Section 2.03, be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the amount of cash, without interest, payable in respect of the shares of Company Common Stock formerly represented thereby pursuant to Section 2.01. No interest shall be paid or accrue on the cash payable upon surrender of any Certificate.

(c) Transfers; No Further Ownership Rights in Company Common Stock. The Merger Consideration paid in accordance with the terms of this Article II upon conversion of any shares of Company Common Stock shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of Company Common Stock. After the Effective Time, there shall be no registration of transfers on the stock transfer books of the Company of shares of Company Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, any certificates formerly representing shares of Company Common Stock are presented to the Surviving Corporation or the Paying Agent for any reason, they shall be canceled and exchanged as provided in this Article II.

(d) Lost, Stolen or Destroyed Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent will pay the Merger Consideration to such Person in exchange for such lost, stolen or destroyed Certificate.

(e) Termination of Exchange Fund. Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock one (1) year following the Effective Time shall be delivered to Parent, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II shall thereafter look only to Parent for, and Parent shall remain liable for, payment of its claim for Merger Consideration.

(f) No Liability. To the fullest extent permitted by law, none of Parent, Sub, the Company or the Paying Agent shall be liable to any person in respect of any cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

(g) Investment of Exchange Fund. The Paying Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis; provided, however, that such investments shall be in obligations of or guaranteed by the United States of America or any agency or instrumentality thereof and backed by the full faith and credit of the United States of America, in commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker's acceptances of commercial banks with capital exceeding \$1 billion (based on the most recent financial statements of such bank which are then publicly available). Any interest and other income resulting from such investments shall be paid to Parent.

(h) Withholding Rights. Parent, Sub, the Company and the Paying Agent shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Company Common Stock or Options pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under the Code, or under any provision of state, local or foreign tax Law. If Parent, Sub, the Company or the Paying Agent, as the case may be, so withholds amounts, such amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Company Common Stock in respect of which Parent, Sub, the Company or the Paying Agent, as the case may be, made such deduction or withholding.

Section 2.03 Appraisal Rights.

(a) Notwithstanding anything in any other section of this Agreement to the contrary, shares of Company Common Stock, outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal for such shares in accordance with Section 262 of the DGCL (the Dissenting Shares ) shall not be converted into, or represent the right to receive, the Merger Consideration, unless such holder fails to perfect or withdraws or otherwise loses his right to appraisal. At the Effective Time, all Dissenting Shares shall no longer be outstanding, and each holder of Dissenting Shares shall cease to have any rights with respect thereto, except the right to receive payment of the appraised value of such Dissenting Shares held by them in accordance with the provisions of Section 262 of the DGCL. Notwithstanding the foregoing, if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under Section 262 of the DGCL or a court of competent jurisdiction shall determine that such holder is not entitled to the relief provided by Section 262 of the DGCL, then the right of such holder to receive payment of the appraised value of such Dissenting Shares held by them in accordance with the provisions of Section 262 of the DGCL shall cease and such Dissenting Shares shall thereupon be deemed to have been converted into, and to have become exchangeable for, as of the Effective Time, the right to receive the Merger Consideration, without any interest thereon, upon surrender, in the manner provided in Section 2.02, of the Certificate or Certificates that formerly evidenced such Dissenting Shares.

(b) The Company shall give Parent prompt notice of any demands for appraisal received by the Company, withdrawals of such demands and any other instruments served on or otherwise received by the Company pursuant to Section 262 of the DGCL, and Parent shall have the right to participate in and control all negotiations and proceedings with

respect to demands for appraisal under the DGCL. The Company shall not, except with the prior written consent of Parent, make any payment with respect to any demands for appraisal or offer to settle or settle any such demands.

Section 2.04 Stockholders Meeting.

(a) The Company, acting through its Board of Directors, shall, in accordance with applicable Law:

(i) duly call, give notice of, convene and hold a special meeting of its stockholders (the Special Meeting ) as soon as practicable following the date hereof for the purpose of considering and taking action upon this Agreement and the Merger;

(ii) prepare and file with the SEC a preliminary proxy statement or information statement relating to this Agreement and any other required filings, and use its commercially reasonable efforts (A) to obtain and furnish the information required to be included by the SEC in the Proxy Statement (as hereinafter defined) and, after consultation with Parent, to respond promptly to any comments made by the SEC with respect to the preliminary proxy statement and cause a definitive proxy or information statement (the Proxy Statement ) and any other required documents to be mailed to its stockholders and (B) subject to Section 5.02, to obtain the necessary approvals of the Merger and this Agreement and the transactions contemplated hereby by its stockholders; and

(iii) subject to the second sentence of Section 5.02(b), include in the Proxy Statement the recommendation of the Company's Board of Directors and the Special Committee that the stockholders of the Company adopt and approve this Agreement and the Merger.

(b) Notwithstanding any change in the Company Board's or the Special Committee's recommendation pursuant to Section 5.02(b), this Agreement and the Merger shall be submitted to the stockholders of the Company at the Special Meeting for the purpose of obtaining the Company Stockholder Approval, and nothing contained in this Agreement shall be deemed to relieve the Company of such obligation, unless this Agreement is terminated in accordance with its terms.

ARTICLE III

Representations and Warranties of the Company

Except as set forth in (I) the disclosure letter provided by the Company to Parent on the date hereof ( Company Disclosure Letter ) (each paragraph of which shall qualify the specifically identified Sections or subsections hereof to which such paragraph relates and any other provision of this Agreement to which such paragraph reasonably relates) or (II) the Company SEC Documents filed as of the date hereof, the Company represents and warrants to Parent as follows:



Section 3.01 Organization, Standing and Power. Each of the Company and each of its Subsidiaries (the Company Subsidiaries ) is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has full corporate power and authority to own, lease or otherwise hold its properties and assets and to conduct its businesses as presently conducted, where the failure to possess any such franchise, license, permit, authorization or approval is reasonably likely to have a Company Material Adverse Effect. The Company and each Company Subsidiary is duly qualified to do business in each jurisdiction where the nature of its business or their ownership or leasing of its properties make such qualification necessary, except for such jurisdictions in which the failure to be so qualified is not reasonably likely to have a Company Material Adverse Effect. The Company has made available to Parent true and complete copies of the certificates of incorporation of the Company, as amended to the date of this Agreement (as so amended, the Company Charter ), and the By-laws of the Company, as amended to the date of this Agreement (as so amended, the Company By-laws ), and the comparable charter and organizational documents of each Company Subsidiary, in each case as amended through the date of this Agreement.

Section 3.02 Company Subsidiaries; Equity Interests.

(a) The Company Disclosure Letter lists each Company Subsidiary and its jurisdiction of organization. All the outstanding shares of capital stock of each Company Subsidiary have been validly issued and are fully paid and nonassessable and are owned by the Company, by another Company Subsidiary or by the Company and another Company Subsidiary, free and clear of all pledges, liens, charges, mortgages, encumbrances and security interests of any kind or nature whatsoever (collectively, Liens ).

(b) Except for its interests in the Company Subsidiaries, the Company does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any person.

Section 3.03 Capital Structure. The authorized capital stock of the Company consists of 10,000,000 shares of Company Common Stock and 2,500,000 shares of preferred stock, par value \$0.01 per share (the Company Preferred Stock and, together with the Company Common Stock, the Company Capital Stock ), of which as of the date of this Agreement, (a) 6,748,056 shares of Company Common Stock and no shares of Company Preferred Stock were issued and outstanding, (b) 99,200 shares of Company Common Stock were held by the Company in its treasury and (c) 920,750 shares of Company Common Stock were subject to outstanding Options and 304,000 additional shares of Company Common Stock were reserved for issuance pursuant to the Company Stock Plans. Except as set forth above, as of the date of this Agreement, no shares of capital stock or other voting securities of the Company were issued, reserved for issuance or outstanding. All outstanding shares of Company Common Stock are, and all such shares that may be issued prior to the Effective Time will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the Company Charter, the Company By-laws or any Contract to which the Company is a party or otherwise bound. There are not any bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any



matters on which holders of Company Common Stock may vote ( Voting Company Debt ). Except as set forth above, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which the Company or any Company Subsidiary is a party or by which any of them is bound (i) obligating the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exercisable for or exchangeable into any capital stock of or other equity interest in, the Company or of any Company Subsidiary or any Voting Company Debt, (ii) obligating the Company or any Company Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (iii) that give any person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights occurring to holders of Company Common Stock. As of the date of this Agreement, there are not any outstanding contractual obligations of the Company or any Company Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any Company Subsidiary. Following the consummation of the Merger, there will not be outstanding any rights, warrants, options or other securities entitling the holders thereof to purchase, acquire or otherwise receive any shares of the capital stock of the Company or any Company Subsidiary (or any other securities exercisable for or convertible into such Shares).

Section 3.04 Authority; Execution and Delivery; Enforceability.

(a) The Company has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by the Company of this Agreement and the consummation by the Company of the Transactions have been duly authorized by all necessary corporate action on the part of the Company, subject, in the case of the Merger, to receipt of the Company Stockholder Approval. The Company has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, conservatorship, moratorium or similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding may be brought).

(b) The Company Board and the Special Committee have each duly and unanimously adopted resolutions (i) approving this Agreement, the Merger and the other Transactions, (ii) determining that the terms of the Merger and the other Transactions are fair to and in the best interests of the Company and its stockholders other than Parent and its Affiliates, (iii) recommending that the Company's stockholders adopt and approve this Agreement and the Merger and (iv) declaring that this Agreement is advisable. To the Company's knowledge, no state takeover statute or similar statute or regulation other than Section 203 of the DGCL applies or purports to apply to the Company with respect to this Agreement, the Merger or any other Transaction.

(c) The only vote of holders of any class or series of Company Capital Stock necessary to approve and adopt this Agreement and the Merger is the approval of this Agreement and the Merger by the affirmative vote of holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding Company Common Stock which is not owned (as defined in Section 203(c)(9) of the DGCL) by Parent or its Affiliates or Associates (as defined in Section 203 of the DGCL) and the adoption of this Agreement by the affirmative vote of holders of a majority of the outstanding Company Common Stock (collectively, the Company Stockholder Approval ).

Section 3.05 No Conflicts; Consents.

(a) The execution and delivery by the Company of this Agreement do not, and the consummation of the Merger and the other Transactions and compliance with the terms hereof will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any person under, or result in the creation of any Lien upon any of the properties or assets of the Company or any Company Subsidiary under, any provision of (i) the Company Charter, the Company By-laws or the comparable charter or organizational documents of any Company Subsidiary, (ii) subject to receipt of the consents referred to in Section 3.05(b), any material contract, lease, license, indenture, note, bond, agreement, permit, concession, franchise or other instrument (a Contract ) to which the Company or any Company Subsidiary is a party or by which any of their respective properties or assets is bound, where such conflict, violation, default, right of termination, cancellation or acceleration, loss of material benefit, increased, additional, accelerated or guaranteed rights or entitlements or Lien is reasonably likely to have a Company Material Adverse Effect, or (iii) subject to the filings and other matters referred to in Section 3.05(b), any material judgment, order or decree ( Judgment ) or statute, law (including common law), ordinance, rule or regulation ( Law ) applicable to the Company or any Company Subsidiary or their respective properties or assets.

(b) No consent, approval, license, permit, order or authorization ( Consent ) of, or registration, declaration or filing with, or permit from, any Federal, state, local or foreign government or any court of competent jurisdiction, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign (a Governmental Entity ) is required to be obtained or made by or with respect to the Company or any Company Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) compliance with and filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ), (ii) the filing with the SEC of (A) the Proxy Statement, and (B) such reports under Section 13 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), as may be required in connection with this Agreement, the Merger and the other Transactions, (iii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of the other jurisdictions in which the Company is qualified to do business, (iv) compliance with and such filings as may be required under applicable environmental Laws, (v) such filings as may be required in connection with the Taxes described in Section 6.06 and (vi) such Consents which, if not obtained or made, are not reasonably likely to have a Company Material Adverse Effect.

Section 3.06

SEC Documents; Undisclosed Liabilities.

(a) The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company with the SEC since October 1, 2002 (the Company SEC Documents ).

(b) As of its respective date, each Company SEC Document complied in all material respects with the requirements of the Exchange Act or the Securities Act of 1933, as amended (the Securities Act ), as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Company SEC Document, and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any Company SEC Document has been revised or superseded by a later filed Company SEC Document, none of the Company SEC Documents contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of the Company included in the Company SEC Documents comply as to form in all respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles (GAAP ) (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods shown (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(c) The Company's principal executive officer and its principal financial officer have confirmed, based on their most recent evaluation, to the Company's auditors and the audit committee of the Company Board of Directors that between October 1, 2002 and the date of such confirmation: (i) there have not been any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (ii) there has been no fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting. The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company, including its consolidated Subsidiaries, is made known to the Company's principal executive officer and principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared; and such disclosure controls and procedures are effective in timely alerting the Company's principal executive officer and principal financial officer to material information required to be included in the Company's periodic reports required under the Exchange Act. There are no outstanding loans made by the Company or any Company Subsidiary to any executive officer (as defined in Rule 3b-7 under the Exchange Act) or director of the Company. Since the enactment of the Sarbanes-Oxley Act of 2002, neither the Company nor any Company

Subsidiary has made any loans to any executive officer (as defined in Rule 3b-7 under the Exchange Act) or director of the Company or any Company Subsidiary.

(d) The Company is in compliance with the provisions of Section 13(b) of the Exchange Act. Neither the Company nor any of the Company Subsidiaries nor, to the Company's knowledge, any director, officer, agent, employee or other Person acting on behalf of the Company or any of the Company Subsidiaries, has (i) used any corporate or other funds for unlawful contributions, payments, gifts or entertainment, or made any unlawful expenditures relating to political activity to government officials or others or established or maintained any unlawful or unrecorded funds in violation of Section 30A of the Exchange Act or (ii) accepted or received any unlawful contributions, payments, gifts or expenditures. Since the Company's proxy statement dated January 28, 2005, no event has occurred that would be required to be reported pursuant to Item 404 of Regulation S-K promulgated by the SEC.

(e) Since October 1, 2002, neither the Company nor any of the Company Subsidiaries nor any of their respective directors or officers, nor to the Company's knowledge any of their employees, auditors or accountants has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of the Company or any of the Company Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that the Company or any of the Company Subsidiaries has engaged in questionable accounting or auditing practices. Since October 1, 2002, no attorney representing the Company or any of the Company Subsidiaries, whether or not employed by the Company or any of the Company Subsidiaries, has reported evidence of a material violation of securities Laws, breach of fiduciary duty or similar violation by the Company or any of its officers, directors, employees or agents to the Board of Directors of the Company or any committee thereof or to any director or officer of the Company.

(f) Neither the Company nor any Company Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated subsidiaries or in the notes thereto except for such liabilities or obligations that are not reasonably likely to have a Company Material Adverse Effect.

(g) None of the Company Subsidiaries is, or has at any time since October 1, 2002 been, subject to the reporting requirements of Sections 13(a) and 15(d) of the Exchange Act.

Section 3.07 Information Supplied. None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by the Company with

respect to statements made or incorporated by reference therein based on information supplied by Parent or Sub for inclusion or incorporation by reference therein.

Section 3.08 Absence of Certain Changes or Events. From the date of the most recent audited financial statements included in the Company SEC Documents to the date of this Agreement, the Company has conducted its business only in the ordinary course, and during such period there has not been:

- (a) any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a Company Material Adverse Effect;
- (b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any Company Capital Stock or any repurchase for value by the Company of any Company Capital Stock;
- (c) any split, combination or reclassification of any Company Capital Stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of Company Capital Stock;
- (d) (i) any granting by the Company or any Company Subsidiary to any director or executive officer of the Company or any Company Subsidiary of any increase in compensation, except in the ordinary course of business consistent with prior practice or as was required under employment agreements included in or described in the Company SEC Documents filed as of the date hereof, (ii) any granting by the Company or any Company Subsidiary to any such director or executive officer of any increase in severance or termination pay, except as was required under any employment, severance or termination agreements included in or described in the Company SEC Documents filed as of the date hereof, or (iii) any entry by the Company or any Company Subsidiary into, or any amendment of, any employment, severance or termination agreement with any such director or executive officer;
- (e) any change in accounting methods, principles or practices by the Company or any Company Subsidiary materially affecting the consolidated assets, liabilities or results of operations of the Company, except insofar as may have been required by a change in GAAP; or
- (f) any material elections with respect to Taxes by the Company or any Company Subsidiary or settlement or compromise by the Company or any Company Subsidiary of any material Tax liability or refund.

Section 3.09 Taxes.

- (a) Each of the Company and each Company Subsidiary has timely filed, or has caused to be timely filed on its behalf, all Tax Returns required to be filed by it, and all such Tax Returns are true, complete and accurate. All Taxes shown to be due on such Tax Returns, or otherwise owed, have been timely paid in all material respects.

(b) The most recent financial statements contained in the Company SEC Documents reflect an adequate reserve in accordance with GAAP for all Taxes payable by the

Company and the Company Subsidiaries (in addition to any reserve for deferred Taxes to reflect timing differences between book and Tax items) for all Taxable periods and portions thereof through the date of such financial statements. No deficiency with respect to any Taxes has been proposed, asserted or assessed against the Company or any Company Subsidiary, and no requests for waivers of the time to assess any such Taxes are pending.

(c) The Federal income Tax Returns of the Company and each Company Subsidiary consolidated in such Tax Returns have been examined by and settled with the United States Internal Revenue Service, or have closed by virtue of the expiration of the relevant statute of limitations, for all years through 2001. All material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(d) There are no Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of the Company or any Company Subsidiary, except for any such Liens which are not reasonably likely to have a Company Material Adverse Effect. Neither the Company nor any Company Subsidiary is bound by any agreement with respect to Taxes.

Section 3.10 Employee Benefit Plans.

(a) The Company Disclosure Letter sets forth a complete and correct list of all employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), and all employment, collective bargaining, compensation, bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, split dollar insurance, supplemental retirement, severance, change of control, loans or other benefit plans, programs, arrangements or fringe benefits, in each case, which are provided, maintained, contributed to or sponsored by the Company or any Company Subsidiary on behalf of current or former directors, officers or employees of the Company or any Company Subsidiary, or for which the Company or any Company Subsidiary has any liability, contingent or otherwise (collectively, the Company Benefit Plans ). The Company Disclosure Letter separately lists all Company Benefit Plans that are maintained or contributed to for the benefit of (i) any covered participants employed in the United States (excluding possessions thereof), and (ii) any covered participants employed in any United States possession (including the U.S. Virgin Islands) or outside the United States.

(b) With respect to each Company Benefit Plan, the Company has furnished Buyer with a complete and accurate copy of (i) the plan document or other governing contract, as amended, (ii) the most recently distributed summary plan description and summary of material modifications, (iii) each trust or other funding agreement, (iv) the most recently filed IRS Form 5500 (including schedules and attachments), and (v) the most recently received IRS determination letter and application therefor.

(c) The Company Benefit Plans have been operated and administered in accordance with their terms and the applicable requirements of the Code and applicable law. All contributions and all payments and premiums required to have been made to or under any Benefit Plan have been timely and properly made (or otherwise properly accrued if not yet due), and nothing has occurred with respect to the operation of the Company Benefit Plans that would cause the imposition of any liability, penalty or tax under ERISA or the Code

(d) No Company Benefit Plan is subject to Title IV of ERISA, or a multiemployer plan within the meaning of Section 3(37)(A) of ERISA. Neither the Company, any Company Subsidiary nor any trade or business (whether or not incorporated) which is or has ever been treated as a single employer with the Company or any Company Subsidiary under Section 414(b), (c), (m) or (o) of the Code ( ERISA Affiliates ), has incurred any liability under title IV of ERISA or Section 412 of the Code, except for such liability that has been paid in full.

(e) There are no pending (or, to the knowledge of the Company, threatened) suits, audits, examinations, actions, litigation or claims (excluding claims for benefits incurred in the ordinary course) with respect to any of the Company Benefit Plans.

(f) Each of the Company Benefit Plans which is intended to be qualified within the meaning of Section 401 of the Code has received a favorable determination letter from the IRS and no event has occurred and no condition exists which would result in the revocation of any such determination letter.

(g) Neither the execution and delivery of this Agreement nor the consummation of the Merger and other Transactions contemplated hereby would reasonably be expected to (i) directly or indirectly result in any payment becoming due to any current or former employee or director of the Company, (ii) increase any benefits under any Company Benefit Plan, or (iii) result in the acceleration of the time of payment, vesting or other rights with respect to any such benefits. Any amount that will be received (whether in cash or property or the vesting of property) as a result of the Merger or any other Transaction by any employee, officer or director of the Company or any of its affiliates who is a disqualified individual (as such term is defined in Treasury Regulation Section 1.280G-1) under any Company Benefit Plan would not be characterized as an excess parachute payment (as defined in Section 280G(b)(1) of the Code). Set forth in the Company Disclosure Letter is (i) the estimated maximum amount that could be paid to each disqualified individual as a result of the Merger and the other Transactions under all Company Benefit Plans and (ii) the base amount (as defined in Section 280G(b)(3) of the Code) for each disqualified individual calculated as of the date of this Agreement.

(h) The Company and the Company Subsidiaries do not maintain or have an obligation to contribute to, or provide coverage under, any retiree life or retiree health plans or arrangements which provide for continuing benefits or coverage for current or former officers, directors or employees of the Company or any Company Subsidiary, except (i) as may be required under part 6 of Title I of ERISA and at the sole expense of the participant or the participant's beneficiary, or (ii) pursuant to a medical expense reimbursement account described in Section 125 of the Code.

(i) None of the assets of any Company Benefit Plan is stock of the Company or any of its affiliates, or property leased to or jointly owned by the Company or any of its affiliates.



Section 3.11 Litigation. There is no suit, action or proceeding pending or, to the knowledge of the Company, overtly threatened in writing against the Company or any Company Subsidiary (and the Company is not aware of any basis for any such suit, action or proceeding)

that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect, nor is there any Judgment outstanding against the Company or any Company Subsidiary that has had or would reasonably be expected to have a Company Material Adverse Effect.

Section 3.12 Compliance with Applicable Laws; Permits.

(a) The Company and the Company Subsidiaries are in compliance with all applicable Laws, including those relating to occupational health and safety and the environment, except for such instances of noncompliance which are not reasonably likely to have a Company Material Adverse Effect. Neither the Company nor any Company Subsidiary has received any written communication during the past two years from a Governmental Entity that alleges that the Company or a Company Subsidiary is not in compliance with any applicable Law. None of the Company, the Company Subsidiaries or any of their respective Affiliates (i) is conducting as of the date hereof any internal investigation with respect to any alleged act or omission, or (ii) has made between October 1, 2002 and the date hereof or is planning to make a voluntary disclosure to any Governmental Authority with respect thereto.

(b) The Company and each of the Company Subsidiaries hold all material licenses, franchises, permits, certificates, approvals and authorizations from Governmental Authorities, or required by Governmental Authorities to be obtained, in each case necessary for the conduct of their respective businesses, including the manufacture and sale of their respective products (collectively, Permits ), except for those Permits the absence of which are not reasonably likely to have a Company Material Adverse Effect. The Company and the Company Subsidiaries are (and since October 1, 2002 have been) in compliance with the terms of all Permits, except for such instances of noncompliance which are not reasonably likely to have a Company Material Adverse Effect. Since October 1, 2002, neither the Company nor any of the Company Subsidiaries has received written notice to the effect that a Governmental Authority was considering the amendment, termination, revocation or cancellation of any Permit.

Section 3.13 Brokers. No broker, investment banker, financial advisor or other person, other than Houlihan Lokey Howard & Zukin ( HLHZ ), the fees and expenses of which will be paid by the Company, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the Merger and the other Transactions based upon arrangements made by or on behalf of the Company. The Company has furnished to Parent a true and complete copy of all agreements between the Company and HLHZ relating to the Merger and the other Transactions.

Section 3.14 Opinion of Financial Advisor. The Company has received the opinion of HLHZ, dated the date of this Agreement, to the effect that, as of such date, the consideration to be received in the Merger by the holders of Company Common Stock (other than Angostura or Parent) is fair to such stockholders from a financial point of view, a signed copy of which opinion has been delivered to Parent.

Section 3.15 Affiliate Transactions. There are no contracts commitments, agreements, borrowings, arrangements or other transactions between either the Company, on the one hand, and any (a) officer or director of the Company, (b) record or beneficial owner of the

voting securities of the Company, or (c) any other affiliate of such officer, director or beneficial owner, on the other hand.

Section 3.16 Board Resignations. All members of the Company Board (other than the members of the Special Committee and Edward F. McDonnell) have submitted to the Company letters of resignation resigning as directors of the Company, effective upon the execution by all Parties of this Agreement, and the Company Board has adopted resolutions in accordance with the Certificate of Incorporation and Bylaws of the Company filling the vacancies created by such resignations with Mats Andersson, Ola Salmén, Lisa Derman and Ketil Eriksen (the New Directors ), such appointments to take effect as of 9:00 a.m. (New York City time) on October 11, 2005. The Company has furnished to Parent true and complete copies of the resignations and resolutions described in the immediately preceding sentence, which resignations have not been revoked and which resolutions have not been rescinded, amended or otherwise altered in any respect.

#### ARTICLE IV

##### Representations and Warranties of Parent and Sub

Parent and Sub, jointly and severally, represent and warrant to the Company that:

Section 4.01 Organization, Standing and Power. Each of Parent and Sub, is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has full corporate power and authority to conduct its businesses as presently conducted.

Section 4.02 Sub.

(a) Since the date of its incorporation, Sub has not carried on any business or conducted any operations other than the execution of this Agreement, the performance of its obligations hereunder and matters ancillary thereto.

(b) The authorized capital stock of Sub consists of 1,000 shares of common stock, par value \$0.01 per share, 100 of which have been validly issued, are fully paid and nonassessable and are owned by Parent free and clear of any Lien.

Section 4.03      Authority: Execution and Delivery, Enforceability. Each of Parent and Sub has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by each of Parent and Sub of this Agreement and the consummation by it of the Transactions have been duly authorized by all necessary corporate action on the part of Parent and Sub, subject to the adoption of this Agreement by Parent, as sole stockholder of Sub, which Parent warrants and agrees will occur immediately after the execution and delivery of this Agreement. Each of Parent and Sub has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, conservatorship, moratorium or similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedy of specific performance or

injunctive relief is subject to the discretion of the court before which any proceeding may be brought).

Section 4.04 No Conflicts; Consents.

(a) The execution and delivery by each of Parent and Sub of this Agreement, do not, and the consummation of the Merger and the other Transactions and compliance with the terms hereof will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any person under, or result in the creation of any Lien upon any of the properties or assets of Parent or any of its Subsidiaries under, any provision of (i) the charter or organizational documents of Parent or any of its Subsidiaries, (ii) any material Contract to which Parent or any of its Subsidiaries is a party or by which any of their respective properties or assets is bound or (iii) subject to the filings and other matters referred to in Section 4.04(b), any material Judgment or Law applicable to Parent or any of its Subsidiaries or their respective properties or assets.

(b) No Consent of, or registration, declaration or filing with, or permit from any Governmental Entity is required to be obtained or made by or with respect to Parent or any of its Subsidiaries in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) compliance with and filings under the HSR Act, (ii) the filing with the SEC of such reports under Sections 13 and 16 of the Exchange Act, as may be required in connection with this Agreement, the Merger and the other Transactions, (iii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (iv) compliance with and such filings as may be required under applicable environmental Laws, (v) such filings as may be required in connection with the Taxes described in Section 6.06, and (vi) such Consents which, if not obtained or made, are not reasonably likely to have a Parent Material Adverse Effect.

Section 4.05 Information Supplied. None of the information supplied or to be supplied by Parent or Sub for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 4.06 Brokers. No broker, investment banker, financial advisor or other person, other than Lazard Ltd., the fees and expenses of which will be paid by Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Merger and the other Transactions based upon arrangements made by or on behalf of Parent.

Section 4.07

Ownership of Company Stock. On the date of this Agreement, Parent beneficially owns 4,294,583 shares of Company Common Stock. Except for such shares, as of the date of this Agreement, neither Parent nor any of Parent's Affiliates or Associates directly or indirectly owns, and at all times from September 26, 2002 through the date of this

Agreement neither Parent nor any of Parent's Affiliates or Associates directly or indirectly has owned, beneficially or otherwise, any Company Common Stock, as those terms are defined in Section 203 of the DGCL.

Section 4.08 Funding. Parent's Affiliates have, and Parent and Sub will have at Closing, sufficient funds to perform all of their respective obligations under this Agreement to consummate the Merger.

## ARTICLE V

### Covenants Relating to Conduct of Business

Section 5.01 Conduct of Business.

(a) Except for matters expressly permitted by this Agreement, from the date of this Agreement to the time of the effectiveness of the appointment of the New Directors (the Time of Appointment) the Company shall, and shall cause each Company Subsidiary to, conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted and use all commercially reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and employees and keep its relationships with customers, suppliers, licensors, licensees, distributors and others having business dealings with them to the end that its goodwill and ongoing business shall be unimpaired at the Effective Time. In addition, and without limiting the generality of the foregoing, except for matters expressly permitted by this Agreement, from the date of this Agreement to the Time of Appointment, the Company shall not, and shall not permit any Company Subsidiary to, do any of the following without the prior written consent of Parent:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, other than dividends and distributions by a direct or indirect wholly owned subsidiary of the Company to its parent, (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (C) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any Company Subsidiary or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

(ii) issue, deliver, sell or grant (A) any shares of its capital stock, (B) any Voting Company Debt or other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, Voting Company Debt, voting securities or convertible or exchangeable securities or (D) any phantom stock, phantom stock rights, stock appreciation rights or stock-based performance units, other than the issuance of Company Common Stock upon the exercise of Options outstanding on the date of this Agreement and in accordance with their present terms;



- (iii) amend its certificate of incorporation, by-laws or other comparable charter or organizational documents;

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- (iv) acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial equity interest in or portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof or (B) any assets that are material, individually or in the aggregate, to the Company and the Company Subsidiaries, taken as a whole;
- (v) enter or agree to enter into any joint venture or other strategic business arrangement with another Person;
- (vi) (A) grant to any executive officer or director of the Company or any Company Subsidiary any increase in compensation, except in the ordinary course of business consistent with prior practice or to the extent required under employment agreements included in the Company SEC Documents, (B) grant to any executive officer or director of the Company or any Company Subsidiary any increase in severance or termination pay, except to the extent required under any agreement included in or described in the Company SEC Documents, (C) enter into any employment, consulting, indemnification, severance or termination agreement with any such executive officer or director, (D) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or Company Benefit Plan or (E) take any action to accelerate any rights or benefits, or make any material determinations not in the ordinary course of business consistent with prior practice, under any collective bargaining agreement or Company Benefit Plan;
- (vii) make any change in accounting methods, principles or practices materially affecting the reported consolidated assets, liabilities or results of operations of the Company, except insofar as may have been required by a change in GAAP;
- (viii) sell, lease (as lessor), license or otherwise dispose of or subject to any Lien any properties or assets, except sales of inventory and excess or obsolete assets in the ordinary course of business consistent with past practice;
- (ix) (A) incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any Company Subsidiary, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, except for short-term borrowings incurred in the ordinary course of business consistent with past practice, or (B) make any loans, advances or capital contributions to, or investments in, any other person, other than to or in the Company or any direct or indirect wholly owned subsidiary of the Company;
- (x) make or agree to make any new capital expenditure or expenditures that, individually, is in excess of \$1,000,000 or, in the aggregate, are in excess of \$5,000,000;

- (xi) make or change any material Tax election or settle or compromise any material Tax liability or refund;

(xii) (A) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company included in the Company SEC Documents or incurred in the ordinary course of business consistent with past practice, (B) cancel any material indebtedness (individually or in the aggregate) or waive any claims or rights of substantial value or (C) waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any Company Subsidiary is a party; or

(xiii) authorize any of, or commit or agree to take any of, the foregoing actions.

(b) The Company and Parent (including, (i) in its capacity as controlling stockholder of the Company or (ii) after the Time of Appointment, through its representatives on the Company Board) shall not, and shall not permit any of their subsidiaries to take any action that would reasonably be expected to result in (a) any of the representations and warranties of the Company, or, in the case of Parent or Sub, Parent or Sub set forth in this Agreement that is qualified as to materiality becoming untrue, (b) any of such representations and warranties that is not so qualified becoming untrue in any material respect or (c) except as otherwise permitted by Section 5.02, any condition to the Merger set forth in Article VII not being satisfied.

Section 5.02 No Solicitation.

(a) The Company shall not, nor shall it authorize or permit any Company Subsidiary to, nor shall it authorize or permit any officer, director or employee of, or any investment banker, attorney or other advisor or representative (collectively, Representatives ) of, the Company or any Company Subsidiary to, (i) directly or indirectly solicit, initiate or knowingly encourage the submission of any Company Takeover Proposal, or take any action designed to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Company Takeover Proposal, (ii) enter into any agreement with respect to any Company Takeover Proposal or (iii) directly or indirectly enter into, participate in or continue any discussions or negotiations regarding, or furnish to any person any information with respect to, any Company Takeover Proposal; provided, however, that, prior to obtaining the Company Stockholder Approval, the Company and its Representatives may, to the extent required by the fiduciary obligations of the Company Board, as determined in good faith by the Company Board after consultation with outside counsel, in response to a Company Takeover Proposal that was not solicited by the Company and that did not otherwise result from a breach or a deemed breach of this Section 5.02(a) and that the Company Board or the Special Committee determines, after consultation with its financial advisor and outside counsel, is reasonably likely to lead to a Superior Company Proposal, and subject to compliance with Section 5.02(c), (x) furnish information with respect to the Company to the person making such Company Takeover Proposal and its Representatives pursuant to a customary confidentiality agreement and (y) participate in discussions and negotiations with such person and its Representatives regarding such Company Takeover Proposal. Without limiting the foregoing, it is agreed that any violation of the restrictions set forth in the preceding sentence by any Representative or affiliate of the Company or any Company Subsidiary, whether or not such



person is purporting to act on behalf of the Company or any Company Subsidiary or otherwise, shall be deemed to be a breach of this Section 5.02(a) by the Company. The Company shall, and shall cause its Representatives to, cease immediately all discussions and negotiations regarding any proposal that constitutes, or may reasonably be expected to lead to, a Company Takeover Proposal.

(b) Neither the Company Board nor the Special Committee shall (i) withdraw or modify in a manner adverse to Parent or Sub, or propose to withdraw or modify, in a manner adverse to Parent or Sub, the approval or recommendation by the Company Board or the Special Committee of this Agreement or the Merger, (ii) approve any letter of intent, agreement in principle, acquisition agreement or similar agreement relating to any Company Takeover Proposal or (iii) approve or recommend, or propose to approve or recommend, any Company Takeover Proposal. Notwithstanding the foregoing, if the Company Board or the Special Committee determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with their fiduciary obligations, the Company Board or the Special Committee may withdraw or modify its approval or recommendation of the Merger and this Agreement.

(c) The Special Committee promptly shall advise Parent orally and in writing of any Company Takeover Proposal made to the Special Committee or any inquiry with respect to or that could reasonably be expected to lead to any Company Takeover Proposal and the identity of the person making any such Company Takeover Proposal or inquiry. The Special Committee shall (i) keep Parent fully informed of the status, including any change to the details, of any such Company Takeover Proposal or inquiry and (ii) provide Parent as soon as practicable after receipt or delivery thereof with copies of all correspondence and other written material sent or provided to the Company from any third party in connection with any Company Takeover Proposal or sent or provided by the Company to any third party in connection with any Company Takeover Proposal other than materials already provided by the Company to Parent.

(d) Nothing contained in this Section 5.02 shall prohibit the Company from making any required disclosure to the Company's stockholders if, in the good faith judgment of the Company Board, after consultation with outside counsel, failure so to disclose would be inconsistent with its obligations under applicable Law; provided, however, that in no event shall the Company, the Company Board or any committee thereof take, agree or resolve to take any action prohibited by Section 5.02(b). Except as specifically permitted by, or as required in order to take any action specifically permitted by, this Agreement, including this Section 5.02(d), the proviso in Section 5.02(a) or the last sentence of Section 5.02(b) (but excluding the taking of any action pursuant to the resolutions of the Board of Directors of the Company appointing and specifying the duties of the Special Committee which is not otherwise specifically permitted by, or required in order to take any action specifically permitted by, this Agreement), the Special Committee may not take, agree or resolve to take any action that would reasonably be expected to interfere with or delay (i) the receipt of the Company Stockholder Approval or (ii) the consummation of the Merger.

ARTICLE VI

Additional Agreements

Section 6.01 Access to Information; Confidentiality. The Company shall, and shall cause each of the wholly-owned Company Subsidiaries and, to the fullest extent permitted by applicable law (including common law relating to fiduciary duties or otherwise), each of the Company Subsidiaries to afford to Parent, and to Parent's officers, employees, accountants, counsel, financial advisors and other representatives, upon reasonable prior notice, reasonable access during normal business hours during the period prior to the Effective Time to all their respective properties, books, contracts, commitments, personnel and records (provided such access is in a manner that is not unduly disruptive to the Company's operations or business) and, during such period, the Company shall, and shall cause each of the Company Subsidiaries to, furnish promptly to Parent (a) a copy of each report, schedule, registration statement and other document filed by it during such period pursuant to the requirements of Federal or state securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request; provided, however, that the Company and the Company Subsidiaries may withhold (i) any document or information that is subject to the terms of a confidentiality agreement with a third party or (ii) such portions of documents or information relating to pricing or other matters that are highly sensitive if the exchange of such documents (or portions thereof) or information, as determined by such party's counsel, might reasonably result in antitrust difficulties for such party (or any of its affiliates). If any material is withheld by any party pursuant to the proviso to the preceding sentence, such party shall inform the Parent as to the general nature of what is being withheld. Without limiting the generality of the foregoing, the Company shall, within two (2) business days of request therefor, provide to Parent the information described in Rule 14a-7(a)(2)(ii) under the Exchange Act. All information exchanged pursuant to this Section 6.01 shall be subject to the confidentiality agreement dated June 22, 2005 between the Company and Parent (the Confidentiality Agreement ).

Section 6.02 Commercially Reasonable Efforts; Notification.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties shall use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other Transactions, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings (including filings with Governmental Entities, if any) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Transactions, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed and (iv) the execution and delivery of any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this Agreement. In connection with and without limiting the foregoing, the Company, the Company Board and the





Special Committee shall take all commercially reasonable action necessary to ensure that the Merger and the other Transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement. Notwithstanding the foregoing, the Company and its Representatives shall not be prohibited under this Section 6.02(a) from taking any action permitted by Section 5.02(b) or 5.02(d).

(b) (x) Prior to the Time of Appointment the Company shall, if and to the extent it becomes aware of any of the matters described in clauses (i) and (ii) below, give prompt notice to Parent and Sub, (y) following the Time of Appointment, if and to the extent it becomes aware of any of the matters described in clauses (i) and (ii) below, the Special Committee shall give prompt notice to Parent and Sub, and (z) at all times Parent or Sub shall, if and to the extent they become aware of any of the matters described in clauses (i) and (ii) below, give prompt notice to the Special Committee, of (i) any representation or warranty made by the Company or Parent or Sub, respectively, contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

(c) Nothing in Section 6.02(a) shall require Parent to dispose of any of its assets or to limit its freedom of action with respect to any of its businesses, or to consent to any disposition of the Company's assets or limits on the Company's freedom of action with respect to any of its businesses, or to commit or agree to any of the foregoing, and nothing in Section 6.02(a) shall authorize the Company to commit or agree to any of the foregoing, to obtain any consents, approvals, permits or authorizations to remove any impediments to the Merger relating to the HSR Act or other antitrust, competition or premerger notification, trade regulation law, regulation or order (Antitrust Laws) or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding relating to Antitrust Laws, other than dispositions, limitations or consents, commitments or agreements that in each such case may be conditioned upon the consummation of the Merger and that, in the reasonable judgment of Parent, individually or in the aggregate, have not had and could not reasonably be expected to (i) have a Parent Material Adverse Effect, (ii) have a Company Material Adverse Effect, or (iii) materially impair the benefits or advantages which Parent expects to be realized from the Merger and the Transactions.

Section 6.03 Directors and Officers Indemnification and Insurance.

(a) For a period of six (6) years after the Effective Time, unless otherwise required by applicable Law, the certificate of incorporation and bylaws (or equivalent organizational documents) of the Surviving Corporation and its Subsidiaries shall contain provisions no less favorable with respect to the indemnification of and advancement of expenses to directors and officers than are set forth in the Certificate of Incorporation or Bylaws (or equivalent organizational documents) of the Company (or the relevant Subsidiary) as in effect on the date hereof. Parent shall and shall cause the Surviving Corporation to indemnify and advance reasonable expenses to, each present and former director or officer of the Company and



each Subsidiary (collectively, the Indemnified Parties ), in and to the extent of their capacities as such and not as stockholders of the Company or any Subsidiary, in respect of actions, omissions or events through the Effective Time to the fullest extent permitted by Law. Without limiting the generality of the preceding sentence, if any Indemnified Party becomes involved in any actual or threatened action, suit, claim, proceeding or investigation covered by this Section 6.03 after the Effective Time, Parent shall, or shall cause the Surviving Corporation to, to the fullest extent permitted by Law, promptly advance to such Indemnified Party his or her reasonable legal or other reasonable expenses (including the reasonable cost of any investigation and preparation incurred in connection therewith).

(b) The Surviving Corporation shall either (i) cause to be obtained a tail insurance policy with a claims period of at least six (6) years from the Effective Time with respect to directors and officers liability insurance in amount and scope at least as favorable as the Company's policies existing as of the date of this Agreement for claims arising from facts or events that occurred prior to the Effective Time or (ii) maintain the officers and directors liability insurance policies maintained by the Company on the date of this Agreement (provided that the Surviving Corporation may substitute therefore policies of at least the same coverage containing terms and conditions that are not less favorable to the Indemnified Parties) for a period of six (6) years after the Effective Time so long as the annual premium therefor is not in excess of 200% of the last annual premium paid prior to the date hereof; provided, however, that if the existing officers and directors liability insurance policies expire, are terminated or canceled during such six (6) year period or require an annual premium in excess of 200% of the current annual premium paid by the Company for such insurance, the Company will obtain as much coverage as can be obtained for the remainder of such period for a premium not in excess of 200% (on an annualized basis) of such current annual premium. The Company represents to Parent that the current annual premium paid for such insurance is \$70,000.

(c) If Parent or the Surviving Corporation or any of its successors or assigns (i) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or shall cease to continue to exist for any reason or (ii) shall transfer all or substantially all of its properties and assets to any individual, corporation or other entity, then, and in each such case, proper provisions shall be made so that the successors and assigns of Parent or the Surviving Corporation and the transferee or transferees of such properties and assets, as applicable, shall assume all of the obligations set forth in this Section 6.03.

(d) The provisions of this Section 6.03 are intended to be for the benefit of, and shall be enforceable by, the Indemnified Parties and their respective heirs and representatives.

Section 6.04 Fees and Expenses.

(a) Except as provided below, all fees and expenses incurred in connection with the Merger and the other Transactions shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) The Company shall pay to Parent a fee of \$3,000,000 if Parent terminates this Agreement pursuant to Section 8.01(e). Any fee due under this Section 6.04(b) shall be paid by wire transfer of same-day funds on the date of termination of this Agreement, and shall be subject to a credit for any expense reimbursement actually paid pursuant to Section 6.04(c).

(c) The Company shall reimburse Parent and Sub for all their documented out-of-pocket expenses actually incurred up to a maximum of \$1,500,000 in connection with this Agreement, the Merger and the other Transactions, if this Agreement is terminated pursuant to Section 8.01(c) or 8.01(e). Such reimbursement shall be paid upon demand following such termination, except that no payment shall be due under this Section 6.04(c) if the Company has previously made any payment due under Section 6.04(b).

Section 6.05 Public Announcements. Prior to Closing, Parent and Sub, on the one hand, and the Company, on the other hand, shall consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the Merger and the other Transactions and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable Law, court process or by obligations pursuant to any listing agreement with any national securities exchange.

Section 6.06 Transfer Taxes. All stock transfer, real estate transfer, documentary, stamp, recording and other similar Taxes (including interest, penalties and additions to any such Taxes) (Transfer Taxes) incurred in connection with the Transactions shall be paid by either Sub or the Surviving Corporation, and the Company shall cooperate with Sub and Parent in preparing, executing and filing any Tax Returns with respect to such Transfer Taxes.

Section 6.07 Stockholder Litigation. The Company shall give Parent the opportunity, at Parent's expense, to participate in the defense or settlement of any stockholder litigation against the Company and its directors relating to any Transaction; provided, however, that no such settlement shall be agreed to without Parent's consent, which shall not be unreasonably withheld.

Section 6.08 Continuation of Special Committee. Parent and Sub agree that, from and after the Time of Appointment, at all times prior to the earlier of (x) the Closing or (y) the termination of this Agreement, (a) they shall cause the Company's Board of Directors to continue the existence of the Special Committee without any change in its duties or authority and, subject to Section 9.01, continue the existing membership of such committee so long as its existing members are willing to serve and Parent and Sub shall not seek to remove the members of such Committee from the board of directors (other than in the case of removal for cause, as determined in good faith by the Company Board after consultation with outside counsel) and (b) should a single vacancy occur in the membership of such Special Committee, Parent and Sub shall cause the Committee size to be reduced to one member and (c) if two vacancies occur in such membership or, if the size of the Special Committee is reduced to one and the sole membership is vacant, Parent and Sub shall cause the election of an individual to the board of directors of the Company who constitutes an independent director under Section 121 of the American Stock Exchange Company

Guide and shall cause the appointment of such director to

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be the sole member of the Special Committee; provided that removal for cause shall not be permitted if such removal would cause there to be no Special Committee member to then be serving on the Special Committee unless and until such time as an independent director as referred to above shall have been appointed to the Special Committee, with such appointment to become effective immediately upon such removal.

Section 6.09 Employee Benefits and Contracts. For a period of twelve (12) months following the Effective Time: (a) Parent or the Surviving Corporation shall provide generally to officers and employees of the Company and its Subsidiaries, while employed by any of them, base salary and employee benefit plans which, when taken as a whole, are substantially equivalent to the base salary they currently receive and the employee benefits described on Exhibit B to the Company Disclosure Letter (other than the Stock Option Plans (1992 and 2004) and the Sales/Marketing Bonus Program, which may be terminated at or following the Effective Time), provided that no employees of the Company or any of its Subsidiaries shall be excluded from coverage under any medical benefit plan due to a pre-existing condition except to the extent such exclusions were applicable under such a plan immediately prior to the Effective Time; and (b) Parent or the Surviving Corporation shall provide generally to officers and employees of the Company and its Subsidiaries severance benefits to eligible employees and officers that are no less than the applicable amount of severance payments provided under any severance plan disclosed on the Company Disclosure Letter. For purposes of participation, vesting and (except in the case of Parent retirement plans) benefit accrual under Parent's employee benefit plans, the service of the employees of the Company and its Subsidiaries prior to the Effective Time shall be treated as service with a Parent entity participating in such employee benefit plans if and to the extent that such service is relevant under such employee benefit plans as they are applied to similarly situated employees of Parent. Parent also shall cause the Surviving Corporation and its Subsidiaries to honor in accordance with their terms all existing employment, consulting and other compensation obligations disclosed in the Company Disclosure Letter, and all provisions for vested benefits or other vested amounts earned or accrued through the Effective Time under the Company Benefit Plans disclosed in the Company Disclosure Letter, subject to any conditions provided therein.

Section 6.10 Parent and Sub Voting Agreement. Parent and Sub agree (a) to vote or to cause to be voted all shares of Company Common Stock owned of record or beneficially by them or any of their Affiliates or associates in favor of the Agreement and, to the extent required, for the consummation of the other Transactions and (b) not to transfer (whether by operation of law or otherwise) or cause the transfer of, or to otherwise dispose of, or cause the disposition of, any such shares now owned of record or beneficially by them or any of their Affiliates or associates, or later acquired by any such party, prior to the Closing. Parent shall inform the Special Committee of the number of shares of Company Common Stock it and its Affiliates and Associates directly or indirectly own (as those terms are defined in Section 203 of the DGCL) on the record date for the Special Meeting.

Section 6.11 Schedule 14f-1. On or before 5:30 p.m. (New York City time) on September 30, 2005 the Company shall cause the filing with the Securities and Exchange Commission and the transmittal to its stockholders of record of a Schedule 14f-1 with respect to the New Directors in the form attached hereto as Exhibit C (the Schedule 14f-1). The

Company hereby authorizes McDermott Will & Emery LLP to so file and transmit the Schedule 14f-1 on its behalf.

ARTICLE VII

Conditions Precedent

Section 7.01 Conditions to Each Party's Obligation To Effect The Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

- (a) Stockholder Approval. The Company shall have obtained the Company Stockholder Approval.
  
- (b) Antitrust. The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired. Any consents, approvals and filings under any Antitrust Law, the absence of which would prohibit the consummation of Merger or would reasonably be expected to have a Parent Material Adverse Effect, shall have been obtained or made.
  
- (c) No Injunctions or Restraints. No temporary judgment issued by any court of competent jurisdiction or other law preventing the consummation of the Merger shall be in effect; provided, however, that prior to asserting this condition, subject to Section 6.02, each of the parties shall have used all commercially reasonable efforts to prevent the entry of any such injunction or other order and to appeal as promptly as possible any such judgment that may be entered.

Section 7.02 Conditions to Obligations of Parent and Sub. The obligations of Parent and Sub to effect the Merger are further subject to the following conditions:

- (a) Representations and Warranties.
  - (i) The representations and warranties of the Company in Article III hereof, other than in Sections 3.01, 3.03, 3.04, 3.14 and 3.16, shall be true and correct as of the Closing Date as though made on the Closing Date (without giving effect to the words and terms "material," "in all material respects" and "Company Material Adverse Effect" whether or not capitalized), except to the extent such representations and warranties expressly relate to a particular date (in which case such representations and warranties shall be true and correct, on and as of such particular date (without giving

effect to the words and terms material, in all material respects and Company Material Adverse Effect (whether or not capitalized)); provided, however, that notwithstanding anything herein to the contrary, the condition set forth in this Section 7.02(a) shall be deemed to have been satisfied even if the representations and warranties of the Company are not so true and correct, unless the failure of such representations and warranties of the Company to be so true and correct, individually or in the aggregate, would reasonably be expected to have a Company Material Adverse Effect. Parent shall have received a certificate signed on behalf of the Company by an officer of the Company to such effect.



(ii) The representations and warranties of the Company in Sections 3.01, 3.03, 3.04, 3.14 and 3.16 shall be true and correct in all material respects, as of the Closing Date as though made on the Closing Date, except (A) to the extent such representations and warranties expressly relate to a particular date (in which case such representations and warranties shall be true and correct in all material respects, on and as of such particular date) and (B) that the representations and warranties as to the number of outstanding and reserved shares of Company Common Stock in clauses (a), (b) and (c) of Section 3.03 shall be true and correct, except that an aggregate of up to 1,000 additional shares of Company Common Stock may be outstanding and reserved. Parent shall have received a certificate signed on behalf of the Company by an officer of the Company to such effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement during the period from the execution hereof through the Time of Appointment, except for such defaults in performance as Parent may cause in its capacity as a controlling stockholder or in the case of Section 6.11 the failure by McDermott Will & Emery LLP, on behalf of the Company, to file the Schedule 14f-1 with the Securities and Exchange Commission (and receive confirmation of acceptance from the Securities and Exchange Commission), unless the Company revoked McDermott Will & Emery LLP's authority to do so, and Parent shall have received a certificate signed on behalf of the Company by an officer of the Company to such effect.

(c) Performance of Obligations of the Special Committee. The Special Committee shall have performed in all material respects all obligations required to be performed by it under Sections 5.02, 6.02 and 9.11 at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Special Committee to such effect.

(d) No Litigation. There shall not be pending or threatened in writing any suit, action or proceeding by any Governmental Entity, in each case that has a reasonable likelihood of success, (i) challenging the acquisition by Parent or Sub of any Company Capital Stock, seeking to restrain or prohibit the consummation of the Merger or any other Transaction or seeking to obtain from the Company, Parent or Sub any damages that are material in relation to the Company and the Company Subsidiaries taken as a whole, (ii) seeking to prohibit or limit the ownership or operation by the Company, Parent or any of their respective subsidiaries of any material portion of the business or assets of the Company, Parent or any of their respective subsidiaries of any material portion of the business or assets of the Company, Parent or any of their respective subsidiaries, or to compel the Company, Parent or any of their respective subsidiaries to dispose of or hold separate any material portion of the business or assets of the Company, Parent or any of their respective subsidiaries, as a result of the Merger or any other Transaction, (iii) seeking to impose limitations on the ability of Parent to acquire or hold, or exercise full rights of ownership of, any shares of Company Capital Stock, including the right to vote the Company Capital Stock purchased by it on all matters properly presented to the stockholders of the Company, (iv) seeking to prohibit Parent or any of its Subsidiaries from effectively controlling in any material respect the business or operations of the Company and the Company Subsidiaries or (v) which is reasonably likely to have a Company Material Adverse Effect.

(e) Absence of Company Material Adverse Effect. Except as disclosed in the Company SEC Documents or in the Company Disclosure Letter, since the date of the most recent audited financial statements included in the Company SEC Documents there shall not have been any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a Company Material Adverse Effect.

(f) Resignation of Special Committee and Independent Directors. Each member of the Special Committee and each other member of the Company Board who is an independent director under Section 121 of the American Stock Exchange Company Guide shall have submitted his resignation from his position as a director of the Company and, if applicable, a member of the Special Committee, effective at the Effective Time, and such resignations shall not have been revoked.

Section 7.03 Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is further subject to the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Sub in this Agreement shall be true and correct as of the Closing Date as though made on the Closing Date (without giving effect to the words and terms material, in all material respects and Parent Material Adverse Effect whether or not capitalized), except to the extent such representations and warranties expressly relate to a particular date (in which case such representations and warranties shall be true and correct on and as of such particular date (without giving effect to the words and terms material, in all material respects and Parent Material Adverse Effect whether or not capitalized); provided, however, that notwithstanding anything herein to the contrary, the condition set forth in this Section 7.03(a) shall be deemed to have been satisfied even if any representations and warranties of Parent and Sub are not so true and correct, unless the failure of such representations and warranties of Parent and Sub to be so true and correct, individually or in the aggregate, would reasonably be expected to prevent the consummation of the Merger or prevent Parent or Sub from performing its obligations under this Agreement. The Company shall have received a certificate signed on behalf of each of Parent and Sub by an officer of each Parent and Sub to such effect.

(b) Performance of Obligations of Parent and Sub. Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of each of Parent and Sub by an officer of each of Parent and Sub to such effect.

(c) Deposit. The deposit required by Section 2.02(a) shall have been made.

ARTICLE VIII

Section 8.01 Termination. This Agreement may be terminated at any time prior to the Effective Time by action taken or authorized by the Board of Directors or, in the case of the Company, the Special Committee, of the terminating party or parties, whether before or, subject to the terms hereof, after receipt of Company Stockholder Approval:

- (a) by mutual written consent of Parent, Sub and the Company;
  
- (b) by either Parent or the Company:
  - (i) if the Merger is not consummated on or before April 30, 2006 (the Outside Date ), unless the failure to consummate the Merger is the result of a breach of this Agreement by the party seeking to terminate this Agreement; provided, however, that the passage of such period shall be tolled for any part thereof during which any party shall be subject to a nonfinal order, decree, ruling or action restraining, enjoining or otherwise prohibiting the consummation of the Merger;
  
  - (ii) if any Governmental Entity has issued an order, decree or ruling or has taken any other action permanently enjoining, restraining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable; or
  
  - (iii) if, upon a vote at a duly held meeting to obtain the Company Stockholder Approval, the Company Stockholder Approval is not obtained;
  
- (c) by Parent, if the Company or the Special Committee breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 7.02(a), 7.02(b) or 7.02(c), and (ii) cannot be or has not been cured within thirty (30) days after the giving of written notice to the Company of such breach (provided that Parent is not then in material breach of any representation, warranty or covenant contained in this Agreement);
  
- (d) by Company, if Parent or Sub breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 7.03(a) or 7.03(b), and (ii) cannot be or has not been cured within thirty (30) days after the giving of written notice to Parent and Sub of such breach (provided that the Company is not then in material breach of any representation, warranty or covenant contained in this Agreement); or
  
- (e) by Parent:
  - (i) if (A) prior to the Time of Appointment, the Company Board or any committee thereof (including the Special Committee) or (B) after the Time of Appointment, the Special Committee, withdraws or modifies, in a manner

adverse to Parent or Sub, or proposes to withdraw or modify, in a manner adverse to Parent or Sub, its approval or recommendation of this Agreement or the Merger, fails to recommend to the Company's stockholders that they give the Company Stockholder Approval or approves or recommends, or proposes to approve or recommend, any Company Takeover Proposal; or

(ii) if (A) prior to the Time of Appointment, the Company or any of its Representatives or (B) after the Time of Appointment, the Special Committee or any

investment banker, attorney or other advisor retained by the Special Committee or any other representative of the Special Committee, takes any of the actions that are proscribed by Section 5.02, except any action taken at the direction of or with the written approval of Parent.

Section 8.02 Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 8.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company, other than Section 3.13, Section 4.06, the last sentence of Section 6.01, Section 6.04, this Section 8.02 and Article IX, which provisions shall survive such termination, and except to the extent that such termination results from the willful breach by a party of any representation, warranty or covenant set forth in this Agreement.

Section 8.03 Amendment. This Agreement may be amended by the parties at any time before or after receipt of the Company Stockholder Approval by action taken or authorized by the Board of Directors or, in the case of the Company, to the extent permitted by applicable law, the Special Committee, of each such party; provided, however, that after receipt of the Company Stockholder Approval, there shall be made no amendment that by Law requires further approval by the stockholders of the Company without the further approval of such stockholders. To the extent the Special Committee is prohibited by applicable law from amending this Agreement in accordance with this Section 8.03, the Company shall not be entitled to do so without the approval or recommendation thereof by the Special Committee. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

Section 8.04 Extension: Waiver. At any time prior to the Effective Time, the parties by action taken or authorized by the Board of Directors or, in the case of the Company, to the extent permitted by applicable law, the Special Committee, of such party, may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement or (c) to the fullest extent permitted by law, waive compliance with any of the agreements or conditions contained in this Agreement. To the extent the Special Committee is prohibited by applicable law from taking an action described in clauses (a), (b) or (c) above, the Company shall not be entitled to do so without the approval or recommendation thereof by the Special Committee. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

Section 8.05 Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 8.01, an amendment of this Agreement pursuant to Section 8.03 or an extension or waiver pursuant to Section 8.04 shall, in order to be effective, require in the case of Parent or Sub, action by its Board of Directors or, in the case of the Company, to the extent permitted by applicable law, action by the Special Committee. To the extent the Special Committee is prohibited by applicable law from taking an action in accordance with this Section 8.05, the Company shall not be entitled to do so without the approval or recommendation thereof by the Special Committee.



ARTICLE IX

General Provisions

Section 9.01 Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 9.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

Section 9.02 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (a) on the date of delivery if delivered personally, (b) on the first (1<sup>st</sup>) business day following the date of dispatch if delivered by a nationally recognized next-day courier service, (c) on the fifth (5<sup>th</sup>) business day following the date of mailing if delivered by registered or certified mail (postage prepaid, return receipt requested) or (d) if sent by facsimile transmission, when transmitted and receipt is confirmed. All notices under Section 6.02 or Article VIII shall be delivered by courier and facsimile transmission to the respective parties at the addresses provided in accordance with this Section 9.02. All notices hereunder shall be delivered to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.02):

(a) if to Parent or Sub, to

V&S Vin & Sprit AB (publ)

SE-117 97 STOCKHOLM, Sweden

Attention: CEO

with a copy to:

McDermott Will & Emery LLP

600 13th Street, N.W.

12th Floor

Washington, D.C. 20005-3096



Attention: Karen A. Dewis, Esq.

(b) if to the Company, to

Cruzan International, Inc.

222 Lakeview Avenue

Suite 1500

West Palm Beach, FL 33401

Attention: President

with a copy to:

Gunster, Yoakley & Stewart, P.A.

777 South Flagler Drive

Suite 500 East

West Palm Beach, FL 33401

Attention: Michael V. Mitrione, Esq.

and to:

Special Committee of Cruzan International, Inc.

Board of Directors

c/o Morris, Nichols, Arsht & Tunnell

1201 N. Market Street

P.O. Box 1347

Wilmington, DE 19899

Attention: Martin P. Tully, Esq.

with a copy (which shall not constitute notice) to:

Morris, Nichols, Arsht & Tunnell

1201 N. Market Street

P.O. Box 1347

Wilmington, DE 19899

Attention: Martin P. Tully, Esq.

Section 9.03      Definitions. For purposes of this Agreement:

(a) As used in this Agreement, the following terms have the meanings ascribed thereto below:

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Affiliate of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person.

Code means the United States Internal Revenue Code of 1986, as amended.

Company Material Adverse Effect means any change, event or effect that is materially adverse to the business, assets (including intangible assets), financial condition or results of operations or reasonably foreseeable prospects of the Company and its Subsidiaries, taken as a whole, or on the Company's ability to consummate the transactions contemplated in this Agreement, provided that no such change, event or effect shall constitute or be considered in determining whether there has occurred a Company Material Adverse Effect if such change, event or effect results from (i) any action taken at the direction of the Company Board following the Time of Appointment, (ii) the failure of the Company Board following the Time of Appointment to properly exercise its duties of oversight of the affairs of the Company or (iii) at the direction of the Parent, and provided further that none of the following or any change, event or effect resulting therefrom shall constitute or shall be considered in determining whether there has occurred a Company Material Adverse Effect:

- (i) general economic conditions worldwide or in any nation or region in which the Company or any of its Subsidiaries has a substantial presence or operations and not disproportionately affecting the Company and its Subsidiaries;
- (ii) acts of terrorism or any outbreak of war not disproportionately affecting the Company and its Subsidiaries;
- (iii) the public announcement by the parties of this Agreement, the pendency of the Merger or the other transactions contemplated hereby, any action taken which is specifically required by this Agreement or the incurrence of reasonable expenses in connection with the consummation of the Merger and the Transactions;
- (iv) factors generally affecting the industries or markets in which the Company and its Subsidiaries operate and not disproportionately affecting the Company and its Subsidiaries;
- (v) changes in Law or generally accepted accounting principles (or the interpretation thereof) not disproportionately affecting the Company and its Subsidiaries;
- (vi) any failure by the Company to meet any Company or published securities analyst estimates of revenues or earnings for any period ending on or after the date of this Agreement and prior to the Closing; provided, however, that this clause shall not exclude any underlying change, event, circumstance, development or effect that may have resulted in, or contributed to the Company's failure to meet such published securities analyst estimates of revenue or earnings for any such period; and
- (vii) a decline in the trading price or change in trading volume of the Company Common Stock, provided that this clause will not exclude any underlying change, event, circumstance, development or effect that may have resulted in, or contributed to, a decline in trading price or change in trading volume.

Company Takeover Proposal means any proposal or offer from any Person or group (other than Parent and its Affiliates) relating to any direct or indirect acquisition or purchase of 10% or more of the assets of the Company and its Subsidiaries, taken as a whole, or 10% or more of any class of equity securities of the Company then outstanding, any tender offer or exchange offer that if consummated would result in any Person beneficially owning 10% or more of any class of equity securities of the Company then outstanding, and any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company, other than the transactions contemplated by this Agreement.

Company Stock Plans shall mean the Todhunter International, Inc. 1992 Employee Stock Option Plan, as amended, and the Cruzan International, Inc. 2004 Option Plan.

Option Consideration means, with respect to any share of Company Common Stock issuable under a particular Option at the Effective Time, an amount equal to the excess, if any, of (i) the Merger Consideration per share of Company Common Stock over (ii) the exercise price payable in respect of such share of Company Common Stock issuable under such Option.

Options shall mean options representing the right to acquire shares of Company Common Stock.

Parent Material Adverse Effect means (i) a material adverse effect on the ability of Parent or Sub to perform its obligations under this Agreement or (ii) a material adverse effect on the ability of Parent or Sub to consummate the Merger and the other Transactions.

Person means any individual, firm, corporation, partnership, company, limited liability company, trust, joint venture, association, Governmental Entity or other entity.

Subsidiary of any person means another person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first person.

Superior Company Proposal means any proposal made by a third party to acquire 10% or more of the equity securities or assets of the Company, pursuant to a tender or exchange offer, a merger, a consolidation, a liquidation or dissolution, a recapitalization, or a sale of its assets, (i) on terms which the Company Board or the Special Committee determines in good faith (after consultation with its independent financial advisor) to be superior from a financial point of view to the holders of Company Common Stock than the Transactions, taking into account all the terms and conditions of such proposal and this Agreement (including any proposal by Parent to amend the terms of the Transactions or this Agreement), (ii) that is reasonably capable of being completed, taking into account all financial, regulatory, legal and other aspects of such proposal and (iii) for which any necessary financing is committed or, in the good faith determination of the Company Board, likely to be obtained.

Taxes means all forms of taxation, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a local, municipal, governmental, state, foreign, Federal or other Governmental Entity, or in connection with any agreement with respect to Taxes, including all interest, penalties and additions imposed with respect to such amounts.

Tax Return means all Federal, state, local, provincial and foreign Tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax return relating to Taxes.

(b) The following terms are defined on the page of this Agreement set forth after such term below:

**Defined Term**

Affiliate

Agreement

Angostura

Angostura Agreement

Angostura Shares



Antitrust Laws  
Assignee  
Certificate of Merger  
Certificates  
Closing  
Closing Date  
Company  
Company Benefit Plans  
Company Board  
Company By-Laws  
Company Capital Stock  
Company Charter  
Company Common Stock  
Company Disclosure Letter  
Company Material Adverse Effect  
Company Preferred Stock  
Company SEC Documents  
Company Stockholder Approval  
Company Subsidiaries  
Company Takeover Proposal  
Confidentiality Agreement  
Consent  
Contract  
DGCL  
Dissenting Shares  
Effective Time  
ERISA  
ERISA Affiliates  
Exchange Act  
Exchange Fund  
GAAP  
Governmental Entity  
HLHZ  
HSR Act  
Indemnified Parties  
Judgment  
Law  
Liens  
Merger  
Merger Consideration  
New Directors  
Outside Date  
Parent  
Paying Agent  
Person



Proxy Statement  
Representatives  
Schedule 14f-1  
Securities Act  
Special Committee  
Special Meeting  
Sub  
Subsidiary  
Superior Company Proposal  
Surviving Corporation  
Taxes  
Tax Return  
Time of Appointment  
Transactions  
Transfer Taxes  
Voting Company Debt

Section 9.04 Interpretation: Disclosure Letters. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Each party hereto has participated in the drafting of this Agreement, which each party acknowledges and agrees is the result of extensive negotiations among the parties. Whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation

Section 9.05 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or Law, or public policy, all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

Section 9.06 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 9.07 Entire Agreement; No Third-Party Beneficiaries. This Agreement, taken together with the Company Disclosure Letter and the Confidentiality Agreement, (a) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the Transactions and (b) except for the provisions of Section 6.03 are not intended to confer upon any person other than the parties any rights or remedies.

Section 9.08 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to conflicts of laws principles.

Section 9.09 Assignment. This Agreement shall not be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that Sub may assign, in its sole discretion and without the consent of any other party, any or all of its rights, interests and obligations hereunder to (a) Parent, (b) Parent and one or more direct or indirect wholly-owned subsidiaries of Parent, or (c) one or more direct or indirect wholly-owned subsidiaries of Parent (each, an Assignee ), provided, however, that (i) no such assignment shall relieve Sub of any of its obligations under this Agreement and (ii) to the extent required by Section 251 of the DGCL in order for this Agreement, with such rights assigned, to be valid from and after such assignment, such assignment shall be effective only after (A) an appropriate amendment to this Agreement to effectuate such assignment shall have been executed by the parties hereto and any such Assignee and (B) such amendment, or this Agreement as so amended, shall have received all approvals required by the DGCL or other applicable law. Subject to the preceding sentences, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

Section 9.10 Enforcement; Jurisdiction; WAIVER OF JURY TRIAL. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in the Court of Chancery of the State of Delaware or any Federal court located in the State of Delaware, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware or any Federal court located in the State of Delaware in the event any dispute arises out of this Agreement or any Transaction, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or any Transaction in any court other than the Court of Chancery of the State of Delaware or any Federal court sitting in the State of Delaware, (d) to the fullest extent permitted by law, consents to service being made through the notice procedures set forth in Section 9.02, and (e) WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION RELATED TO OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION. Each party hereto hereby agrees that, to the fullest extent permitted by Law, service of any process, summons, notice or document by U.S. registered mail to the respective addresses set forth in Section 9.02 shall be effective service of process for any suit or proceeding in connection with this Agreement or the transactions contemplated hereby.

Section 9.11 Authority of Special Committee. No action taken or purported to have been taken on behalf of the Company after the date hereof and prior to the earlier of (a) the Closing or (b) the termination of this Agreement, with respect to any Specified Matter (or other matter requiring action by the Special Committee under this Agreement or the resolutions of the Board of Directors of the Company appointing and specifying the duties of the Special

Committee) shall be valid or effective unless such action has been approved by the Special Committee. Without limiting the foregoing, prior to the earlier of (a) the Closing or (b) the termination of this Agreement, the approval of the Special Committee shall be required to authorize any Specified Matter. For purposes of this Agreement, each of the following shall be a Specified Matter : (a) any amendment or termination by the Company of, and any exercise or enforcement by the Company of any right under, this Agreement; (b) any extension of time for the performance of any of the obligations or acts of Parent or Sub under this Agreement; (c) any waiver of any right of the Company, or any condition to any obligation of the Company, under this Agreement; (d) any grant by the Company of any consent or approval pursuant to, or any other action by the Company relating to, this Agreement; (e) any action or failure to act on the part of the Company that could reasonably be expected to constitute or result in a breach of, or to delay or interfere with the performance of, this Agreement; (f) any agreement or transaction involving the payment, transfer or disposition by the Company and the Company Subsidiaries of consideration having a fair market value of \$1,100,000 or more annually or the transfer of tangible or intangible assets by the Company and the Company Subsidiaries with a fair market value of \$1,100,000 or more between (x) the Company or any Company Subsidiary and (y) Parent, Sub or any Affiliate of Parent or Sub (other than the Company or any Company Subsidiary) other than a transaction pursuant to an arrangement in place on the date hereof; (g) any change in the Special Committee's recommendation as provided for in Section 5.02(b); (h) any amendment to the Company's certificate of incorporation or bylaws that would adversely affect the holders of Company Common Stock; and (i) any change in the authority or membership of the Special Committee, except as provided for in Section 6.08. To the fullest extent permitted by law, the authorization of any Specified Matter by the Special Committee shall constitute the authorization of such Specified Matter by the Company Board of Directors, and no other action on the part of the Company or any other director of the Company shall be required to authorize such Specified Matter. The Special Committee shall meet to consider a Specified Matter upon not less than seven (7) days' advance written notice of the time and location of such meeting delivered by Parent or Company management, which notice shall contain a description of the Specified Matter to be considered; provided that such seven (7) day period shall be extended if and to the extent necessary to ensure that the Special Committee shall have at least seven (7) days to review any information that the Special Committee shall reasonably request from Parent or Company management in connection with its consideration of such Specified Matter.

IN WITNESS WHEREOF, Parent, Sub and the Company have duly executed this Agreement, all as of the date first written above.

**THE ABSOLUT SPIRITS COMPANY, INC.**

By: /s/ Michael Misiorski  
Name: Michael Misiorski  
Title: Chief Financial Officer

**CRUZAN ACQUISITION, INC.**

By: /s/ Michael Misiorski  
Name: Michael Misiorski  
Title: President

**CRUZAN INTERNATIONAL, INC.**

By: /s/ Jay S. Maltby  
Name: Jay S. Maltby  
Title: Chairman, President and Chief Executive Officer

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ANNEX B

**HOULIHAN LOKEY HOWARD & ZUKIN**

**INVESTMENT BANKING SERVICES**

www.hlh.com

September 29, 2005

The Special Committee of Cruzan International, Inc.

222 Lakeview Avenue

Suite 1500

West Palm Beach, FL 33401

The Board of Directors of Cruzan International, Inc.

222 Lakeview Avenue

Suite 1500

West Palm Beach, FL 33401

Dear Members of the Special Committee and Board of Directors:

We understand that The Absolut Spirits Company, Inc., a Delaware corporation ( "ASCI" ), a wholly-owned subsidiary of V&S Vin & Spirit AB ( "V&S" ), has submitted to the Company a proposed Agreement and Plan of Merger pursuant to which a wholly-owned subsidiary of ASCI would merge with and into the Company, with each minority holder of the Company's issued and outstanding common stock (the "Minority Public Stockholders") entitled to receive \$28.37 in cash per share. The proposed price is equal to the per share cash consideration paid to Angostura, Ltd. ( "Angostura" ) by ASCI in exchange for Angostura's controlling interest in the Company, pursuant to a previously-announced Stock Purchase Agreement between Angostura and V&S. Such transaction is referred to herein as the "Transaction".

In connection with the Transaction, Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ( "Houlihan Lokey" ) has acted as financial advisor to the Special Committee (the "Committee") of the Board of Directors of Cruzan International, Inc. and, in that capacity, the Committee has asked Houlihan Lokey to provide an opinion (the "Opinion") as to whether, as of the date hereof, the consideration to be received by the Minority Public

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Stockholders of the Company in the Transaction is fair to them from a financial point of view.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have:

1. reviewed the Company's annual reports to shareholders on Form 10-K for the fiscal years ended September 30, 2002, September 30, 2003, and September 30, 2004, and quarterly reports on Form 10-Q for the quarters ended December 31, 2004, March 31, 2005, and June 30, 2005, which the Company's management has identified as being the most current financial statements available;
2. spoken with certain members of the management of the Company regarding the operations, financial condition, future prospects and projected operations and performance of the Company and regarding the Transaction;
3. visited the business offices of the Company in West Palm Beach, Florida;

Atlanta 3475 Piedmont Road, Suite 950 Atlanta, Georgia 30305-2991 tel 404 495 7000 fax 404 495 9545

Los Angeles New York Chicago San Francisco Minneapolis Washington, D.C. Dallas London  
Broker/dealer services through Houlihan Lokey Howard & Zukin Capital Investment advisory services through Houlihan Lokey Howard & Zukin  
Financial Advisors

4. reviewed the final Agreement dated and Plan of Merger dated as of September 29, 2005 by and among The Absolut Spirits Company, Inc., Cruzan Acquisition, Inc., and Cruzan International, Inc.;
5. reviewed the stock purchase agreement dated June 3, 2005 between V&S Vin & Sprit AB and Angostura Ltd.;
6. reviewed the distribution agreement dated October 10, 2003 between the Company and V&S Vin & Sprit AB;
7. reviewed a services license agreement dated January 31, 2005 between the Company, Virgin Islands Rum Industries, Ltd., and Cruz Land, Ltd.;
8. reviewed a product license agreement dated January 31, 2005 between the Company, Virgin Islands Rum Industries, Ltd, and Cruz Land, Ltd.;
9. reviewed a proposed marketing service agreement between the Company and the Government of the U.S. Virgin Islands, Department of Property and Procurement;
10. reviewed a production agreement between the Company and Wilson Daniels, Ltd., a licensed Seagram's Vodka bottler;
11. reviewed two financial projection models for the Company provided by management which detail the expected financial performance of the Company for fiscal years ended September 30, 2005 through September 30, 2009 (i) as if V&S did not have a controlling stake in the Company and (ii) as if V&S did have a controlling stake in the Company;
12. reviewed the historical market prices and trading volume for the Company's publicly traded securities for the past three years and those of certain publicly traded companies which we deemed relevant;
13. reviewed certain other publicly available financial data for certain companies that we deemed relevant and publicly available transaction prices and premiums paid in other transactions that we deemed relevant for companies in related industries to the Company;

14. conducted such other financial studies, analyses and inquiries as we have deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information (including, without limitation, the financial forecasts and projections) furnished, or otherwise made available, to us, discussed with or reviewed by us, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, we have relied upon and assumed, without independent verification, that the financial forecasts and projections have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial results and condition of the Company, and we express no opinion with respect to such forecasts and projections or the assumptions on which they are based. We have relied upon and assumed, without independent verification, that there has been no material change in the assets, liabilities, financial condition, results of operations, business or prospects of the Company since the date of the most recent financial statements provided to us, and that there is no information or facts that would make the information reviewed by us incomplete or misleading. We have relied upon, without independent verification, the views of the Company's management concerning the business prospects of the Company, its projected



performance, the strategic importance of the Transaction, and the values expected to be achieved through the combination of the operations of the Company and ASCI.

We have relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the agreements identified in item 5 above and all other related documents and instruments that are referred to therein are true and correct, (b) each party to all such agreements will perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the Transaction will be satisfied without waiver thereof, and (d) the Transaction will be consummated in a timely manner in accordance with the terms described in the agreements provided to us, without any amendments or modifications thereto or any adjustment to the aggregate consideration (through offset, reduction, indemnity claims, post-closing purchase price adjustments or otherwise). We have also relied upon and assumed, without independent verification, that all governmental, regulatory, and other consents and approvals necessary for the consummation of the Transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed that would have an adverse effect on the Company, or the expected benefits of the Transaction.

Furthermore, we have not been requested to make, and have not made, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (contingent or otherwise) of the Company, nor were we provided with any such appraisal or evaluation. We have not been requested to, and did not, (a) initiate any discussions with, or solicit any indications of interest from, third parties with respect to the Transaction or any alternatives to the Transaction, (b) negotiate the terms of the Transaction, or (c) advise the Committee with respect to alternatives to the Transaction. This Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. We have not undertaken, and are under no obligation, to update, revise, reaffirm or withdraw this Opinion, or otherwise comment on or consider events occurring after the date hereof. Subsequent events that could materially affect the conclusions set forth in this Opinion include, without limitation, adverse changes in industry performance or market conditions; changes to the business, financial condition and results of operations of the Company; changes in the terms of the Transaction; and the failure to consummate the Transaction within a reasonable period of time.

This Opinion is furnished for the use and benefit of the Committee in connection with its consideration of the Transaction and is not intended to, and does not, confer any rights or remedies upon any other person, and is not intended to be used, and may not be used, for any other purpose, without our express, prior written consent. This Opinion is not intended to be, and does not constitute, a recommendation to any security holder as to how such security holder should vote with respect to the Transaction.

Houlihan Lokey, or its affiliates, have provided certain other financial advisory and investment banking services for the Committee and have received fees for rendering such services, and we may continue to do so in the future.

We have not been requested to opine as to, and this Opinion does not address: (i) the underlying business decision of the Committee, the Company, its security holders or any other party to proceed with or effect the Transaction, (ii) the fairness of any portion or aspect of the Transaction not expressly addressed in this Opinion, (iii) the fairness of any portion or aspect of the Transaction to the holders of any class of securities, creditors or other constituencies of the Company, or any other party other than those set forth in this Opinion, (iv) the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage, or (v) the tax or legal consequences of the Transaction to either the Company, its security holders, or any other party. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance,

tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that, as of the date hereof, the consideration to be received by the Minority Public Stockholders of the Company in the Transaction is fair to them from a financial point of view.

HOULIHAN LOKEY HOWARD & ZUKIN FINANCIAL ADVISORS, INC:

/s/ Houlihan Lokey Howard & Zukin Financial Advisors, Inc.

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ANNEX C

§ 262. Appraisal rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of § 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the

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National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the

merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and in the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.



(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

(8 Del. C. 1953, § 262; 56 Del. Laws, c. 50; 56 Del. Laws, c. 186, § 24; 57 Del. Laws, c. 148, §§ 27-29; 59 Del. Laws, c. 106, § 12; 60 Del. Laws, c. 371, §§ 3-12; 63 Del. Laws, c. 25, § 14; 63 Del. Laws, c. 152, §§ 1, 2; 64 Del. Laws, c. 112, §§ 46-54; 66 Del. Laws, c. 136, §§ 30-32; 66 Del. Laws, c. 352, § 9; 67 Del. Laws, c. 376, §§ 19, 20; 68 Del. Laws, c. 337, §§ 3, 4; 69 Del. Laws, c. 61, § 10; 69 Del. Laws, c. 262, §§ 1-9; 70 Del. Laws, c. 79, § 16; 70 Del. Laws, c. 186, § 1; 70 Del. Laws, c. 299, §§ 2, 3; 70 Del. Laws, c. 349, § 22; 71 Del. Laws, c. 120, § 15; 71 Del. Laws, c. 339, §§ 49-52; 73 Del. Laws, c. 82, § 21.)

ANNEX D

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

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

For the fiscal year ended September 30, 2004

Commission File Number 1-13453

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## TODHUNTER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of Incorporation)

**59 1284057**  
(IRS Employer  
Identification Number)

**222 Lakeview Avenue, Suite 1500, West Palm Beach, FL**  
(Address of principal executive office)

**33401**  
(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act: Common Stock, \$.01 Par Value

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**Securities Registered Pursuant to Section 12(g) of the Act: None**

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, as amended, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of Title 17, Code of Federal Regulations) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 3, 2004 (computed by reference to the last reported sale price of the registrant's Common Stock on the American Stock Exchange on such date): \$23,760,862.

The number of shares outstanding of the registrant's Common Stock, \$.01 par value per share, as of December 3, 2004, was 6,338,519.

There were no shares of Preferred Stock outstanding as of December 3, 2004.

Documents Incorporated by Reference: Part III - Portions of the registrant's definitive proxy statement to be filed within 120 days of the end of the registrant's fiscal year in conjunction with the registrant's 2005 annual stockholders' meeting.

**Introductory Note**

*This Annual Report on Form 10-K for the fiscal year ended September 30, 2004 (the Form 10-K ) contains forward-looking statements, as defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). 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. Such risks, uncertainties, and other factors that may cause such a difference include, without limitation, those noted under Risks That May Affect Future Results beginning on page 21. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**PART I**



**Item 1. Business**



**General Overview**





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Todhunter International, Inc. (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 operates four production facilities in the United States and one in St. Croix, United States Virgin Islands, and purchases certain products for resale. The Company is a Delaware corporation organized in 1970 as a successor to a business founded in the Bahamas in 1964.

Market share and industry data and rankings disclosed in this report have been obtained from industry and government publications, as indicated; the Company has not independently verified this information, although management believes such data and rankings to be reasonably accurate. All references in this report to Fiscal 2004, Fiscal 2003 and Fiscal 2002 refer to the Company's fiscal years ended September 30 of such year.

### **Dominant Supplier of Bulk Alcohol Products**

Management believes that the Company is the largest supplier of bulk rum in the United States based on reports of U.S. Imports for Consumption prepared by the Department of Census and that the Company's market share of bulk rum products in the United States is approximately 80%. Management believes that the Company is the largest supplier of fortified citrus wine in the United States and is not aware of any other domestic suppliers of fortified citrus wine. Management is aware of only one other United States manufacturer of citrus brandy and citrus spirits and believes that the Company's market share for these products is approximately 85%.

### **Control By Angostura Limited**

Angostura Limited (Angostura), a Trinidad-based distiller, has reported that, as of June 17, 2004, it beneficially owned 4,294,583 shares, representing 68%, of the Company's outstanding Common Stock, \$.01 par value per share (the Common Stock).

### **2004 Developments**

During Fiscal 2004, the Company continued its strategy of growing its premium branded spirits segment and capitalizing on its position in the flavored rum category by expanding its sales force and significantly increasing its marketing budget, partly in response to increased competition from new product entries by the Company's major rum spirits competitors, primarily Bacardi, Diageo, Allied Domecq and Pernod Ricard. Fiscal 2004 was a milestone for the Company in that it was the first time that the Company executed a print media campaign directed towards consumers. Fiscal 2004 was also the first year that the Company sponsored a celebrity entertainer, Kenny Chesney, to increase the brand awareness of Cruzan Rum. Kenny Chesney was the Country Music Awards and American Music Awards Entertainer of the Year in 2004 and is the reigning Academy of Country Music top male vocalist of the year. The Company signed a sponsorship contract with Kenny Chesney for an additional three years. Management believes that the Company's brand promotion strategies have been effective in increasing the sales growth of the Cruzan Rum brand by 24% during Fiscal 2004.

In July 2004, the Company completed the partial consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for 2004, which has

caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices.

In August and September 2004, the eyes of three major hurricanes struck within approximately thirty miles of all of the Company's facilities in Central Florida. Physical damage to the Company's facilities of less than \$100,000 occurred as a result of these hurricanes. However, while difficult to quantify, disruptions to business caused by these hurricanes, including several days of plant shut-downs, prolonged loss of power, product shipment interruptions and increased labor costs, contributed to lost sales in the premium branded spirits segment, as well as to the additional costs in the bottling and vinegar and cooking wine segments.

In Fiscal 2004 the Company had a loss before income taxes of \$4.6 million compared to income of \$2.4 million in Fiscal 2003. After income taxes the Company's net loss was \$0.9 million in Fiscal 2004 compared to net income of \$3.4 million in Fiscal 2003. This loss was primarily due to the increased marketing expenditures in our premium branded spirits segment, continuing losses in the Company's bottling operations and, to a lesser extent, the hurricane disruptions the Company experienced in its fourth quarter.

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

Commission. The rights offering is intended to allow each stockholder of the Company, other than Angostura and its affiliates, to purchase such holder's approximate pro rata amount of the number of shares of the common stock of the Company that will permit the public stockholders in the aggregate to maintain the percentage stock ownership the public stockholders owned prior to the stock purchase by Angostura. It is expected that the number of shares available to be sold pursuant to the rights offering will be approximately 408,000 and the per share purchase price of the rights offering will be the lesser of \$14.00 or the closing price on the American Stock Exchange two days prior to the effective date of the registration statement. The Company filed a preliminary registration statement on August 30, 2004. After filing the registration statement, the Company determined that it would be in the best interests of the Company and its stockholders to complete the rights offering after the Company files this Annual Report on Form 10-K for the fiscal year ended September 30, 2004. The Company intends to complete the rights offering during the second quarter of fiscal 2005.

### **Business Segments**



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The Company operates primarily in the beverage alcohol industry in the United States. The Company reports its results in four operating segments and has unallocated corporate overhead:

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)

Information regarding the net sales, operating income (loss) and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 13 to the Company's consolidated financial statements.

*Bulk Alcohol Products.* The Company produces and sells rum, citrus brandy, citrus spirits, cane spirits and fortified citrus wine in the United States and internationally. The Company also purchases distilled products for resale, including grain alcohol, which is denatured and packaged and sold as industrial alcohol to hospitals, universities, fragrance producers and other manufacturers. The Company is the largest supplier of bulk rum, citrus brandy and fortified citrus wine in the United States. The Company sells its bulk alcohol products to over 40 producers of beverage alcohol in the United States and exports bulk alcohol products to approximately 20 foreign countries. The Company's distilling operations produce a byproduct, which is sold as animal feed.

Citrus brandy and spirits are distilled from citrus juice byproducts purchased from manufacturers of citrus juice concentrate. The Company's citrus brandy is used primarily as an ingredient in flavored brandies. Citrus spirits are used primarily as a fortifying ingredient to increase the alcohol content of the Company's citrus wine and the wine of other manufacturers. The Company's citrus wine is fermented from citrus juice and fortified with citrus spirits to increase its alcohol content to approximately 20% by volume. Known as fortified citrus wine, this product is used primarily as an ingredient in cordials, whiskies and other beverage alcohol. Rum and cane spirits are distilled from sugar cane molasses and are sold to other bottlers of rum, producers of beverage alcohol, food companies and flavor manufacturers. Rum is also used in the Company's premium branded spirits and bottling operations.

Management believes that the Company's proximity to raw materials and its use of citrus byproducts in the production of bulk alcohol provide it with cost advantages over competitors' products. Because end products are taxed on a blended rate based upon the ingredients used rather than on the resulting alcohol content of the end product, beverage alcohol producers can lower excise taxes on their products by substituting fortified citrus wine for distilled spirits alternatives. This cost savings arises because fortified citrus wine is currently subject to federal excise taxes of \$1.57 per gallon, whereas distilled spirits are taxed at \$13.50 per proof gallon (one proof gallon is approximately equivalent in alcohol content to two and one-half gallons of fortified citrus wine). The ability of beverage alcohol producers to substitute fortified citrus wine for distilled spirits varies by end product in accordance with government regulations. For example, fortified citrus wine may contribute up to 49% of the alcohol content of cordials and liqueurs, and up to approximately 10% of the alcohol content of Canadian whiskey. In addition, small quantities of fortified citrus wine may be used in blended whiskey, rum, brandy and other types of beverage alcohol.

The Florida citrus harvest is generally during the months from November through June. The majority of the Florida citrus harvest is processed as fresh fruit juice or juice concentrate. A byproduct of citrus juice production is citrus molasses, which the Company uses as a raw material in its distilling operations to produce citrus brandy and spirits. Due to the seasonal availability and short shelf-life of the citrus molasses raw material, the Company produces its estimated annual customer requirements during a seven month period, and therefore carries a higher than normal level of inventory in relation to sales during this seven month period. Generally, the Company's inventory levels increase during this seven month period and when the citrus harvest ends the Company supplies its customers with citrus brandy and spirits from inventory from July through October.

*Premium Branded Spirits.* The Company manufactures, imports, exports, and markets a variety of premium branded spirits. The Company's premium branded spirits include Cruzan Estate Rums, Cruzan Flavored Rums, Hine Cognac, Conch Republic Rum, Ron Carlos Rum and Antioqueno Aguardiente. The Company's primary spirits brand is Cruzan Rum, which is the fourth-largest premium rum brand in the United States according to statistics published by Impact Databank and Adams Liquor Handbook, two leading spirits industry publications.

The Company's strategy is to market high quality products that satisfy the preferences of consumers of legal drinking age and to support those products with international, national, and regional marketing programs. These programs are intended to extend consumer brand recognition and brand loyalty.

In the United States, the Company sells branded spirits either through wholesale distributors or directly to state governments in those states that control alcohol sales. Typically, the Company does not have contracts with its distributors although some states have statutes that limit the Company's ability to terminate distributor relationships. Outside the United States, the Company typically distributes its products by selecting the best local distributor for its brands in each specific market. The Company's principal export markets for Cruzan Rum are Canada, Central America, the Caribbean, Scandinavia, the Baltic States, Italy, France, the Philippines, Israel, New Zealand and the Global Duty Free Markets (40 countries). The Company has a distribution agreement with V&S Vin and Sprit AB (V&S) that provides for joint marketing and for the distribution by V&S of Cruzan products in the international spirits market where the Company has not already established a distributor relationship.

The principal raw materials used in manufacturing and packaging Cruzan Rum are cane molasses, glass bottles, cartons, and oak barrels, which are used for storage and aging. Currently, none of these raw materials is in short supply, and there are adequate sources from which they may be obtained. See discussion under Raw Materials for additional disclosures related to sourcing cane molasses and glass bottles.

The alcohol industry is highly competitive and there are many brands sold in the consumer market. Trade information indicates that the Company is one of the smaller branded spirit suppliers in the United States in terms of revenues, although Cruzan Rum has been recognized as one of the fastest growing brands in the United States and Global Duty Free Markets by Impact Magazine and Adams, two leading industry publications.

The Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department regulates the wine and spirits industry with respect to production, blending, bottling, sales, advertising and transportation of alcohol products. Also, each state regulates advertising, promotion, transportation, sale, and distribution of such products.

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There are no federal regulations that require minimum aging to be designated rum. However, due to the Company's high quality standards, the Company ages its Cruzan Estate Rums for two to five years and certain of the Company's super premium rums are aged up to twelve years. Due to the Company's own aging requirements, production of Cruzan Estate Rums is scheduled to meet demand two to three years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses. Management expects to continue to increase the Company's inventory of barrel aged rums to meet increased sales in the future.

*Bottling Operations.* The Company's bottling operations include contract bottling services and the production, bottling and marketing of distilled spirits under its own proprietary labels and under the private labels of retailers. The Company's primary bottling operations are located in Florida and primarily serve customers in the Southeastern United States. The Company also produces and sells proprietary label products in the United States Virgin Islands.

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Contract bottling products include distilled spirits, coolers, prepared cocktails and fruit juices. The Company has two large contract bottling customers which accounted for 83% of the bottling operations case volume and 49% of bottling operations net sales for the year ended September 30, 2004. One of these contracts is for three years, expiring December 2006, and the other contract is on a year-to-year basis. Each contract provides for advance notification of annual production requirements, although there are no minimum volume requirements.

The Company's proprietary and private label products include rum, gin, vodka, tequila, cordials and various whiskies. The Company's proprietary label products are marketed in the popular-price category of the distilled spirits market. The Company has one large private label customer which accounted for approximately 4% of bottling operations case volume and 11% of bottling operations net sales for the year ended September 30, 2004. Net sales from this customer are based on short-term arrangements that may terminate at any time. Although the Company does not have long-term contracts with its private label customers, management believes that its relations with its customers are good.

The Company sells its proprietary and private label spirits to distributors located primarily in the Southeastern United States. The Company does not have contracts with distributors for its proprietary products.

*Vinegar and Cooking Wine.* To complement its distilling, winery and bottling operations, the Company produces vinegar, vinegar stock, and cooking wine. The Company sells vinegar and cooking wine to over 700 condiment manufacturers, food service distributors and major retailers in the United States and Canada. The Company's sales to retailers are made under the Company's proprietary labels and retailers' private labels.

The Company has three large vinegar and cooking wine customers which accounted for 32% of the net sales of vinegar and cooking wine for the year ended September 30, 2004. Although the Company does not have long-term supply contracts with its vinegar and cooking wine customers, management believes that its relations with its customers are good and that the Company's products are competitively priced.

*Corporate Operations.* The Company's executive offices are located in West Palm Beach, Florida and certain of the expenses of the Company's executive offices are not allocated to the operating segments described above. These expenses include salaries and related expenses, legal and professional fees, rent for office space, utilities and insurance.

#### **Dependence on Major Customers**



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No single customer was responsible for more than 10% of the Company's consolidated net sales during fiscal 2004. The Company has five major customers in its bulk alcohol products segment, three major customers in its bottling operations segment, and three major customers in its vinegar and cooking wine segment, the loss of one or more of these major customers in any of these segments could have a material adverse effect on that segment.

### **Production**



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The Company's principal domestic production facilities are located in Lake Alfred and Auburndale, Florida, both near Orlando and central to Florida's citrus growing region. The two plants have similar distilling, bottling and winery operations, allowing the Company to shift production from one plant to the other. The Lake Alfred plant also has a vinegar production facility. Both plants are near major highways and are serviced by a railroad, providing good transportation access. The Company has a cold storage, warehousing and plastic bottle manufacturing facility in Winter Haven, Florida. The Company also operates a winery and vinegar production facility in Louisville, Kentucky. The Company's rum production facilities are located in St. Croix, United States Virgin Islands.

*Distilling.* The Company begins its distilling process with citrus or cane molasses, which is fermented for approximately two to four days. Once fermented, the product has an average alcohol content of 9% by volume, which is increased to approximately 95% through distillation. The alcohol is further purified through rectifying columns which remove impurities. The finished product is stored in stainless steel tanks, except for rum, which is

generally stored in wooden barrels for aging purposes. The Lake Alfred, Auburndale and Virgin Islands facilities can produce, on a combined basis, up to 23 million gallons of distilled products per year.

*Winery.* Wine is produced by the fermentation of citrus or grape juice. After fermentation, the wine is fortified by the addition of distilled citrus spirits to raise its alcohol content to approximately 20% by volume. Fortified citrus wine is sold to producers of beverage alcohol. The wineries are physically segregated from the distilling operations and have their own sets of fermenting and storage tanks. The Lake Alfred, Auburndale and Louisville facilities can produce, on a combined basis, up to 30 million gallons of wine per year.

*Bottling.* The Lake Alfred and Auburndale plants both have automated, high-speed bottling lines capable of filling up to 600 12-ounce containers per minute. The Lake Alfred plant has two lines that are used primarily to bottle vinegar, cooking wine and juices, two lines that are used to bottle proprietary and private label products and one line to bottle premium branded spirits. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. The Auburndale plant has two lines that are dedicated to bottling coolers and prepared cocktails and three lines that bottle proprietary and private label products and premium branded spirits. The Company's warehouse storage areas can accommodate up to 1,000,000 cases. The Company's plant in the Virgin Islands has one line capable of bottling up to 250,000 cases per year. The Company distills and ages its own rum, but generally produces its other proprietary and private label products from alcohol purchased from third parties. Depending on the particular formula for a product, the Company adds flavoring and/or sugar, reduces the product's proof and then filters and bottles the finished product. The Company's bottling capacity is approximately 10 million cases per year.

*Vinegar and Cooking Wine.* Vinegar is produced by converting alcohol into acetic acid. Several varieties of vinegar, including white distilled, red wine, white wine, corn, rice wine, malt, balsamic and apple cider, are produced at the Lake Alfred and Louisville facilities, which have a combined capacity of 10 million grain gallons per year. Cooking wine is produced by the controlled fermentation of red or white grape juice into wine and is then denatured with salt or other ingredients. Because of this denaturing process, these products are not subject to federal excise taxes. Several varieties of cooking wine, including red, white, sherry, golden, marsala and chablis, are produced at the Lake Alfred, Auburndale and Louisville facilities.

*Quality Control.* Each of the Company's facilities is equipped with a quality control laboratory. The Company employs several chemists who continually test to ensure the quality of raw materials and end products.

*Raw Materials.* The cost of raw materials fluctuates depending upon a number of factors, including crop conditions, weather, governmental programs and purchases by foreign governments.

The principal raw materials used in the Company's distilling operations are citrus molasses, a byproduct of citrus juice production, and cane molasses, a byproduct of sugar production. Citrus molasses, which is used in the production of citrus brandy and citrus spirits, accounted for

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approximately 65% of the raw materials used in the Company's distilling operations in Fiscal 2004. Cane molasses, which is used in the production of rum and cane spirits, accounted for the remaining 35%. Citrus juice concentrate is the primary raw material used in the Company's winery operations. The Company purchases such raw materials from a variety of suppliers. The Company purchases distilled products, used in its bulk alcohol products and bottling operations businesses, from several suppliers. Glass bottles and other materials, such as caps, labels and cardboard cartons, are used in bottling and packaging and, with the exception of glass bottles, are available from numerous suppliers. Alcohol and grape juice concentrate are the primary raw materials used in the Company's vinegar and cooking wine operations. As more fully described below, during Fiscal 2004, two suppliers each accounted for more than 10% of all of the Company's raw material purchases.

The Company purchases the majority of its glass bottle requirements from one supplier. Glass bottle costs are one of the largest components of the Company's cost of goods sold. The glass bottle industry is highly concentrated with only a small number of producers. The inability of the Company's glass bottle supplier to satisfy the Company's requirements could adversely affect the Company's operations.

The Company uses cane molasses as a raw material for the production of rum at its facilities in St. Croix, United States Virgin Islands. The Company purchases its cane molasses raw material requirements through a single broker that specializes in the South American and Caribbean molasses markets. This arrangement is beneficial to the Company in securing a higher quality molasses at lower prices than the Company could obtain by going directly to the individual molasses suppliers. Based on an analysis of the world-wide cane molasses market provided to the

Company by the Company's molasses broker, management believes that there are adequate supplies of cane molasses available to meet the Company's cane molasses raw material requirements.

**Fluctuations In Operating Results; Seasonality**





The size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities or place significant orders for contract bottling services, distilled spirits, vinegar and cooking wine. Additionally, some Company products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also 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.

**Marketing and Distribution**



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Bulk alcohol products are sold primarily in large quantities through Company-employed salespeople. The Company's marketing strategy emphasizes the cost advantages of these products over other ingredients available to end producers. Bulk alcohol products are sold primarily to other bottlers, distillers and end producers located in the United States and exports bulk alcohol products to approximately 20 foreign countries.

The Company manufactures, imports, exports and markets a variety of premium branded spirits to wholesalers in the United States and internationally. The Company's marketing and promotional programs for its premium brands are directed at consumers, retailers and wholesalers and include consumer and trade print advertising, event sponsorship, product sampling, in-store displays, price promotions, point-of-sale materials and public relations.

The Company sells proprietary and private label spirits to wholesalers for distribution primarily in the Southeastern United States. The Company's marketing strategy for these products places primary emphasis upon the Company's cost advantages, directed at wholesalers and retailers, rather than consumers. Wholesalers market these products to retailers who then market them directly to consumers. Although competition for retail shelf space in the beverage alcohol industry is significant, wholesalers of such products, and not the Company, generally must address such competition. Sales of the Company's premium branded spirits and proprietary and private label products are generally made FOB (free on board) at the Company's facilities and, accordingly, the purchasers of such products are responsible for the risk of loss and transportation costs. In addition to its own sales force, the Company works through various brokers to develop and service its sales to wholesalers and retailers.

The Company's marketing strategy with respect to its contract bottling services emphasizes the cost advantages and quality of the Company's services. Arrangements with bottling customers are typically negotiated by the Company's executive officers.

Vinegar and cooking wine are sold primarily in large quantities to manufacturers, distributors and retailers through the Company's own sales force. These products are also sold through wholesalers and directly to retailers under the Company's proprietary labels and the private labels of retailers.

### **Trademarks and Distribution Agreements**

Trademarks are an important aspect of the Company's business. The Company sells its products under a number of trademarks, which the Company owns or uses under license. The Company's important trademarks include Cruzan Rum, Cruzan Estate Rum, Cruzan Flavored Rum, Ron Carlos Rum, Conch Republic Rum and Edmundo Cooking Wine. Throughout its segments, the Company also has various licenses and distribution agreements for the sale, or the production and sale, of its products and products of third parties. These licenses and distribution agreements have varying terms and durations. Agreements include, among others, import, marketing and distribution agreements ( Imported Spirits Distribution Agreements ) with Antioqueno Aguardiente, expiring in May 2006, and Hine Cognac, which is a year to year renewable arrangement for services to be performed by the Company. The Company also has distribution agreements with several third parties to distribute Cruzan Rum in foreign countries, including V&S Vin and Spirit AB ( V&S ) for V&S to distribute Cruzan products in the international spirits market.

All of the Company's Imported Spirits Distribution Agreements may be terminated if the Company fails to meet certain performance criteria. The Company believes it is currently in compliance with all material terms of its Imported Spirits Distribution Agreements. Although there can be no assurance that the Company's material Imported Spirits Distribution Agreements will be renewed, given the Company's long-term relationships with its suppliers, the Company expects that such agreements will be renewed prior to their expiration and does not believe that these agreements will be terminated.

**Competition**



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The areas of the beverage alcohol industry in which the Company does business are highly competitive with respect to price, service and product quality, and there are several companies with substantially greater financial and other resources than the Company.

The Company's citrus-based bulk alcohol products compete primarily with producers of grape-based products. While the Company is aware of only one other domestic producer of citrus brandy and spirits, there are several producers of grape-based distilled products. The Company's fortified wine business is subject to price competition from various producers in North America.

The Company's premium branded spirits and proprietary and private label products compete on a regional and national basis against other distilled spirits products, including premium labels, mid-price and popular-price products. The premium branded spirits and proprietary label products produced by the Company compete with those of companies for whom the Company performs contract bottling services and to whom the Company sells its bulk alcohol products. The Company believes that its relationships with its customers are good, and it has not experienced any adverse effects, such as termination or non-renewal of ongoing contracts, as a result of competition. In addition, the Company does not expect to experience any material adverse effects from such competition in the foreseeable future.

Contract bottling operations compete against other bottlers located throughout the Southeastern United States.

In the United States, the vinegar industry is dominated by two large manufacturers with approximately 20 vinegar plants and there are about a dozen smaller manufacturers with an aggregate of approximately 24 vinegar plants. Since vinegar is a low margin commodity, the sale of vinegar is limited to within a small radius of a particular manufacturing plant due to the cost of shipping to the customer. Therefore, with the exception of certain higher margin specialty vinegars which are sold throughout the United States, the majority of the Company's vinegar products are only competitive within a limited radius of the Company's manufacturing facility, generally 200 to 500 miles. The Company's higher margin cooking wine products are sold throughout the United States and Canada. Although published data is not available, management is not aware of any competitors of the Company's size and believes that the Company is the largest supplier of cooking wine in the United States.

### **Regulation and Taxation**





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The Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department regulates the wine and spirits industry with respect to production, blending, bottling, sales, advertising and transportation of alcohol products. Also, each state regulates advertising, promotion, transportation, sale and distribution of alcohol products.

Pursuant to federal and state environmental requirements, the Company is required to obtain permits and licenses to operate certain facilities, and to treat and remove effluents discharged from its distilling, winery and bottling operations. Management believes it is presently in material compliance with all applicable federal and state regulations.

Beverage alcohol produced and bottled by the Company is subject to federal excise taxes. As of September 30, 2004, excise taxes were being imposed at flat rates of \$13.50 per proof gallon for distilled spirits and \$1.57 per gallon for fortified wine.

The Company's fortified wine products, as an ingredient of beverage alcohol, have a cost advantage under the component method of taxation, which taxes wine at a lower rate than distilled spirits. Changes in, or the elimination of, the component method of taxation, as it relates to wine, could have a material adverse effect on the Company's results of operations.

### **Employees**



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As of September 30, 2004, the Company had approximately 415 full-time employees. Additional workers are generally employed at the Company's bottling facilities during the summer months, when the bulk of contract

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bottling takes place. None of the Company's employees is a member of any labor union, nor are there any collective bargaining agreements between the Company and its employees, with the exception of 35 of the Company's 55 United States Virgin Islands employees. Management believes that its relations with its employees are good.

**Information about Foreign and Domestic Operations and Export Sales**



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The Company has facilities in Florida and Kentucky for the production of bulk alcohol products, premium branded spirits, contract bottling services, vinegar and cooking wine. The Company sells its products and services primarily to customers in the United States but also exports certain products to foreign countries, primarily in Europe, Canada, Central America and the Caribbean. The Company's rum production facilities are located in St. Croix, United States Virgin Islands. Bulk rum produced in the Virgin Islands is sold primarily to other bottlers of rum, producers of beverage alcohol, food companies and flavor manufacturers located in the United States, but is also sold to foreign countries in the Caribbean, South America and Europe. See Note 13 to the Company's consolidated financial statements for additional information about the Company's foreign and domestic operations and export sales.

### **Item 2. Properties**



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The Company owns all of its principal production facilities, including all related land, buildings, and equipment. The Lake Alfred facility consists of four principal buildings with approximately 250,000 total square feet on 32 acres. The Auburndale facility consists of three principal buildings with approximately 250,000 total square feet on 16 acres. The Louisville facility consists of three principal buildings with approximately 60,000 total square feet on 27.5 acres. The Winter Haven facility consists of five principal buildings with approximately 260,000 total square feet on 30 acres. The Virgin Islands facility consists of 11 principal buildings with approximately 140,000 total square feet on 33 acres. The Company leases approximately 10,000 square feet of office space in West Palm Beach, Florida for its executive offices and 2,600 square feet of office space in Jupiter, Florida for its marketing operations. Management believes that all of its facilities, both owned and leased, are adequate and suitable for operations in the foreseeable future. However, management may undertake the expansion of certain facilities from time to time in the ordinary course of business.

### **Item 3. Legal Proceedings**





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**



No matters were submitted to security holders during the fourth quarter of Fiscal 2004.

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**PART II**



**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**





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The Company's Common Stock trades on the American Stock Exchange under the symbol THT. Table 1 below sets forth the high and low closing quotations of the Company's Common Stock for each quarter during the past two fiscal years.

**Table 1 High and Low Quotations of the Company's Common Stock**

<b>Period</b>	<b>High</b>	<b>Low</b>
Fiscal 2003		
First quarter	\$ 11.25	\$ 9.75
Second quarter	10.20	7.45
Third quarter	10.48	9.25
Fourth quarter	11.35	9.80
Fiscal 2004		
First quarter	11.55	9.95
Second quarter	12.15	10.50
Third quarter	14.50	11.92
Fourth quarter	14.05	12.10

The number of stockholders of record as of December 3, 2004 was 28. In addition, based upon a list of non-objecting beneficial owners, there were at least 475 beneficial owners as of January 2004.

No dividends were paid to stockholders during Fiscal 2003 and Fiscal 2004. The Company intends to continue to retain earnings for use in its business and, therefore, does not anticipate declaring or paying cash dividends in the foreseeable future. The payment of cash dividends is also limited by the Company's credit agreement. Also, see Financial Liquidity and Capital Resources, included in Item 7.

**Item 6. Selected Financial Data**



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The selected financial data in Table 2 below are derived from the Company's audited consolidated financial statements. These data are qualified by reference to, and should be read in conjunction with, the consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

**Table 2 Selected Financial Data**

	Year ended September 30,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
<b>Statements of Income Data:</b>					
Net sales	\$ 96,416	\$ 90,444	\$ 96,839	\$ 97,253	\$ 92,987
Cost of goods sold	68,684	61,174	65,700	65,170	64,117
Gross profit	27,732	29,270	31,139	32,083	28,870
Selling, general and administrative expenses	31,311	23,205	22,539	20,534	17,772
Operating income (loss)	(3,579)	6,065	8,600	11,549	11,098
Other income (expense):					
Interest income	371	709	754	864	901
Interest expense	(2,226)	(3,377)	(3,073)	(4,893)	(5,115)
Other, net	834	(950)	288	244	(178)
Income (loss) before income taxes and extraordinary item	(4,600)	2,447	6,569	7,764	6,706
Income tax expense (benefit)	(3,692)	(956)	1,122	1,561	1,649
Income (loss) before extraordinary item	(908)	3,403	5,447	6,203	5,057
Extraordinary item, net of income tax benefit					(1,169)
Net income (loss)	\$ (908)	\$ 3,403	\$ 5,447	\$ 6,203	\$ 3,888
Net income (loss) per share					
Basic					
Income (loss) before extraordinary item	\$ (0.16)	\$ 0.61	\$ 0.99	\$ 1.12	\$ 0.92
Extraordinary item					(0.21)
Net income (loss)	\$ (0.16)	\$ 0.61	\$ 0.99	\$ 1.12	\$ 0.71
Diluted					
Income (loss) before extraordinary item	\$ (0.16)	\$ 0.60	\$ 0.97	\$ 1.12	\$ 0.91
Extraordinary item					(0.21)
Net income (loss)	\$ (0.16)	\$ 0.60	\$ 0.97	\$ 1.12	\$ 0.70
Weighted average shares outstanding					
Basic	5,801	5,574	5,527	5,514	5,514
Diluted	5,801	5,644	5,624	5,527	5,550
<b>Balance Sheet Data (at period end):</b>					
Working capital	\$ 40,556	\$ 56,791	\$ 55,315	\$ 51,889	\$ 40,372
Total assets	127,833	139,299	137,883	133,588	126,548
Short term debt	4,000	4,000	4,000	4,000	8,000
Long term debt	25,674	47,316	53,017	55,685	51,334
Stockholders' equity	79,824	70,612	67,069	61,221	54,841

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**



**Introduction**





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Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. See Introductory Note on page 1.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for Fiscal 2004 compared to Fiscal 2003, and Fiscal 2003 compared to Fiscal 2002, and (ii) financial liquidity and capital resources for Fiscal 2004. 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 7 have been rounded to the nearest thousand and hundred thousand, as applicable, but the percentages are based on actual amounts without rounding.

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

Information regarding net sales, operating income (loss) and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 13 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K.

Tables 3 and 4 below set forth statement of operation items as a percentage of net sales and information on net sales, gross profit (loss) and operating income (loss) by operating segment.

**Table 3 Statement of Operations as a Percent of Net Sales**

	Year Ended September 30,		
	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	71.2	67.6	67.8
Gross margin	28.8	32.4	32.2
Selling, general and administrative expenses	32.5	25.7	23.3
Operating income (loss)	(3.7)	6.7	8.9
Other expense, net	(1.1)	(4.0)	(2.1)
Income (loss) before income taxes	(4.8)	2.7	6.8
Income tax (expense) benefit	3.9	1.1	(1.2)
Net income (loss)	(0.9)%	3.8%	5.6%

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**Table 4 Net Sales, Gross Profit (Loss) and Operating Income (Loss) by Operating Segment**

	Year Ended September 30,		
	2004	2003	2002
	(In thousands)		
<b>Net Sales</b>			
Bulk alcohol products	\$ 37,249	\$ 35,203	\$ 35,447
Premium branded spirits	26,846	20,808	21,778
Bottling operations	11,911	14,278	18,661
Vinegar and cooking wine	20,410	20,155	20,953
	\$ 96,416	\$ 90,444	\$ 96,839
<b>Gross Profit (Loss)</b>			
Bulk alcohol products	13,562	15,103	14,528
Premium branded spirits	12,038	9,723	9,597
Bottling operations	(2,236)	(913)	1,312
Vinegar and cooking wine	4,368	5,357	5,702
	\$ 27,732	\$ 29,270	\$ 31,139
<b>Operating Income (Loss)</b>			
Bulk alcohol products	9,021	11,432	10,539
Premium branded spirits	(7,569)	(2,271)	(331)
Bottling operations	(3,904)	(1,901)	129
Vinegar and cooking wine	3,041	4,190	4,602
Corporate operations	(4,168)	(5,385)	(6,339)
	\$ (3,579)	\$ 6,065	\$ 8,600

Table 5 below provides unit sales volume data for certain Company products.

**Table 5 Unit Sales Volume Data**

	Year Ended September 30,			% Change	
	2004	2003	2002		
	(In thousands)			04/03	03/02
<b>Bulk alcohol products:</b>					
<b>Distilled products, in proof gallons</b>					
Citrus brandy	1,265	1,363	1,170	(7.2)	16.5
Citrus spirits	233	306	504	(23.8)	(39.4)
Rum	4,885	4,702	4,413	3.9	6.6
Cane spirits	473	485	605	(2.4)	(19.8)
Fortified wine, in gallons	12,070	10,280	10,072	17.4	2.1
Premium branded spirits, in cases	708	599	587	18.2	2.0
Bottling operations, in cases	3,257	3,750	5,571	(13.2)	(32.7)
<b>Vinegar</b>					
Bulk, in 100 grain gallons	5,099	5,836	5,453	(12.6)	7.0
Cases	499	527	667	(5.3)	(20.9)
Drums, in 100 grain gallons	1,654	1,452	1,733	13.9	(16.2)
<b>Cooking Wine</b>					
Bulk, in gallons	2,620	4,212	3,113	(37.8)	35.3
Cases	634	615	648	3.1	(5.0)

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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.

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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 size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities or place significant orders for contract bottling services, distilled spirits, vinegar and cooking wine. Additionally, some Company products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also 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**



**Fiscal 2004 Compared to Fiscal 2003**





*Net Sales.* Net sales were \$96.4 million in 2004, an increase of 6.6% from net sales of \$90.4 million in 2003.

Net sales of bulk alcohol products were \$37.2 million in 2004, an increase of 5.8% from net sales of \$35.2 million in 2003. The increase resulted primarily from increased shipments of rum and fortified wine offset by decreased shipments of citrus brandy, citrus spirits and cane spirits. The decrease in citrus brandy, citrus spirits and cane spirits was due in part to the timing of customer orders. In addition, in 2003, the Company had sales of citrus and cane spirits to new customers that had difficulty sourcing bulk alcohol from their regular suppliers. These sales did not reoccur in 2004. Management believes that the Company's sales of citrus brandy and spirits have declined due to a market surplus of grape spirits which some of the Company's customers may be using as an alternative ingredient in their product formulations. However, management believes that this decline in business is temporary and that the Company's sales of citrus brandy and spirits will increase in the future as the market surplus of grape spirits declines. In 2004, unit sales of citrus brandy and spirits decreased 7.2% and 23.8%, respectively, compared to 2003, and the average selling price of citrus brandy decreased 5.7%. Also in 2004, unit sales of the Company's fortified wine products increased 17.4% compared to 2003, although the average selling price for the Company's fortified wine decreased 3.4%. The average selling prices for these bulk alcohol products decreased due to management lowering prices as a result of increased competition from grape spirits distillers and foreign wine producers.

Net sales of premium branded spirits were \$26.8 million in 2004, an increase of 29.0% from net sales of \$20.8 million in 2003. Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 24.1% in 2004 compared to 2003. Sales of Cruzan Estate Rums and Cruzan Flavored Rums increased from \$2.2 million in fiscal 1996 to \$21.0 million in fiscal 2004. 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. Since January 2003, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which could adversely affect the Company's sales growth of Cruzan Estate Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management significantly increased its marketing budget for fiscal 2004 in an effort to support the continued growth of the Company's Cruzan brand, causing a current increase in the operating loss for this business segment. Management intends to continue its increased expenditures in 2005 to improve brand growth.

In August and September 2004, the eyes of three major hurricanes struck within approximately thirty miles of all of the Company's facilities in Central Florida. Physical damage to the Company's facilities of less than \$100,000 occurred as a result of these hurricanes. However, while difficult to quantify, disruptions to business caused by these hurricanes, including several days of plant shut-downs, prolonged loss of power, product shipment interruptions and increased labor costs, contributed to lost sales in the premium branded spirits segment, as well as to the additional costs in the bottling and vinegar and cooking wine segments as discussed below. The Company and its insurance advisor determined that the losses incurred during these hurricanes, including physical damage and business interruption, did not meet the deductible levels of the Company's casualty insurance policies due mainly to the fact that each hurricane had a separate deductible requirement and the Company's disruptions were incurred over the course of all of the hurricanes, as well as the relatively minor physical damage incurred.

Net sales of the Company's bottling operations were \$11.9 million in 2004, a decrease of 16.6% from net sales of \$14.3 million in 2003. During the first quarter of fiscal 2004, the Company lost a large private label bottling customer. Net sales to this private label bottling customer were approximately \$2.5 million and 193,719 cases for the year ended September 30, 2003, or approximately 17.6% of bottling operations net sales and 5.2% of bottling operations volume. Also during 2004, excise taxes decreased \$4.8 million compared to 2003, primarily due to the decrease in sales to this private label bottling customer. Sales in the Company's bottling operations also continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for 2004, which has caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all



products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. At the present time, the Company has not taken an impairment charge relating to its bottling operations as the carrying value of its bottling assets is less than management's estimate of fair value.

Net sales of vinegar and cooking wine were \$20.4 million in 2004, an increase of 1.3% from net sales of \$20.2 million in 2003. In 2004, total unit sales of vinegar and cooking wine decreased 16.9% compared to 2003, although the average selling price per unit increased 21.9%. The average selling prices of vinegar and cooking wine increased due to a combination of decreased sales of lower priced white distilled vinegar and bulk cooking wine and a slight increase in sales of higher priced cooking wine case goods.

**Gross Profit.** Gross profit was \$27.7 million in 2004, a decrease of 5.3% from gross profit of \$29.3 million in 2003. During 2004, bulk alcohol gross profit decreased as a result of higher raw material and energy costs; premium branded spirits gross profit increased with sales; bottling operations gross profit decreased with sales and increased costs as a result of hurricane disruptions; and vinegar and cooking wine gross profit decreased due to higher raw material cost and increased production costs as a result of hurricane disruptions. Gross margin was 28.8% in 2004 and 32.4% in 2003.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$31.3 million in 2004, an increase of 34.9% from \$23.2 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. During 2004, the Company increased its selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. Also during 2004, the Company's Compensation and Stock Option Committee approved a new Supplemental Executive Retirement Plan for certain key executives of the Company. See Note 15 to the Company's consolidated financial statements. 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 (Loss).** The following table sets forth the operating income (loss) by reportable segment of the Company for 2004 and 2003.

	Year Ended September 30,	
	2004	2003
	(In thousands)	
Bulk alcohol products	\$ 9,021	\$ 11,432
Premium branded spirits	(7,569)	(2,271)
Bottling operations	(3,904)	(1,901)
Vinegar and cooking wine	3,041	4,190
Corporate operations	(4,168)	(5,385)
	\$ (3,579)	\$ 6,065

As a result of the above factors, operating loss was \$3.6 million in 2004, as compared to operating income of \$6.1 million in 2003.

The Company's premium branded spirits segment experienced operating losses of \$7.6 million in 2004 and \$2.3 million in 2003. The operating losses reflected the Company's continuing efforts to increase market share by reinvesting segment gross profits in selling and marketing expenses.

As a result of the factors described under *Net Sales* above, the Company's bottling operations segment reported an operating loss of \$3.9 million in 2004 and \$1.9 million in 2003.

***Interest Expense.*** Interest expense was \$2.2 million in 2004 and \$3.4 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 had 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 continued to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491, which was paid in October 2003, and a second bonus payment of \$119,138, which was paid in August 2004. Among other benefits, Mr. Pincourt was also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during 2003 and there were no charges with respect to this in 2004. The effect of this charge was included in other expense in the Company's consolidated statement of operations 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

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

**Income Tax Expense.** During 2004 and 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$3.7 million and \$1.0 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2004 and 2003.

#### **Fiscal 2003 Compared to Fiscal 2002**



*Net Sales.* Net sales were \$90.4 million in 2003 and \$96.8 million in 2002.

Net sales of bulk alcohol products were \$35.2 million in 2003, a decrease of 0.7% from net sales of \$35.4 million in 2002. In 2003, unit sales of citrus brandy and rum increased 16.5% and 6.6%, respectively, compared to 2002, although the average selling price of citrus brandy and rum decreased 2.6% and 1.7%, respectively. The average selling price for citrus brandy decreased due to management lowering prices as a result of increased competition and the average selling price for rum decreased as a result of selling more of the Company's lower priced rum. Management believes that the Company's citrus brandy may continue to experience pricing pressure due to competition from other producers.

Net sales of premium branded spirits were \$20.8 million in 2003, a decrease of 4.5% from net sales of \$21.8 million in 2002. In 2002, net sales of premium branded spirits included \$1.9 million of bulk tequila sales and \$1.5 million of new Cruzan ready-to-drink products. Bulk tequila sales represented the liquidation of inventory that was held to produce Porfidio tequila. During the third quarter of 2002, the Company introduced a new line of Cruzan products in the ready-to-drink category, sales of which are included in the Company's premium branded spirits segment. The Company sold approximately 134,000 cases of this new product, representing net sales of \$1.5 million through September 30, 2002. During 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 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. During the fourth quarter of 2003, sales of the Company's ready-to-drink products were \$1.0 million. Excluding bulk tequila and Cruzan ready-to-drink product sales, net sales of premium branded spirits were \$19.8 million in 2003, an increase of 8.4% from net sales of \$18.3 million in 2002. Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 13.5% in 2003 compared to 2002.

Net sales of the Company's bottling operations were \$14.3 million in 2003, a decrease of 23.5% from net sales of \$18.7 million in 2002. The unit volume of the Company's bottling operations decreased 32.7% in 2003 as a result of the decision of a large bottling customer to shift production from the Company to its own bottling facilities. During Fiscal 2002, this customer represented approximately 48% of the Company's unit volume in bottling operations. During the third quarter of Fiscal 2003, management implemented a plan to consolidate the Company's bottling operations to increase efficiencies and reduce overhead.

Net sales of vinegar and cooking wine were \$20.2 million in 2003, a decrease of 3.8% from net sales of \$21.0 million in 2002. In 2003, total unit sales of vinegar and cooking wine increased 8.9% compared to 2002, although the average selling price per unit decreased 11.6%. The average selling price of vinegar and cooking wine decreased due to a combination of increased sales of lower priced white distilled vinegar and bulk cooking wine and decreased sales of higher priced vinegar and cooking wine case goods.

**Gross Profit.** Gross profit was \$29.3 million in 2003, a decrease of 6.0% from gross profit of \$31.1 million in 2002. Gross margin increased to 32.4% in 2003 from 32.2% in 2002. In 2002, gross profit included approximately \$0.5 million related to the liquidation sale of bulk tequila, and \$0.2 million related to the sale of ready-to-drink products.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$23.2 million in 2003, an increase of 3.0% from \$22.5 million in 2002.

**Operating Income.** The following table sets forth the operating income (loss) by operating segment of the Company for 2003 and 2002 and the percent change for the periods.

	Year Ended September 30,	
	2003	2002
	(in thousands)	
Bulk alcohol products	\$ 11,432	\$ 10,539
Premium branded spirits	(2,271)	(331)
Bottling operations	(1,901)	129
Vinegar and cooking wine	4,190	4,602
Corporate operations	(5,385)	(6,339)
	\$ 6,065	\$ 8,600

As a result of the above factors, operating income was \$6.1 million in 2003, as compared to operating income of \$8.6 million in 2002.

The Company's premium branded spirits segment experienced operating losses of \$2.3 million in 2003 and \$0.3 million in 2002. 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 \$1.9 million in 2003 compared to operating income of \$0.1 million in 2002. The operating loss reflected the decision of a large bottling customer to shift production from the Company to its own bottling facilities.



This customer represented approximately 48% of the Company's annual bottling operations unit volume for fiscal year 2002. During the third quarter of Fiscal 2003, management implemented a plan to consolidate the Company's bottling operations to increase efficiencies and reduce overhead.

**Interest Expense.** Interest expense was \$3.4 million in 2003 and \$3.1 million in 2002. The net increase in interest expense was a result of higher interest rates during 2003 as compared to 2002, the payment of \$296,250 in amendment fees during 2003, partially offset by lower average borrowings. 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.

**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 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 continued to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491 which was paid in October 2003, and a second bonus payment of \$119,138 which was paid in August 2004. Among other benefits, Mr. Pincourt was also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during the first quarter of Fiscal 2003. The effect of this charge was included in other expense in the Company's consolidated statement of operations 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, 2002		(549,220)
Charged to expense	\$	1,503,925

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

**Income Tax Expense.** The Company's effective income tax rate was 17.1% in 2002. The low tax rate was attributable to a 90% exemption of the Company's Virgin Islands subsidiary 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 2003 and 2002. During 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$1.3 million.

#### 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 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.

The Florida citrus harvest is generally during the months from November through June. The majority of the Florida citrus harvest is processed as fresh fruit juice or juice concentrate. A byproduct of citrus juice production is citrus molasses which the Company uses as a raw material at its two Florida distilleries to produce citrus brandy and spirits. Due to the seasonal availability and short shelf-life of the citrus molasses raw material, the Company produces its estimated annual customer requirements during a seven month period, and therefore, carries a higher than normal level of inventory in relation to sales during this seven month period. Generally, the Company's inventory level increases during this seven month period and decreases after the citrus harvest ends when the Company supplies its customers with citrus brandy and spirits from inventory from July through October.

There are no federal regulations that require minimum aging to be designated rum. However, due to the Company's high quality standards, the Company ages its Cruzan Estate Rums for two to five years and certain of the Company's super premium rums are aged up to twelve years. Due to the Company's own aging requirements, production of Cruzan Estate Rums is scheduled to meet demand two to three years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses. Management expects to continue to increase the Company's inventory of barrel aged rums to meet projected increased sales in the future.

Another seasonal business of the Company is its contract bottling services. Demand for contract bottling services is highest from April through October. During these months the Company's requirements increase for ingredients, glass bottles, caps, labels, packaging materials and labor. During 2004, the Company incurred losses from its bottling operations of \$3.9 million. Management has explored alternatives for its two bottling facilities, including further

consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices.

During 2004, management increased selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. To the extent that the increased expenditures do not result in increased sales of the Cruzan brand, the Company's short-term liquidity may be adversely affected. However, management actively monitors sales and expenditures on an ongoing basis, and retains the ability to adjust its level of expenditures in response to market conditions and in order to maintain sufficient liquidity.

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**





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Net cash provided by operating activities in 2004 was \$3.5 million, which resulted from \$0.6 million in net income adjusted for noncash items, and a \$2.9 million net change in operating assets and liabilities. In 2004, the Company spent \$0.9 million on sprinkler systems and safety equipment in its distilling and bottling operations to satisfy insurance requirements, which reduced the Company's insurance premiums.

### **Investing and Financing Activities**



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Net cash used in investing activities in 2004 was \$3.2 million, including capital expenditures of \$5.3 million partially offset by a redemption of short-term investments of \$1.6 million. In 2004, the Company spent \$1.0 million on sprinkler systems and safety equipment in its distilling and bottling operations to satisfy insurance requirements which reduced the Company's insurance premiums.

Net cash used in financing activities in 2004 was \$11.6 million, which resulted primarily from a \$17.5 million net decrease in borrowings under the revolving credit facility, \$4.1 million of payments on long-term debt off-set by \$10.1 million from the issuance of common stock.

In October 2001, the Company entered into a \$70 million credit agreement, consisting of a \$40 million term loan and a \$30 million revolving loan facility. During March 2004, the credit agreement was amended to reduce the revolving loan facility to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loans to be the same as the term loans, September 2006. See Note 9 to the Company's consolidated financial statements for additional information related to the Company's long-term debt.

In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarter ended September 30, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for the following fiscal year. The Company agreed to a .25% increase from its current interest rates so long as the Funded Debt to EBITDA ratio is between 2.50 and 3.25. In addition, if the Company's Funded Debt to EBITDA ratio is between 3.26 and 4.00, the interest rate would be .25% higher than the rate for the 2.50 to 3.25 level. The maturity of the credit agreement was modified to January 31, 2006, and the Company paid an amendment fee of \$107,500.

The Company's bank debt was \$29.5 million as of September 30, 2004, and its ratio of total debt to equity was 0.60 to 1.

The Company's share of the undistributed earnings of its Bahamian and Virgin Islands subsidiaries was approximately \$43.7 million as of September 30, 2004. No provision has been made for taxes which would result from the remittance of such undistributed earnings, as the Company intends to reinvest these earnings indefinitely. See Note 10 to the Company's consolidated financial statements for additional information on income taxes related to these subsidiaries.

Based on current plans and business conditions, management expects that its cash and cash equivalents, 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.

**Critical Accounting Policies**



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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 this Annual Report on Form 10-K. 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**



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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.

### Contractual Obligations and Commitments

The following table reflects scheduled maturities of contractual obligations including principal maturities on long-term debt and future minimum payments on operating leases with terms of one year or more. Purchase obligations include an event sponsorship contract and a contract to purchase spirits.

	Total	Payments Due By Period			After 5 Years
		Within 1 Year	2-3 Years	4-5 Years	
Long-term debt	\$ 29,674,240	\$ 4,000,000	\$ 25,674,240	\$	\$
Operating leases	912,239	416,699	495,540		
Unconditional purchase obligations	5,771,745	1,758,500	4,013,245		
Total contractual cash obligations	\$ 36,358,224	\$ 6,175,199	\$ 30,183,025	\$	\$

### Retirement of Chairman and Chief Executive Officer and Chief Financial Officer





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During November 2002, the Company announced the retirement of A. Kenneth Pincourt, Jr., its Founder, Chairman and Chief Executive Officer. The Company entered into an agreement with Mr. Pincourt, setting forth the terms of his retirement. Under this agreement, the Company elected to accelerate retirement benefits and continue to pay compensation and provide related benefits through July 15, 2004. The Company recorded a charge for these items during the first quarter of its 2003 fiscal year.

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

The effect of these charges, net of income tax benefits, was approximately \$1.1 million or \$.19 per common share in Fiscal 2003.

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**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.

**Risks That May Affect Future Results**



In addition to the risks and uncertainties of ordinary business operations, important factors that could cause the Company's actual results to differ materially from those contained in or implied by any forward-looking statements contained in this Annual Report on Form 10-K include:

***The Company faces competition that may reduce its market share and margins.***

The Company is in a highly competitive industry and the dollar amount and unit volume of its sales could be negatively affected by the Company's inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption or the decision of wholesale customers, retailers or consumers to purchase competitors' products instead of the Company's products. Since March 2003, no less than four of the Company's largest competitors—Bacardi, Diageo, Allied Domecq and Pernot Ricard—have introduced competitive flavored rum product offerings. Each of these competitors has greater financial resources than the Company. Wholesaler, retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products, including their quality or pricing, compared to competitive products. Unit volume and dollar sales could also be affected by pricing, purchasing, financing, operational, advertising or promotional decisions made by wholesalers, state and provincial agencies, and retailers, which could affect their supply of, or consumer demand for, the Company's products. The Company could also experience higher than expected selling, general and administrative expenses if management finds it necessary to increase the number of personnel or advertising or promotional expenditures to maintain the Company's competitive position or for other reasons. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the Company's market share, which would adversely affect the Company's results and hinder its growth potential.

***The Company's bottling operations have declined, and may continue to decline in the short-term.***

Net sales of the Company's bottling operations for Fiscal 2004 decreased by 16.6% from Fiscal 2003. During the first quarter of fiscal 2004, the Company lost a large private label-bottling customer that accounted for approximately 17.6% of its bottling operations net sales and 5.2% of its bottling operations volume. Sales in the Company's bottling operations also continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even management's reduced expectations for Fiscal 2004, which has caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. Management cannot assure that its efforts will be successful, or that this segment will experience operating profits in the future.

***The Company's premium branded spirits segment has experienced, and may continue to experience, operating losses as the Company reinvests its gross profit from that and other segments in the Company's selling, general and administrative expense for the premium branded spirits segment.***

Net sales of the Company's premium branded spirits segment, which includes Cruzan Estate Rums and Cruzan Flavored Rums, for Fiscal 2004 increased by 29% compared to Fiscal 2003. However, during Fiscal 2004, the Company's premium branded spirits segment experienced operating losses of \$7.6 million, up from operating losses of \$2.3 million in Fiscal 2003. These operating losses reflect management's continuing efforts to increase market share by reinvesting this and other segments' gross profits in selling and marketing expenses for the premium branded spirits segment. During 2004, the Company increased its selling, general and administrative expenses in its Premium Branded Spirits segment in an effort to support the continued growth of the Company's





Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. The Company cannot assure that its increased selling and marketing efforts will be successful, or that this segment will experience operating profits in the future.

*The seasonality of the Company's business and the timing of orders could cause operating results to fluctuate.*

The size and timing of purchase orders and product shipments can cause the Company's operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities or place significant orders for contract bottling services, vinegar and cooking wine. Additionally, some of the Company's products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also seasonal, with increased demand for the Company's contract bottling services from April to October and increased production of some 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 be erratic, varying significantly from quarter to quarter.

*The Company's dependence on distribution channels may limit its ability to sell its products.*

The Company sells its popular price and premium branded spirits principally to wholesalers for resale to retail outlets, including package liquor stores and restaurants. The replacement or poor performance of the Company's major wholesalers or the Company's inability to collect accounts receivable from its major wholesalers could materially and adversely affect the Company's results of operations and financial condition. Distribution channels for alcoholic beverages have been characterized in recent years by rapid change, including consolidations of certain wholesalers. Wholesalers and retailers of the Company's products offer products which compete directly with the Company's products for retail shelf space and consumer purchases. Accordingly, there is a risk that these wholesalers or retailers may give higher priority to competitors products. The Company cannot assure that its wholesalers and retailers will continue to purchase the Company's products or provide the Company's products with adequate levels of promotional support.

*The Company must maintain a relatively large inventory of its products to support customer delivery requirements, and if this inventory becomes obsolete and the Company is required to write down its inventory, the Company's operating results would be adversely affected.*

The Company must maintain a relatively large inventory to meet customer delivery requirements for the Company's products, including those in its bulk alcohol, premium branded spirits, bottling operations, and vinegar and cooking wine segments. Inventory may become obsolete as the Company and its customers introduce new products, cease to produce old products, or modify the design of a product's packaging. The Company maintains a provision for inventory obsolescence to cover potential write-downs in inventory for obsolescence, but the Company cannot assure that this provision is adequate, and inventory obsolescence could harm the Company's operating results.

*The Company may be unable to comply with its lender's financial covenants, and therefore the Company's debt repayment may be accelerated unexpectedly.*

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In October 2001, the Company entered into a \$70 million credit agreement, consisting of a \$40 million term loan and a \$30 million revolving loan facility. During March 2004, the credit agreement was amended to reduce the revolving loan facility to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loans to be the same as the term loans, September 2006.

In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarter ended September 30, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for the following fiscal year. The Company agreed to a .25% increase from its current interest rates so long as the Funded Debt to EBITDA ratio is between 2.50 and 3.25. In addition, if the Company's Funded Debt to EBITDA ratio is between 3.26 and 4.00, the interest rate would be .25% higher than the rate for the 2.50 to 3.25 level. The maturity of the credit agreement was modified to January 31, 2006, and the Company paid an amendment fee of \$107,500. See Note 9 to the Company's consolidated financial statements for additional information related to the Company's long-term debt.

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The Company cannot assure that it will be able to continue to comply with the financial covenants. In addition, if the Company is unable to comply with the financial covenants, it cannot assure that its lenders will grant a waiver of a covenant violation. In the event that the Company is not in compliance with a financial covenant its lenders have the ability to call the Company's debts, which would have a severe adverse impact upon the Company's operations and its ability to continue as a going concern.

*An increase in excise taxes or government regulations could have a material adverse effect on the Company's business.*

In the United States and other countries in which the Company operates, the Company is subject to the imposition of excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise or other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. Many states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. In addition, the beverage alcohol industry is subject to extensive regulation by federal, state, local and foreign governmental agencies concerning such matters as licensing, trade and pricing practices, permitted and required labeling, advertising and relations with wholesalers and retailers. Certain federal and state regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on the Company's financial condition or results of operations.

*A decline in the consumption of products the Company sells could adversely affect the Company's sales revenues or margin.*

There have been periods in the past in which there were substantial declines in the overall per capita consumption of beverage alcohol products in the United States and other markets in which the Company operates. A limited or general decline in consumption in one or more of the Company's product categories could occur in the future due to a variety of factors, including:

a decline in the popularity of flavored spirits;

demographic and social trends, changes in travel, vacation or leisure activity, patterns and a downturn in economic conditions;

increased concern about the health consequences of consuming beverage alcohol products and about drinking and driving;

increased activity of anti-alcohol consumer groups;

increased federal, state or foreign excise or other taxes on beverage alcohol products; and

Any decline in the consumption of products the Company sells could have a significant adverse effect on its sales revenue or margin.

*A small number of customers account for a high percentage of the Company's net sales and if the Company loses a few customers or is unable to attract new customers, net sales could decline.*

The Company's bulk alcohol, contract bottling services and proprietary and private label products are sold to a relatively small number of customers and the Company has large customers for vinegar and cooking wine. The loss of a few of these customers could have a material adverse effect on the Company's liquidity and results of operations. For example, the Company's net sales for its bottling operations decreased 16.6% between Fiscal 2003 and Fiscal 2004, and 23.5% between Fiscal 2002 and Fiscal 2003 largely because of the loss of two large customers. The Company cannot assure that it will not lose other customers.

The Company expects that sales of certain products to a small number of customers will continue to account for a high percentage of the Company's net sales for the foreseeable future. For example, for the Fiscal years ended September 30, 2004, 2003 and 2002, the Company's top 10 customers accounted for approximately 43%, 58% and 31%, respectively, of the Company's total net sales. The Company's future success depends on its

ability to retain the Company's current customers, and to attract new customers. The loss of one or several customers, whether through termination of agreements, acquisitions or bankruptcy, could significantly reduce the Company's net sales.

***Changes in the regulatory environment for the operation of the Company's business or those of its customers could pose risks and increased expenses.***

The Sarbanes-Oxley Act of 2002 and new rules subsequently implemented by the Securities and Exchange Commission have required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the Securities and Exchange Commission, the American Stock Exchange has adopted revisions to its requirements for listed companies. The Company continues to review all of its accounting policies and practices, legal disclosure and corporate governance policies under the new legislation, including those related to the Company's relationships with its independent auditors, enhanced financial disclosures, internal controls, board and board committee practices, corporate responsibility and loan practices, and intend fully to continue to comply with such laws. Management expects these new rules and regulations to make it more difficult for the Company to attract and retain qualified executive officers and qualified members of its Board of Directors, particularly to serve on the various committees of the Board, including and in particular, the audit committee. In addition, compliance with new rules imposed by the Securities and Exchange Commission and the American Stock Exchange will likely cause the Company to incur increased expenses, including legal and accounting expenses.

***If the Company does not successfully address the risks inherent in selling to international customers, the Company's net sales and financial results could decline.***

The Company derived 8% of its net sales from international sales in Fiscal 2004 and 6% in Fiscal 2003. Management plans to expand net sales and to grow the Company's international operations. The Company has limited experience in international sales and may not be able to compete or operate effectively in international markets. The Company faces certain risks inherent in conducting business internationally, including:

fluctuations in currency exchange rates and imposition of currency exchange controls;

language and translation issues;

difficulties in collecting accounts receivable and longer collection periods;

changes in regulatory requirements;

political and economic instability; and

potential adverse tax consequences.

Any of these factors could harm the Company's international sales and, consequently, its business and operating results. Specifically, failure to successfully manage international growth could result in higher operating costs than anticipated or could delay or preclude altogether the Company's ability to generate net sales in key international markets.

*The Company has a material amount of goodwill and adverse results in operations could result in a write-down of goodwill, which would further adversely affect the Company's results of operations.*

As of September 30, 2004, goodwill represented approximately \$20.5 million, or 16% of the Company's total assets. Goodwill is the amount by which the costs of an acquisition account for using the purchase method exceeds the fair value of the net assets acquired. The Company adopted Statement of Financial Accounting Standard No. 142 ( SFAS No. 142 ), Goodwill and Other Intangible Assets, in its entirety, on October 1, 2001. Under SFAS No. 142, goodwill is no longer amortized, but instead is subject to a periodic impairment evaluation based on the fair value of the reporting unit. Reductions in the Company's net income caused by a write-down of goodwill could materially and adversely affect the Company's results of operations.

*Adverse public opinion about alcohol may harm the Company's business.*

In recent years there has been substantial publicity regarding the possible health benefits of moderate alcohol consumption. The results of a number of studies suggest that moderate consumption of beverage alcohol could result in decreased mortality, lower risk of cardiovascular disease, and other health benefits. Alternatively, anti-alcohol groups have, in the past, successfully advocated more stringent labeling requirements and other regulations designed to discourage consumption of beverage alcohol. More restrictive regulations, negative publicity regarding alcohol consumption, publication of studies that indicate a significant health risk from moderate consumption of alcohol or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol generally could adversely affect the sale and consumption of alcohol and the demand for beverage alcohol and could have a material adverse effect on the Company's business, financial condition, and results of operations.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

	Market Risk Analysis September 30, 2004								
	Expected Maturity Date		Expected Maturity Date			Thereafter		Total	Fair Value
	2005	2006	2007	2008	2009				
<b>Assets</b>									
Notes receivable:									
Fixed rate	\$ 3,563,408	\$ 226,807	\$ 234,218	\$ 243,397	\$ 75,533	\$ 2,106	\$ 4,345,469	\$ 4,364,971	
Average interest rate									
Rate	5.78%	5.18%	8.13%	8.14%	8.21%	10.25%	7.61%		
<b>Liabilities</b>									
Long-term debt:									
Variable rate	\$ 4,000,000	\$ 25,674,240	\$	\$	\$	\$	\$ 29,674,240	\$ 29,674,240	
Average interest rate									
Rate	5.61%	5.39%					5.43%		

The Company carries certain variable rate debt and thus is exposed to the impact of interest rate changes. The table above summarizes the Company's market risk associated with debt obligations as of September 30, 2004.

In the event of an adverse change in interest rates, management would consider taking certain actions, such as an interest rate hedge or swap, to further mitigate the Company's exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such actions. The Company had no derivative financial instruments as of September 30, 2004.

See Note 9 to the Company's consolidated financial statements for additional information related to Company's financing arrangements.

#### Item 8. Financial Statements and Supplementary Data





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The consolidated financial statements and financial statement schedules of the Company and its subsidiaries, and the report of independent auditors, are listed at Item 15.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**



None.

**Item 9A. Disclosure Controls and Procedures**



**Evaluation of Disclosure Controls and Procedures**



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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

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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**



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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 controls or in other factors during the fourth quarter of Fiscal 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

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**PART III**



**Item 10. Directors and Executive Officers of the Registrant**



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The Company has adopted a Code of Ethics applicable to its Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions. In addition, the Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees. Both Codes are available on the Company's website at <http://www.todhunter.com>. The Company also intends to post any amendments to, or waivers from, either Code on the Company's website.

The other information required by Item 10 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders' meeting.

### **Item 11. Executive Compensation**





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The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders' meeting.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**



**EQUITY COMPENSATION PLAN INFORMATION**



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The following table summarizes information about the Company's equity compensation plans as of September 30, 2004. All outstanding awards relate to the Company's Common Stock. For additional information about the Company's equity compensation plans, see Note 12 to the Company's consolidated financial statements.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved by Security Holders (1)	312,500	\$ 8.13	
Equity Compensation Plans Approved by Security Holders (2)			853,000
Equity Compensation Plans Not Approved by Security Holders	60,000	\$ 9.06	
Total	372,500	\$ 8.28	853,000

(1) All of the shares reported in this row reflect stock options granted under the Company's 1992 Employee Stock Option Plan, as amended.

(2) All of the shares reported in this row reflect stock options granted under the Company's 2004 Employee Stock Option Plan.

The other information required by Item 12 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders' meeting.

**Item 13. Certain Relationships and Related Transactions**





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The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders meeting.

**Item 14. Principal Accountant Fees and Services**



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The information required by Item 14 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders' meeting.

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**PART IV**



**Item 15. Exhibits, Financial Statement Schedules**



(a) Financial Statements and Schedules

See Index to Financial Statements and Financial Statement Schedules.

(b) Exhibits

See Index to Exhibits.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of West Palm Beach, State of Florida, on the 15th day of December, 2004.

TODHUNTER INTERNATIONAL, INC.

By: /s/ Jay S. Maltby  
Jay S. Maltby, Chairman of the Board,  
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Jay S. Maltby Jay S. Maltby	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	December 15, 2004
/s/ Ezra Shashoua Ezra Shashoua	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 15, 2004
/s/ Michael E. Carballo Michael E. Carballo	Director	December 15, 2004
/s/ Joseph R. Cook Joseph R. Cook	Director	December 15, 2004
/s/ Donald L. Kasun Donald L. Kasun	Director	December 15, 2004
/s/ Edward F. McDonnell Edward F. McDonnell	Director	December 15, 2004
/s/ D. Chris Mitchell D. Chris Mitchell	Director	December 15, 2004
/s/ Leonard G. Rogers Leonard G. Rogers	Director	December 15, 2004
/s/ Thomas A. Valdes Thomas A. Valdes	Director	December 15, 2004

**TODHUNTER INTERNATIONAL, INC.**

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

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- a) Financial Statements
  - Independent Auditor's Report
  - Consolidated balance sheets as of September 30, 2004 and 2003
  - Consolidated statements of operations for the years ended September 30, 2004, 2003 and 2002
  - Consolidated statements of stockholders' equity for the years ended September 30, 2004, 2003 and 2002
  - Consolidated statements of cash flows for the years ended September 30, 2004, 2003 and 2002
  - Notes to consolidated financial statements
- b) Financial Statement Schedule
  - Independent Auditor's Report
  - Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the notes to the Company's consolidated financial statements.

**Independent Auditor's Report**

To the Board of Directors and Stockholders

Todhunter International, Inc.

West Palm Beach, Florida

We have audited the accompanying consolidated balance sheets of Todhunter International, Inc. and subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Todhunter International, Inc. and subsidiaries as of September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladrey & Pullen, LLP

West Palm Beach, Florida  
November 24, 2004, except for the  
last paragraph in (i) of Note 9 as  
to which the date is December 20, 2004.

McGladrey & Pullen, LLP is a member firm of RSM International,

an affiliation of separate and independent legal entities.



## Todhunter International, Inc. and Subsidiaries

## Consolidated Balance Sheets

September 30, 2004 and 2003

Assets	2004	2003
Current Assets		
Cash and cash equivalents	\$ 3,617,582	\$ 14,918,605
Short-term investments	216,246	1,819,016
Trade receivables	17,970,125	15,867,079
Other receivables	2,448,611	2,879,334
Inventories	29,162,496	28,664,895
Notes receivable, current maturities	3,559,409	647,782
Deferred income taxes	981,000	2,224,000
Other current assets	3,195,781	3,895,977
<b>Total current assets</b>	<b>61,151,250</b>	<b>70,916,688</b>
Investments in and Advances to Equity Investees	2,232,285	1,879,623
Notes Receivable, less current maturities	411,060	506,422
Notes Receivable From Affiliates, less current maturities	375,000	3,714,346
Property and Equipment, less accumulated depreciation 2004 \$56,716,805; 2003 \$52,125,682	39,949,850	40,056,612
Goodwill	20,524,404	20,524,404
Trademarks	893,648	834,850
Deferred Loan Costs	634,910	866,128
Other Assets	1,660,219	
	\$ 127,832,626	\$ 139,299,073

See Notes to Consolidated Financial Statements.

Liabilities and Stockholders Equity	2004	2003
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 4,000,000	\$ 4,000,000
Accounts payable	11,868,947	6,288,431
Accrued expenses	4,726,253	3,837,745
<b>Total current liabilities</b>	<b>20,595,200</b>	<b>14,126,176</b>
Long-Term Debt, less current maturities	25,674,240	47,315,617
Deferred Income Taxes	648,000	5,243,000
Other Liabilities	1,091,248	2,002,761
	<b>48,008,688</b>	<b>68,687,554</b>
<b>Commitments</b>		
<b>Stockholders Equity</b>		
Preferred stock, par value \$.01 per share; authorized 2,500,000 shares, no shares issued		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued 2004 6,437,719 and 2003 5,686,434 shares	64,377	56,864
Additional paid-in capital	28,916,707	18,803,404
Retained earnings	51,580,634	52,489,031
	<b>80,561,718</b>	<b>71,349,299</b>
Less cost of 99,200 shares of treasury stock	(737,780)	(737,780)
	<b>79,823,938</b>	<b>70,611,519</b>
	<b>\$ 127,832,626</b>	<b>\$ 139,299,073</b>

## Todhunter International, Inc. and Subsidiaries

## Consolidated Statements of Operations

Years Ended September 30, 2004, 2003 and 2002

	2004	2003	2002
Sales	\$ 121,983,473	\$ 120,819,993	\$ 128,967,429
Less excise taxes	25,567,774	30,375,700	32,128,016
<b>Net sales</b>	<b>96,415,699</b>	<b>90,444,293</b>	<b>96,839,413</b>
Cost of goods sold	68,683,722	61,174,613	65,700,655
<b>Gross profit</b>	<b>27,731,977</b>	<b>29,269,680</b>	<b>31,138,758</b>
Selling, general and administrative expenses	31,311,358	23,204,978	22,538,523
<b>Operating income (loss)</b>	<b>(3,579,381)</b>	<b>6,064,702</b>	<b>8,600,235</b>
Other income (expense):			
Interest income	371,183	709,429	754,312
Interest expense	(2,226,011)	(3,376,539)	(3,072,820)
Equity in income (losses) of equity investees	352,662	323,177	(144,474)
Other, net	481,063	(1,273,941)	431,676
	<b>(1,021,103)</b>	<b>(3,617,874)</b>	<b>(2,031,306)</b>
<b>Income (loss) before income taxes</b>	<b>(4,600,484)</b>	<b>2,446,828</b>	<b>6,568,929</b>
Income tax expense (benefit):			
Current	(340,087)	(1,257,202)	734,198
Deferred	(3,352,000)	301,000	388,000
	<b>(3,692,087)</b>	<b>(956,202)</b>	<b>1,122,198</b>
<b>Net income (loss)</b>	<b>\$ (908,397)</b>	<b>\$ 3,403,030</b>	<b>\$ 5,446,731</b>
Net income (loss) per common share:			
Basic	\$ (0.16)	\$ 0.61	\$ 0.99
Diluted	\$ (0.16)	\$ 0.60	\$ 0.97
Common shares and equivalents outstanding:			
Basic	5,800,931	5,574,456	5,526,781
Diluted	5,800,931	5,644,432	5,624,164

See Notes to Consolidated Financial Statements.



**Todhunter International, Inc. and Subsidiaries****Consolidated Statements of Stockholders' Equity****Years Ended September 30, 2004, 2003 and 2002**

	Shares Issued	Common Stock Amount	Additional Paid-in Capital
Balance, October 1, 2001	5,612,934	\$ 56,129	\$ 18,326,014
Issuance of common stock	56,500	565	338,435
Net income			
Net unrealized income on interest rate cap			
Balance, September 30, 2002	5,669,434	56,694	18,664,449
Issuance of common stock	17,000	170	138,955
Net income			
Balance, September 30, 2003	5,686,434	56,864	18,803,404
Issuance of common stock	<b>751,285</b>	<b>7,513</b>	<b>10,113,303</b>
Net loss			
Balance, September 30, 2004	<b>6,437,719</b>	<b>\$ 64,377</b>	<b>\$ 28,916,707</b>

See Notes to Consolidated Financial Statements.

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	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares Acquired	Treasury Stock Amount	Total Stockholders Equity	Total Comprehensive Income (Loss)
Balance, October 1, 2001	\$ 43,639,270	\$ (63,000)	99,200	\$ (737,780)	\$ 61,220,633	
Issuance of common stock					339,000	
Net income	5,446,731				5,446,731	\$ 5,446,731
Net unrealized income on interest rate cap		63,000			63,000	63,000
Balance, September 30, 2002	49,086,001		99,200	(737,780)	67,069,364	\$ 5,509,731
Issuance of common stock					139,125	
Net income	3,403,030				3,403,030	3,403,030
Balance, September 30, 2003	52,489,031		99,200	(737,780)	70,611,519	\$ 3,403,030
Issuance of common stock					<b>10,120,816</b>	
Net loss	<b>(908,397)</b>				<b>(908,397)</b>	<b>(908,397)</b>
Balance, September 30, 2004	\$ <b>51,580,634</b>	\$	<b>99,200</b>	\$ <b>(737,780)</b>	\$ <b>79,823,938</b>	\$ <b>(908,397)</b>

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## Todhunter International, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

## Years Ended September 30, 2004, 2003 and 2002

	2004	2003	2002
<b>Cash Flows From Operating Activities</b>			
Net income (loss)	\$ (908,397)	\$ 3,403,030	\$ 5,446,731
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	5,106,463	5,385,736	5,252,962
Amortization of trademarks	40,200	40,200	40,200
Deferred loan costs included in interest	308,904	299,004	315,000
Gain on sale of investments		(71,574)	
Gain on sale of property and equipment	(281,541)	(155,848)	(30,370)
Equity in (income) losses of equity investees	(352,662)	(323,177)	144,474
Deferred income taxes	(3,352,000)	301,000	388,000
Changes in assets and liabilities			
(Increase) decrease in:			
Receivables	(1,672,323)	(2,543,933)	1,575,569
Inventories	(497,601)	(809,970)	(371,596)
Other assets	(476,613)	(817,540)	(767,099)
Increase (decrease) in:			
Accounts payable	5,580,516	2,237,052	(1,117,863)
Accrued expenses	888,508	614,452	897,589
Other liabilities	(911,513)	191,302	497,423
<b>Net cash provided by operating activities</b>	<b>3,471,941</b>	<b>7,749,734</b>	<b>12,271,020</b>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of property and equipment	567,192	82,370	61,088
Principal payments received on notes receivable	523,081	119,075	106,853
Purchase of property and equipment	(5,285,352)	(3,385,470)	(6,000,633)
Disbursement for notes receivable		(10,000)	(250,000)
Purchase of short-term investments		(1,380,553)	(3,397,033)
Redemption of short-term investments	1,602,770	3,721,547	8,533,851
Advance to equity investees		(270,000)	
Other assets	(582,408)	(92,567)	215,934
<b>Net cash used in investing activities</b>	<b>(3,174,717)</b>	<b>(1,215,598)</b>	<b>(729,940)</b>
<b>Cash Flows From Financing Activities</b>			
Net borrowings (payments) under line of credit arrangements	\$ (17,500,000)	\$ (1,500,000)	\$ 1,500,000
Proceeds from issuance of common stock	10,120,816	139,125	339,000
Disbursements for loan costs	(77,686)		(889,833)
Principal payments on long-term borrowings	(4,141,377)	(4,201,392)	(4,167,540)
<b>Net cash used in financing activities</b>	<b>(11,598,247)</b>	<b>(5,562,267)</b>	<b>(3,218,373)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11,301,023)</b>	<b>971,869</b>	<b>8,322,707</b>
Cash and cash equivalents:			
Beginning	14,918,605	13,946,736	5,624,029
Ending	\$ 3,617,582	\$ 14,918,605	\$ 13,946,736

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Supplemental Disclosures of Cash Flow Information

Cash payments (refunds) for:

Interest	\$	<b>1,946,229</b>	\$	3,390,213	\$	2,728,397
Income taxes	\$	<b>(1,320,708)</b>	\$	(515,663)	\$	1,688,788
Supplemental Schedule of Noncash Investing and Financing Activities						
Note receivable exchanged for equity investment	\$		\$	500,000	\$	

See Notes to Consolidated Financial Statements.

**TODHUNTER INTERNATIONAL, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Note 1.** Nature of Business and Significant Accounting Policies

Nature of business: Todhunter International, Inc. (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 operates four production facilities in the United States and one in St. Croix, United States Virgin Islands and purchases certain products for resale.

Ownership: Angostura Limited (Angostura), a Trinidad-based distiller, beneficially owns shares, representing approximately 68% of the Company's common stock.

A summary of the Company's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Todhunter International, Inc. and all of its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50% ownership), are accounted for by the equity method.

Accounting estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Company recognizes revenue when its product is shipped, at which time title passes to the customer. Revenues from contract bottling services are recognized at the time the bottling process is completed. Excise taxes on products sold are billed directly to customers and are included in sales at the same time the product sold is recognized as revenue.

Cash equivalents: The Company considers certificates of deposit and other short-term investments with an original maturity of three months or less to be cash equivalents. The Company maintains depository accounts in excess of FDIC insured limits. The Company has not experienced any credit losses in such accounts and does not anticipate any losses.

Functional currency: The functional currency for all foreign subsidiaries is the U.S dollar.

Short-term investments: The Company has investments in certificates of deposit and commercial paper, which mature within one year of purchase. All of the Company's short-term investments are classified as held-to-maturity and are carried at amortized cost.

Trade receivables: The Company records trade receivables at cost, which approximates fair value at the respective balance sheet dates. The Company estimates its allowance for doubtful accounts based on a combination of historical and current information regarding the balance of trade receivables, as well as the current composition of the pool of trade receivables. The Company determines status on trade receivables based on the contractual terms of the original sale. Trade receivables that management believes to be uncollectible are written off upon such determination. Recoveries of accounts receivable previously written off are recorded when received.

**Inventories:** Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

**Property and equipment:** Property and equipment is stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the various classes of depreciable assets. Estimated lives are as follows:

	<b>Years</b>
Land improvements	3 - 20
Buildings and improvements	3 - 40
Machinery and equipment	3 - 33

**Trademarks:** Amortization on trademarks held are computed on the straight-line basis over the estimated lives of the trademarks. Estimated lives are three to forty years (see Note 7).

**Deferred loan costs:** Deferred loan costs included in interest expense are computed using the effective interest method over the term of the loan (see Note 7).

**Impairment of long-lived assets:** As of October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 144, ( SFAS 144 ), *Accounting for the Impairment or Disposal of Long-Lived Assets*. Long-lived assets held for use are subject to an impairment assessment if the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset or fair value less costs to sell. The amount of impairment is the difference between the carrying amount and the fair value of the related asset. The Company's estimate of undiscounted cash flows or fair value less costs to sell indicated that such carrying amounts were expected to be recovered.

**Income taxes:** Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

**Preferred stock:** The Company has authorized 2,500,000 shares of \$.01 par value preferred stock. No terms are stated as to dividend, liquidation or other rights applicable to these shares.

**Stock options:** 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. As of January 1, 2003, the Company adopted SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, an amendment of SFAS 123. The standard amends SFAS 123 to provide alternative methods of transition for voluntary changes to the fair value based method of accounting for stock-based employee compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require pro-forma disclosures when the intrinsic value method continues to be used. The Company has elected to continue accounting for stock-based compensation using the intrinsic method in accordance with APB 25, and has adopted the new disclosure requirements specified under SFAS 148.

If the Company had 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 shown below:

	2004	2003	2002
Net income (loss), as reported	\$ (908,397)	\$ 3,403,030	\$ 5,446,731
Compensation costs, net of income taxes		(266,886)	(266,886)
Net income (loss), pro forma	\$ (908,397)	\$ 3,136,144	\$ 5,179,845
Earnings (loss) per common share			
As reported (Basic)	\$ (0.16)	\$ 0.61	\$ 0.99
As reported (Diluted)	(0.16)	0.60	0.97
Pro forma (Basic)	(0.16)	0.56	0.94
Pro forma (Diluted)	(0.16)	0.55	0.92

The pro forma effects are determined as if compensation costs were recognized using the fair value based accounting method. The fair values of options granted during 1999 and 1998 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 4.75% and 4.75%; expected lives of 10 years; expected volatility of 29% and 30%; and a zero percent dividend yield. The weighted-average fair value of options granted during 1999 and 1998 was \$3.98 and \$4.67, respectively.



**Intangible assets:** As of October 1, 2001, the Company adopted SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 142 supercedes APB Opinion No. 17, *Intangible Assets*, and requires goodwill and other intangible assets that have an indefinite useful life to no longer be amortized; however, these assets must be reviewed at least annually for impairment. As required by SFAS 142, the Company has completed the goodwill impairment test and has concluded that there was no impairment to goodwill as of and for the years ended September 30, 2004 and 2003.

**Advertising costs:** Advertising costs are charged to expense as incurred. Advertising costs were \$2,841,768, \$589,648, and \$1,017,632 for the years ended September 30, 2004, 2003, and 2002, respectively.

**Reclassifications:** Certain amounts in the 2003 and 2002 consolidated financial statements have been reclassified to conform with the 2004 presentation with no effect on net income (loss) or stockholders' equity.

**Note 2.** Inventories

The major components of inventories as of September 30, 2004 and 2003 are:

	2004		2003
Finished goods	\$ 15,155,035	\$	15,588,106
Work in process	2,668,698		3,380,434
Raw materials and supplies	11,338,763		9,696,355
	\$ 29,162,496	\$	28,664,895

**Note 3.** Notes Receivable

Notes receivable consist of the following as of September 30, 2004 and 2003:

	2004		2003
8% note, collateralized by real property, monthly principal and interest payments of \$10,313 through April 2009	\$ 473,538	\$	555,800
Other	32,586		37,977
	506,124		593,777
Less current maturities	95,064		87,355
	\$ 411,060	\$	506,422

**Note 4.** Notes Receivable From Affiliates

Notes receivable from affiliates consist of the following as of September 30, 2004 and 2003:

	2004	2003
6% note, unsecured from British Fidelity Holdings Limited, an affiliate through common ownership. Monthly principal and interest payments of \$20,000 due through July 2005, with remaining balance of \$3,305,560 due in August 2005. This note is guaranteed by British Fidelity Assurance, Ltd.	\$ 3,339,345	\$ 3,377,726
7% note, unsecured from BF Enterprises Limited, an affiliate through common ownership. Monthly interest payments through July 2004. Principal was due on demand on August 1, 2004		397,047
1.99% note, unsecured from CL World Brands Limited, an affiliate through common ownership. Interest due annually. Principal payments of \$125,000 due annually beginning June 2005 through June 2008.	500,000	500,000
	<b>3,839,345</b>	4,274,773
Less current maturities	<b>3,464,345</b>	560,427
	<b>\$ 375,000</b>	\$ 3,714,346

**Note 5.** Trade Credits

The Company entered into an agreement with a corporate trading company to receive trade credits upon installment deliveries of ready-to-drink beverages ( products ) from buyers obtained by the corporate trading company. The Company has \$500,000 and \$1,086,271 as of September 30, 2004 and 2003, respectively, included in other current assets on the accompanying consolidated balance sheets. Additionally, the Company has \$1,176,809 and \$0 as of September 30, 2004 and 2003, respectively, included in other assets, on the accompanying consolidated balance sheets. Earned trade credits must be utilized by June 30, 2008 and are subject to terms as more specifically defined in the agreement.

**Note 6.** Property and Equipment

The major classifications of property and equipment as of September 30, 2004 and 2003 are:

	2004	2003
Land	\$ 5,086,665	\$ 5,086,665
Land improvements	1,441,513	1,400,881
Buildings and improvements	18,427,963	18,313,979
Machinery and equipment	71,710,514	67,380,769
	<b>96,666,655</b>	92,182,294
Less accumulated depreciation	56,716,805	52,125,682
	<b>\$ 39,949,850</b>	\$ 40,056,612

**Note 7.** Trademarks and Deferred Loan Costs

Trademarks and deferred loan costs consist of the following as of September 30, 2004 and 2003:

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Deferred Loan Costs	\$ 1,807,469	\$ 1,172,559	\$ 1,729,783	\$ 863,655
Trademarks	\$ 1,400,999	\$ 507,351	\$ 1,302,001	\$ 467,151

Amortization charged to trademarks for each of the three years in the period ended September 30, 2004 were \$40,200. Amounts charged to interest expense for deferred loan costs were \$308,904, \$299,004 and \$315,000, for the fiscal years ended 2004, 2003 and 2002, respectively.

Estimated aggregate amortization of deferred loan costs and trademarks each of the next five years is as follows:

Year Ending September 30,	Amount
2005	\$ 360,385
2006	354,925
2007	40,200
2008	40,200
2009	40,200

**Note 8.** Accrued Expenses

Accrued expenses consist of the following as of September 30, 2004 and 2003:

	2004	2003
Accrued payroll and related expenses	\$ 2,350,130	\$ 1,699,653
Accrued trade expenses	1,055,197	1,231,186
Other	1,320,926	906,906
	\$ 4,726,253	\$ 3,837,745

**Note 9.** Financing Arrangements

Long-term debt consists of the following as of September 30, 2004 and 2003:

	2004	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 as of September 30, 2004 was 4.39%. Future minimum quarterly principal installments of \$1,000,000 through September 30, 2006 with any remaining balance due on September 30, 2006	\$ 28,000,000	\$ 32,000,000
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 as of September 30, 2004 was 4.75%. The revolving lines of credit terminate in September 2006	1,500,000	19,000,000
Other	174,240	315,617
	<b>29,674,240</b>	<b>51,315,617</b>
Less current maturities	<b>4,000,000</b>	<b>4,000,000</b>
	<b>\$ 25,674,240</b>	<b>\$ 47,315,617</b>

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

On December 20, 2004, the Company received a waiver of its financial covenants compliance requirement for the quarter ended September 30, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for the following fiscal year. The Company agreed to a .25% increase from its current interest rates so long as the Funded Debt to EBITDA ratio is between 2.50 and 3.25. In addition, if the Company's Funded Debt to EBITDA ratio is between 3.26 and 4.00, the interest rate would be .25% higher than the rate for the 2.50 to 3.25 level. The maturity date of the credit agreement was modified to January 31, 2006, and the Company paid an amendment fee of \$107,500.

(ii) In addition to the 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.

Maturities of long-term debt as of September 30, 2004 are as follows:

Year Ending September 30,	Amount
2005	\$ 4,000,000
2006	25,674,240
	\$ 29,674,240

**Note 10.** Income Taxes

Income tax expense (benefit) consists of the following for the years ended September 30, 2004, 2003 and 2002:

	2004	2003	2002
Current income tax expense (benefit):			
Federal	\$ (361,033)	\$ (1,239,995)	\$ 756,092
State	20,946	(17,207)	(21,894)
	(340,087)	(1,257,202)	734,198
Deferred income tax expense (benefit):			
Federal	(2,789,000)	371,000	357,000
State	(563,000)	(70,000)	31,000
	(3,352,000)	301,000	388,000
Total income tax expense (benefit)	\$ (3,692,087)	\$ (956,202)	\$ 1,122,198

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Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the deferred tax assets and liabilities relate to the following as of September 30, 2004 and 2003:

	2004	2003
<b>Deferred tax liabilities:</b>		
Property and equipment, principally due to differences in depreciation	\$ 3,974,000	\$ 3,945,000
Goodwill, principally due to differences in amortization	1,826,000	1,298,000
	<b>5,800,000</b>	<b>5,243,000</b>
<b>Deferred tax assets:</b>		
Inventories, principally due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	336,000	1,113,000
Differences related to anticipated future expenses and allowances	488,000	393,000
Net operating loss carryforwards which expire in 2024	5,069,000	
Deferred compensation	240,000	718,000
	<b>6,133,000</b>	<b>2,224,000</b>
Net deferred income tax liability (assets)	\$ (333,000)	\$ 3,019,000

The deferred tax amounts mentioned above have been classified on the accompanying consolidated balance sheets as of September 30, 2004 and 2003 as follows:

	2004	2003
Noncurrent liabilities	\$ 648,000	\$ 5,243,000
Current assets	(981,000)	(2,224,000)
	<b>\$ (333,000)</b>	<b>\$ 3,019,000</b>

No valuation allowance has been recorded as of September 30, 2004 or 2003.

Income tax expense (benefits) differed from the amounts computed by applying the statutory federal income tax rate to income before income taxes as a result of the following for the years ended September 30, 2004, 2003 and 2002:

	2004	2003	2002
Computed expected tax expense (benefit)	\$ (1,564,165)	\$ 831,922	\$ 2,233,436
Effect of income tax subsidy on earnings of Virgin Islands subsidiary	(1,396,853)	(1,224,205)	(930,907)
Effect of extraterritorial deduction on income tax	(305,292)	(251,188)	(208,392)
Other	(425,777)	(312,731)	28,061
Total income tax expense (benefits)	\$ (3,692,087)	\$ (956,202)	\$ 1,122,198

Generally, the operating income of the Company's Bahamian subsidiary is not subject to United States income taxes and there are no income taxes in the Commonwealth of the Bahamas. Certain passive income of the Bahamian subsidiary is subject to United States income taxes.

The Virgin Islands subsidiary, through the Industrial Development Commission of the Government of the Virgin Islands of the United States, has received a 90% exemption from income taxes on operating income. This exemption is effective through September 2020. The per share effect of this exemption on earnings on a basic and diluted basis for the years ended September 30, 2004, 2003 and 2002, respectively, is as follows:

	2004	2003	2002
Basic	\$ 0.24	\$ 0.22	\$ 0.18
Diluted	0.24	0.22	0.18

With respect to the Company's foreign subsidiaries, no provision has been made for taxes, which would result from the remittance of such undistributed earnings as the Company intends to reinvest these earnings indefinitely. The Company's aggregate share of undistributed earnings of its foreign subsidiaries was approximately \$43.7 million and \$38.9 million as of September 30, 2004 and 2003, respectively. The undistributed earnings of the Company's foreign subsidiaries have been reduced by any previously taxed income.



**Note 11.** Commitments

Leases: The Company occupies office space under noncancelable operating leases which expire through December 2006. One of the leases contains two renewal options of five years each.

Future minimum lease payments under these noncancelable operating leases as of September 30, 2004 are as follows:

Year Ending September 30,	Amount
2005	\$ 416,699
2006	396,432
2007	99,108
	\$ 912,239

Rent expense for office space (including the Company's share of common area expenses, real estate and sales taxes) amounted to \$503,519, \$484,782 and \$485,206 for the years ended September 30, 2004, 2003 and 2002, respectively.

Event Sponsorship: In 2004, the Company entered into a noncancelable agreement with an entertainer to promote one of the Company's trademarked products. The agreement covers the calendar years 2005 through 2007 with total fees amounting to \$4,271,745.

**Note 12.** Stock Options

On August 11, 1992, the Company adopted a stock option plan for the grant of options to key employees. Option prices may not be less than 85% of the fair market value of the Company's common stock on the date of grant for nonqualified options or 100% of such fair market value for qualified stock options. Options granted have vesting periods ranging from 3 to 5 years. The Company received a total of \$300,625, \$139,125 and \$339,000 upon the exercise of stock options for 37,000, 17,000 and 56,500 shares for the years ended September 30, 2004, 2003 and 2002, respectively. This plan has expired and no new options can be granted in the future from this plan.

On March 16, 2004, the Company adopted a stock option plan for the grant of options to key employees. The terms of this plan are substantially similar to the plan adopted in 1992. There are 853,000 common shares reserved for issuance under this plan. No options have been granted under this plan.

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A reconciliation of the Company's stock option activity, and related information, for the years ended September 30, 2004, 2003 and 2002 follows:

	2004		2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	409,500	\$ 8.26	542,500	\$ 8.69	599,000	\$ 8.43
Exercised	(37,000)	8.13	(17,000)	8.13	(56,500)	6.00
Forfeited			(116,000)	10.26		
Outstanding, end of year	372,500	\$ 8.28	409,500	\$ 8.26	542,500	\$ 8.69
Exercisable, end of year	372,500	\$ 8.28	354,500	\$ 8.28	408,500	\$ 8.87

The following table summarizes information about the stock options at September 30, 2004:

Exercise Price	Number Outstanding at September 30, 2004	Number Exercisable at September 30, 2004	Expiration Date
\$8.1250	87,500	87,500	February 2006
\$9.0625	60,000	60,000	May 2008
\$8.1250	225,000	225,000	December 2008
	372,500	372,500	

The exercise price of options at grant date has been made at fair value.

**Note 13.** Segment and Geographic 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 certain expenses of the Company's executive offices that are not allocated to the operating segments described above)

The accounting policies of the reportable segments are the same as those described 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 (losses) of equity investee, interest income and expense. Material intersegment sales and transfers have been eliminated.

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Net sales, operating income (loss), identifiable assets, depreciation and amortization, capital expenditures and goodwill for the Company's operating segments for the years ended September 30, 2004, 2003 and 2002 are as follows:

(in thousands)	2004	2003	2002
<b>Net Sales</b>			
Bulk Alcohol Products	\$ 37,249	\$ 35,203	\$ 35,447
Premium Branded Spirits	26,846	20,808	21,778
Bottling Operations	11,911	14,278	18,661
Vinegar and Cooking Wine	20,410	20,155	20,953
	\$ 96,416	\$ 90,444	\$ 96,839
<b>Operating Income (Loss)</b>			
Bulk Alcohol Products	\$ 9,021	\$ 11,432	\$ 10,539
Premium Branded Spirits	(7,569)	(2,271)	(331)
Bottling Operations	(3,904)	(1,901)	129
Vinegar and Cooking Wine	3,041	4,190	4,602
Corporate Operations and Other	(4,168)	(5,385)	(6,339)
	\$ (3,579)	\$ 6,065	\$ 8,600
<b>Identifiable Assets</b>			
Bulk Alcohol Products	\$ 64,412	\$ 73,795	\$ 71,974
Premium Branded Spirits	9,200	7,573	8,777
Bottling Operations	28,113	25,409	23,081
Vinegar and Cooking Wine	19,025	19,786	20,010
Corporate Operations and Other	7,083	12,736	14,040
	\$ 127,833	\$ 139,299	\$ 137,882
<b>Depreciation and Amortization</b>			
Bulk Alcohol Products	\$ 2,912	\$ 3,243	\$ 3,005
Premium Branded Spirits	123	101	88
Bottling Operations	1,561	1,499	1,612
Vinegar and Cooking Wine	475	482	473
Corporate Operations and Other	75	101	115
	\$ 5,146	\$ 5,426	\$ 5,293
<b>Capital Expenditures</b>			
Bulk Alcohol Products	\$ 2,726	\$ 1,424	\$ 4,269
Premium Branded Spirits	256	131	166
Bottling Operations	2,123	1,620	1,166
Vinegar and Cooking Wine	174	125	247
Corporate Operations and Other	6	85	153
	\$ 5,285	\$ 3,385	\$ 6,001
<b>Goodwill</b>			
Bulk Alcohol Products	\$ 9,471	\$ 9,471	\$ 9,471
Premium Branded Spirits			
Bottling Operations			
Vinegar and Cooking Wine	11,053	11,053	11,053
Corporate Operations and Other			
	\$ 20,524	\$ 20,524	\$ 20,524

Sales and operating income for the years ended September 30, 2004, 2003, and 2002 and identifiable assets as of the end of each period classified by geographic area, were as follows:

	United States	U. S. Virgin Islands and the Bahamas	Consolidated
<b>September 30, 2004:</b>			
Net sales	\$ 83,853,764	\$ 12,561,935	\$ 96,415,699
Operating income (loss)	(7,541,160)	3,961,779	(3,579,381)
Identifiable assets	96,022,415	31,810,211	127,832,626
<b>September 30, 2003:</b>			
Net sales	\$ 78,742,549	\$ 11,701,744	\$ 90,444,293
Operating income	2,497,645	3,567,057	6,064,702
Identifiable assets	93,848,452	45,450,621	139,299,073
<b>September 30, 2002:</b>			
Net sales	\$ 85,697,980	\$ 11,141,433	\$ 96,839,413
Operating income	5,372,667	3,227,568	8,600,235
Identifiable assets	95,698,471	42,184,033	137,882,504

Included in net sales for the United States are export sales, primarily to Eastern Europe, Canada and the Caribbean, totaling approximately \$8,000,000, \$6,300,000 and \$6,400,000 for the years ended September 30, 2004, 2003 and 2002, respectively.

**Note 14.** Defined Contribution Retirement Plan

The Company has a defined contribution retirement plan which covers substantially all United States employees. Generally, employer contributions to the plan begin to vest to the benefit of the participant after three years of service. Participants are immediately vested in any elective contributions and related earnings, if any. Participants are entitled, upon retirement, to their vested portion of the retirement fund assets. The Company contributed \$1,206,986, \$967,962 and \$1,043,311 to the plan for the years ended September 30, 2004, 2003 and 2002, respectively.

**Note 15.** Supplemental Executive Retirement Plan

During 2004, the Company's Compensation and Stock Option Committee approved a supplemental executive retirement plan for certain key executives of the Company. The plan is an unfunded plan within the meaning of Financial Accounting Standard 132.

The obligations and funded status as of September 30, 2004 are:

Benefit obligation at beginning of year	\$	
Service cost		154,097
Interest cost		19,766
Benefit obligation at end of year	\$	173,863
Funded status	\$	(173,863)
Net amount recognized	\$	173,863

Amounts recognized in the balance sheet as of September 30, 2004 are:

Accrued benefit cost	\$	173,863
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The accumulated benefit obligation and fair value of plan assets as of September 30, 2004 are:

Accumulated benefit obligation	\$	173,863
Fair value of plan assets	\$	

The components of net periodic benefit cost consist of the following for the year ended September 30, 2004:

Service cost	\$	154,097
Interest cost		19,766
Net periodic benefit cost	\$	173,863

The discount rate used to determine benefit obligations and net periodic benefit costs was 6%.

Future benefit payments, which reflect expected future service, are as follows:

Year Ending September 30,	
2005	\$
2006	
2007	
2008	
2009	76,517
2010 through 2014	382,585

**Note 16.** Investment in Premier Wines & Spirits, Ltd.

In 1997, the Company acquired a 45% interest in Premier Wines & Spirits, Ltd., ( Premier ), a wholesale liquor distributor in the United States Virgin Islands, for \$450,000. This investment is being accounted for using the equity method. The Company had sales to Premier of approximately \$2,099,000, \$2,345,000 and \$2,008,000 for the years ended September 30, 2004, 2003 and 2002, respectively. Included in trade receivables is approximately \$668,000 and \$343,000 as of September 30, 2004 and 2003, respectively, related to these sales. The Company had outstanding advances to Premier of \$787,019 as of September 30, 2004 and 2003, which are included in investments in and advances to equity investees. These advances are unsecured and bear interest at 6.0%. Interest payments are due monthly or on demand in accordance with the terms of the agreement. Principal is payable on demand. Included in the Company's retained earnings are undistributed earnings of Premier of \$1,661,322 and \$1,308,660 as of September 30, 2004 and 2003, respectively.

**Note 17.** Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The carrying amounts approximate fair values as of September 30, 2004 and 2003 for cash and cash equivalents, short-term investments, trade receivables, other receivables and accounts payable because of the short-term maturities of those instruments.

Notes receivable: The fair value of the Company's notes receivable has been determined based on available market information and management's estimate of current market conditions of similar instruments.

Long-term debt: The fair value of the Company's long-term debt is estimated based on the current rates offered to the Company for debt of the same remaining maturities with similar collateral requirements.

	Carrying Amount		Fair Value	
	2004	2003	2004	2003
<b>Financial assets:</b>				
Notes receivable, including notes receivable from affiliates	\$ 4,345,469	\$ 4,868,550	\$ 4,364,971	\$ 4,979,777
<b>Financial liabilities:</b>				
Long-term debt	29,674,240	51,315,617	29,674,240	51,315,617

**Note 18.** Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period.

	2004	2003	2002
Net income (loss)	\$ (908,397)	\$ 3,403,030	\$ 5,446,731
Determination of shares:			
Weighted average number of common shares outstanding	5,800,931	5,574,456	5,526,781
Shares issuable on exercise of stock options, net of shares assumed to be repurchased		69,976	97,383
Average common shares outstanding for diluted computation	5,800,931	5,644,432	5,624,164
Net income (loss) per common share:			
Basic	\$ (0.16)	\$ 0.61	\$ 0.99
Diluted	\$ (0.16)	\$ 0.60	\$ 0.97

The effect of stock options have not been included for the year ended September 30, 2004, as their effect would have been anti-dilutive.



**Note 19.** Quarterly Financial Data (Unaudited)

	First	Second	Third	Fourth
	(In thousands, except per share and gross margin data)			
September 30, 2004:				
Net sales	\$ 22,442	\$ 22,040	\$ 25,485	\$ 26,449
Gross profit	7,133	7,846	7,376	5,377
Gross margin	31.8%	35.6%	28.9%	20.3%
Net income (loss)	851	1,118	(225)	(2,652)
Net income (loss) per share:				
Basic	0.15	0.20	(0.04)	(0.42)
Diluted	0.15	0.20	(0.04)	(0.42)
September 30, 2003:				
Net sales	\$ 20,964	\$ 21,825	\$ 23,088	\$ 24,567
Gross profit	5,584	7,804	8,065	7,817
Gross margin	26.6%	35.8%	34.9%	31.8%
Net income (loss)	(1,492)	1,428	1,892	1,575
Net income (loss) per share:				
Basic	(0.27)	0.26	0.34	0.28
Diluted	(0.27)	0.25	0.34	0.28
September 30, 2002:				
Net sales	\$ 24,469	\$ 23,496	\$ 26,809	\$ 24,985
Gross profit	7,556	7,142	8,644	7,797
Gross margin	30.8%	30.4%	32.2%	31.2%
Net income	1,490	1,725	1,755	477
Net income per share:				
Basic	0.27	0.31	0.32	0.09
Diluted	0.27	0.31	0.31	0.08

**Note 20.** Retirement

During November 2002, the Company announced the retirement of A. Kenneth Pincourt, Jr., its Founder, Chairman and Chief Executive Officer. The Company has entered into an agreement with Mr. Pincourt, setting forth the terms of his retirement. Under this agreement, the Company elected to accelerate retirement benefits and continue to pay compensation and provide related benefits through July 15, 2004. The Company recorded a charge for these items during the first quarter of its 2003 fiscal year. The effect of this charge, net of income tax benefits, was approximately \$1 million or \$.18 per common share. In addition, the Company's majority shareholder, Angostura, Ltd., entered into an agreement with Mr. Pincourt to purchase 595,985 shares of common stock and closed on this transaction on January 31, 2003.

**INDEPENDENT AUDITOR S REPORT**



**ON FINANCIAL STATEMENT SCHEDULE**



To the Board of Directors

Todhunter International, Inc.

West Palm Beach, Florida

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated financial statements Schedule II for the years ended September 30, 2004, 2003, and 2002 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ McGladrey & Pullen, LLP

West Palm Beach, Florida

November 24, 2004, except for the

last paragraph in (i) of Note 9 as to

which the date is December 20, 2004

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## TODHUNTER INTERNATIONAL, INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	Year Ended September 30,		
	2004	2003	2002
Inventory Reserve:			
Balance, beginning of period	\$ 214,028	\$ 413,546	\$ 723,007
Charged to costs and expenses	486,495	851,990	108,633
Deductions	(683,244)	(1,051,508)	(418,094)
Balance, end of period	\$ 17,279	\$ 214,028	\$ 413,546

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**TODHUNTER INTERNATIONAL, INC.**

**INDEX TO EXHIBITS**

3.1	Amended and Restated Certificate of Incorporation of Todhunter International, Inc. (1)
3.2	Amended and Restated By-Laws of Todhunter International, Inc. (2)
10.22	Amended and Restated Credit Agreement dated as of October 19, 2001, by and among Todhunter International, Inc., and each of the Financial Institutions Initially a Signatory thereto, and SouthTrust Bank (3)
10.22(a)	Waiver of Defaults Under Credit Agreement, dated February 18, 2003, by and among Todhunter International, Inc., SouthTrust Bank, acting as lender and Agent, Wachovia Bank, N.A., National City Bank and SunTrust Bank (4)
10.22(b)	Modification of Credit Agreement, dated May 14, 2003, by and among Todhunter International, Inc., SouthTrust Bank, acting as lender and Agent, Wachovia Bank, N.A., National City Bank and SunTrust Bank (5)
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 (6)
10.22(d)	Modification of Credit Agreement, dated June 29, 2004, by and among Todhunter International, Inc., SouthTrust Bank, acting as lender and Agent, and Wachovia Bank, N.A.(7)
10.23	Agreement and General Release of All Claims between Todhunter International, Inc. and A. Kenneth Pincourt, Jr., dated as of November 26, 2002 (8) +
11.1	Statement of Computation of Per Share Earnings (9)
20.1	Earnings press release for the three-month period and year ended September 30, 2004 (10)
21.1	Subsidiaries of Todhunter International, Inc. (6)
23.1	Consent of McGladrey & Pullen, LLP (10)
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 (10)
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 (10)
32.1	Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to 18 U.S.C. Section 1350 (10)
32.2	Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (10)

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

(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 Current Report on Form 8-K for November 17, 1999.

(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2001.

(4) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003



(5) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

(6) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

(7) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

(8) Incorporated herein by reference to the Company's Current Report on Form 8-K for November 26, 2002.

(9) Filed herewith and incorporated herein by reference to Note 18 of notes to consolidated financial statements, included in Item 8 of the Company's Annual Report on Form 10-K for the year ended September 30, 2004.

(10) Filed herewith.

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ANNEX E

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K/A Amendment No. 1

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

For the fiscal year ended September 30, 2004

Commission File Number 1-13453

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## TODHUNTER INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of Incorporation)

**59 1284057**  
(IRS Employer  
Identification Number)

**222 Lakeview Avenue, Suite 1500, West Palm Beach, FL**  
(Address of principal executive office)

**33401**  
(Zip Code)

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

**Securities Registered Pursuant to Section 12(b) of the Act: Common Stock, \$.01 Par Value**

**Securities Registered Pursuant to Section 12(g) of the Act: None**

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, as amended, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of Title 17, Code of Federal Regulations) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 3, 2004 (computed by reference to the last reported sale price of the registrant's Common Stock on the American Stock Exchange on such date): \$23,760,862.

The number of shares outstanding of the registrant's Common Stock, \$.01 par value per share, as of December 3, 2004, was 6,338,519.

There were no shares of Preferred Stock outstanding as of December 3, 2004.

Documents Incorporated by Reference: Part III - Portions of the registrant's definitive proxy statement to be filed within 120 days of the end of the registrant's fiscal year in conjunction with the registrant's 2005 annual stockholders' meeting.

This Amendment No. 1 to the Annual Report on Form 10-K is being filed to amend Items 1 (Business), 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations), 9A ( Disclosure Controls and Procedures) and 10 (Directors and Executive Officers of the Registrant). Unaffected items have not been repeated in this Amendment No. 1.

Please note that the information contained in this Amendment No. 1 does not reflect events occurring after the original filing date. Such events include, among others, the events described in our Quarterly Report on Form 10-Q for the period ended December 31, 2004, and Amendment No. 1 thereto. For a description of these events, please read our Quarterly Report on Form 10-Q for the period ended December 31, 2004 and Amendment No. 1 thereto.

### **Introductory Note**

*This Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2004 (the Form 10-K ) contains forward-looking statements, as defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). 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. Such risks, uncertainties, and other factors that may cause such a difference include, without limitation, those noted under Risks That May Affect Future Results beginning on page 20. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

### **PART I**



**Item 1. Business**





**General Overview**



## Edgar Filing: CRUZAN INTERNATIONAL, INC. - Form PREM14A

Todhunter International, Inc. (the Company) is a 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 operates four production facilities in the United States and one in St. Croix, United States Virgin Islands, and purchases certain products for resale. The Company is a Delaware corporation organized in 1970 as a successor to a business founded in the Bahamas in 1964.

Market share and industry data and rankings disclosed in this report have been obtained from industry and government publications, as indicated; the Company has not independently verified this information, although management believes such data and rankings to be reasonably accurate. All references in this report to Fiscal 2004, Fiscal 2003 and Fiscal 2002 refer to the Company's fiscal years ended September 30 of such year.

### **Dominant Supplier of Bulk Alcohol Products**

Management believes that the Company is the largest supplier of bulk rum in the United States based on reports of U.S. Imports for Consumption prepared by the Department of Census and that the Company's market share of bulk rum products in the United States is approximately 90%. Management believes that the Company is the largest supplier of fortified citrus wine in the United States and is only aware of one other domestic supplier of fortified citrus wine. Management is aware of only one other United States manufacturer of citrus brandy and citrus spirits and believes that the Company's market share for these products is approximately 80% and 60%, respectively.

### **Control By Angostura Limited**

Angostura Limited (Angostura), a Trinidad-based distiller, has reported that, as of June 17, 2004, it beneficially owned 4,294,583 shares, representing 68%, of the Company's outstanding Common Stock, \$.01 par value per share (the Common Stock).

## 2004 Developments

During Fiscal 2004, the Company continued its strategy of growing its premium branded spirits segment and capitalizing on its position in the flavored rum category by expanding its sales force and significantly increasing its marketing budget, partly in response to increased competition from new product entries by the Company's major rum spirits competitors, primarily Bacardi, Diageo, Allied Domecq and Pernod Ricard. Fiscal 2004 was a milestone for the Company in that it was the first time that the Company executed a print media campaign directed towards consumers. Fiscal 2004 was also the first year that the Company sponsored a celebrity entertainer, Kenny Chesney, to increase the brand awareness of Cruzan Rum. Kenny Chesney was the Country Music Awards and American Music Awards Entertainer of the Year in 2004 and is the reigning Academy of Country Music top male vocalist of the year. The Company signed a sponsorship contract with Kenny Chesney for an additional three years. Management believes that the Company's brand promotion strategies have been effective in increasing the sales growth of the Cruzan Rum brand by 24% during Fiscal 2004.

In July 2004, the Company completed the partial consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for 2004, which has caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices.

In August and September 2004, the eyes of three major hurricanes struck within approximately thirty miles of all of the Company's facilities in Central Florida. Physical damage to the Company's facilities of less than \$100,000 occurred as a result of these hurricanes. However, while difficult to quantify, disruptions to business caused by these hurricanes, including several days of plant shut-downs, prolonged loss of power, product shipment interruptions and increased labor costs, contributed to lost sales in the premium branded spirits segment, as well as to the additional costs in the bottling and vinegar and cooking wine segments.

In Fiscal 2004 the Company had a loss before income taxes of \$4.6 million compared to income of \$2.4 million in Fiscal 2003. After income taxes the Company's net loss was \$0.9 million in Fiscal 2004 compared to net income of \$3.4 million in Fiscal 2003. This loss was primarily due to the increased marketing expenditures in our premium branded spirits segment, continuing losses in the Company's bottling operations and, to a lesser extent, the hurricane disruptions the Company experienced in its fourth quarter.

During June 2004, the Company and Angostura completed a transaction whereby Angostura agreed to invest \$10 million in the Company in exchange for 714,285 shares of common stock, which equates to an equity issue price of \$14.00 per share. The transaction was approved by the Board of Directors after having been determined to be fair to the public stockholders of the Company by a Special Committee of Independent Directors of the Company. In

addition, Angostura reimbursed one-half of the Company's expenses in connection with this transaction. As a result of this transaction, Angostura's ownership of the Company's stock increased from 64% to 68%. The Subscription Agreement for this transaction also provided that the Company use its best efforts to complete a rights offering pursuant to a registration statement to be filed with the Securities and Exchange Commission. The rights offering is intended to allow each stockholder of the Company, other than Angostura and its affiliates, to purchase such holder's approximate pro rata amount of the number of shares of the common stock of the Company that will permit the public stockholders in the aggregate to maintain the percentage stock ownership the public stockholders owned prior to the stock purchase by Angostura. It is expected that the number of shares available to be sold pursuant to the rights offering will be approximately 408,000 and the per share purchase price of the rights offering will be the lesser of \$14.00 or the closing price on the American Stock Exchange two days prior to the effective date of the registration statement. The Company filed a preliminary registration statement on August 30, 2004. After filing the registration statement, the Company determined that it would be in the best interests of the Company and its stockholders to complete the rights offering after the Company files this Annual

Report on Form 10-K for the fiscal year ended September 30, 2004. The Company intends to complete the rights offering during the second quarter of Fiscal 2005.

**Business Segments**



## Edgar Filing: CRUZAN INTERNATIONAL, INC. - Form PREM14A

The Company operates primarily in the beverage alcohol industry in the United States. The Company reports its results in four operating segments and has unallocated corporate overhead:

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)

Information regarding the net sales, operating income (loss) and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 13 to the Company's consolidated financial statements.

*Bulk Alcohol Products.* The Company produces and sells rum, citrus brandy, citrus spirits, cane spirits and fortified citrus wine in the United States and internationally. The Company also purchases distilled products for resale, including grain alcohol, which is denatured and packaged and sold as industrial alcohol to hospitals, universities, fragrance producers and other manufacturers. The Company is the largest supplier of bulk rum in the United States, and it also supplies citrus brandy and fortified citrus wine. The Company sells its bulk alcohol products to over 40 producers of beverage alcohol in the United States and exports bulk alcohol products to approximately 20 foreign countries. The Company's distilling operations produce a byproduct, which is sold as animal feed.

Citrus brandy and spirits are distilled from citrus juice byproducts purchased from manufacturers of citrus juice concentrate. The Company's citrus brandy is used primarily as an ingredient in flavored brandies. Citrus spirits are used primarily as a fortifying ingredient to increase the alcohol content of the Company's citrus wine and the wine of other manufacturers. The Company's citrus wine is fermented from citrus juice and fortified with citrus spirits to increase its alcohol content to approximately 20% by volume. Known as fortified citrus wine, this product is used primarily as an ingredient in cordials, whiskies and other beverage alcohol. Rum and cane spirits are distilled from sugar cane molasses and are sold to other bottlers of rum, producers of beverage alcohol, food companies and flavor manufacturers. Rum is also used in the Company's premium branded spirits and bottling operations.

Management believes that the Company's proximity to raw materials and its use of citrus byproducts in the production of bulk alcohol provide it with cost advantages over competitors' products. Because end products are taxed on a blended rate based upon the ingredients used rather than on the resulting alcohol content of the end product, beverage alcohol producers can lower excise taxes on their products by substituting fortified citrus wine for distilled spirits alternatives. This cost savings arises because fortified citrus wine is currently subject to federal excise taxes of \$1.57 per gallon, whereas distilled spirits are taxed at \$13.50 per proof gallon (one proof gallon is approximately equivalent in alcohol content to two and one-half gallons of fortified citrus wine). The ability of beverage alcohol producers to substitute fortified citrus wine for distilled spirits varies by end product in accordance with government regulations. For example, fortified citrus wine may contribute up to 49% of the alcohol content of cordials and liqueurs, and up to approximately 10% of the alcohol content of Canadian whiskey. In addition, small quantities of fortified citrus wine may be used in blended whiskey, rum, brandy and other types of beverage alcohol.

The Florida citrus harvest is generally during the months from November through June. The majority of the Florida citrus harvest is processed as fresh fruit juice or juice concentrate. A byproduct of citrus juice production is citrus molasses, which the Company uses as a raw material in



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its distilling operations to produce citrus brandy and spirits. Due to the seasonal availability and short shelf-life of the citrus molasses raw material, the Company produces its estimated annual customer requirements during a seven month period, and therefore carries a higher than normal level of inventory in relation to sales during this seven month period. Generally, the Company's inventory levels increase during this seven month period and when the citrus harvest ends the Company supplies its customers with citrus brandy and spirits from inventory from July through October.

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*Premium Branded Spirits.* The Company manufactures, imports, exports, and markets a variety of premium branded spirits. The Company's premium branded spirits include Cruzan Estate Rums, Cruzan Flavored Rums, Hine Cognac, Conch Republic Rum, Ron Carlos Rum and Antioqueno Aguardiente. The Company's primary spirits brand is Cruzan Rum, which is the fourth-largest premium rum brand in the United States according to statistics published by Impact Databank and Adams Liquor Handbook, two leading spirits industry publications.

The Company's strategy is to market high quality products that satisfy the preferences of consumers of legal drinking age and to support those products with international, national, and regional marketing programs. These programs are intended to extend consumer brand recognition and brand loyalty.

In the United States, the Company sells branded spirits either through wholesale distributors or directly to state governments in those states that control alcohol sales. Typically, the Company does not have contracts with its distributors although some states have statutes that limit the Company's ability to terminate distributor relationships. Outside the United States, the Company typically distributes its products by selecting the best local distributor for its brands in each specific market. The Company's principal export markets for Cruzan Rum are Canada, Central America, the Caribbean, Scandinavia, the Baltic States, Italy, France, the Philippines, Israel, New Zealand and the Global Duty Free Markets (40 countries). The Company has a distribution agreement with V&S Vin and Sprit AB (V&S) that provides for joint marketing and for the distribution by V&S of Cruzan products in the international spirits market where the Company has not already established a distributor relationship.

The principal raw materials used in manufacturing and packaging Cruzan Rum are cane molasses, glass bottles, cartons, and oak barrels, which are used for storage and aging. Currently, none of these raw materials is in short supply, and there are adequate sources from which they may be obtained. See discussion under *Raw Materials* for additional disclosures related to sourcing cane molasses and glass bottles.

The alcohol industry is highly competitive and there are many brands sold in the consumer market. Trade information indicates that the Company is one of the smaller branded spirit suppliers in the United States in terms of revenues, although Cruzan Rum has been recognized as one of the fastest growing brands in the United States by Impact Magazine and Adams, two leading industry publications.

The Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department regulates the wine and spirits industry with respect to production, blending, bottling, sales, advertising and transportation of alcohol products. Also, each state regulates advertising, promotion, transportation, sale, and distribution of such products.

There are no federal regulations that require minimum aging to be designated rum. However, due to the Company's high quality standards, the Company ages its Cruzan Estate Rums for two to five years and certain of the Company's super premium rums are aged up to twelve years. Due to the Company's own aging requirements, production of Cruzan Estate Rums is scheduled to meet demand two to three years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses. Management expects to continue to increase the Company's inventory of barrel aged rums to meet increased sales in the future.

*Bottling Operations.* The Company's bottling operations include contract bottling services and the production, bottling and marketing of distilled spirits under its own proprietary labels and under the private labels of retailers. The Company's primary bottling operations are located in Florida and primarily serve customers in the Southeastern United

States. The Company also produces and sells proprietary label products in the United States Virgin Islands.

Contract bottling products include distilled spirits, coolers, prepared cocktails and fruit juices. The Company has two large contract bottling customers which accounted for 83% of the bottling operations case volume and 49% of bottling operations net sales for the year ended September 30, 2004. One of these contracts is for three years, expiring December 2006, and the other contract is on a year-to-year basis. Each contract provides for advance notification of annual production requirements, although there are no minimum volume requirements.

The Company's proprietary and private label products include rum, gin, vodka, tequila, cordials and various whiskies. The Company's proprietary label products are marketed in the popular-price category of the distilled spirits market. The Company has one large private label customer which accounted for approximately 4% of

bottling operations case volume and 11% of bottling operations net sales for the year ended September 30, 2004. Net sales from this customer are based on short-term arrangements that may terminate at any time. Although the Company does not have long-term contracts with its private label customers, management believes that its relations with its customers are good.

The Company sells its proprietary and private label spirits to distributors located primarily in the Southeastern United States. The Company does not have contracts with distributors for its proprietary products.

*Vinegar and Cooking Wine.* To complement its distilling, winery and bottling operations, the Company produces vinegar, vinegar stock, and cooking wine. The Company sells vinegar and cooking wine to over 700 condiment manufacturers, food service distributors and major retailers in the United States and Canada. The Company's sales to retailers are made under the Company's proprietary labels and retailers' private labels.

The Company has three large vinegar and cooking wine customers which accounted for 32% of the net sales of vinegar and cooking wine for the year ended September 30, 2004. Although the Company does not have long-term supply contracts with its vinegar and cooking wine customers, management believes that its relations with its customers are good and that the Company's products are competitively priced.

*Corporate Operations.* The Company's executive offices are located in West Palm Beach, Florida and certain of the expenses of the Company's executive offices are not allocated to the operating segments described above. These expenses include salaries and related expenses, legal and professional fees, rent for office space, utilities and insurance.

#### **Dependence on Major Customers**



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No single customer was responsible for more than 10% of the Company's consolidated net sales during fiscal 2004. The Company has five major customers in its bulk alcohol products segment, three major customers in its bottling operations segment, and three major customers in its vinegar and cooking wine segment, the loss of one or more of these major customers in any of these segments could have a material adverse effect on that segment.

### **Production**



The Company's principal domestic production facilities are located in Lake Alfred and Auburndale, Florida, both near Orlando and central to Florida's citrus growing region. The two plants have similar distilling, bottling and winery operations, allowing the Company to shift production from one plant to the other. The Lake Alfred plant also has a vinegar production facility. Both plants are near major highways and are serviced by a railroad, providing good transportation access. The Company has a cold storage, warehousing and plastic bottle manufacturing facility in Winter Haven, Florida. The Company also operates a winery and vinegar production facility in Louisville, Kentucky. The Company's rum production facilities are located in St. Croix, United States Virgin Islands.

*Distilling.* The Company begins its distilling process with citrus or cane molasses, which is fermented for approximately two to four days. Once fermented, the product has an average alcohol content of 9% by volume, which is increased to approximately 95% through distillation. The alcohol is further purified through rectifying columns which remove impurities. The finished product is stored in stainless steel tanks, except for rum, which is generally stored in wooden barrels for aging purposes. The Lake Alfred, Auburndale and Virgin Islands facilities can produce, on a combined basis, up to 23 million gallons of distilled products per year.

*Winery.* Wine is produced by the fermentation of citrus or grape juice. After fermentation, the wine is fortified by the addition of distilled citrus spirits to raise its alcohol content to approximately 20% by volume. Fortified citrus wine is sold to producers of beverage alcohol. The wineries are physically segregated from the distilling operations and have their own sets of fermenting and storage tanks. The Lake Alfred, Auburndale and Louisville facilities can produce, on a combined basis, up to 30 million gallons of wine per year.

*Bottling.* The Lake Alfred and Auburndale plants both have automated, high-speed bottling lines capable of filling up to 600 12-ounce containers per minute. The Lake Alfred plant has two lines that are used primarily to bottle vinegar, cooking wine and juices, two lines that are used to bottle proprietary and private label products and one line to bottle premium branded spirits. In December 2004, management decided to discontinue production of all



products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. The Auburndale plant has two lines that are dedicated to bottling coolers and prepared cocktails and three lines that bottle proprietary and private label products and premium branded spirits. The Company's warehouse storage areas can accommodate up to 1,000,000 cases. The Company's plant in the Virgin Islands has one line capable of bottling up to 250,000 cases per year. The Company distills and ages its own rum, but generally produces its other proprietary and private label products from alcohol purchased from third parties. Depending on the particular formula for a product, the Company adds flavoring and/or sugar, reduces the product's proof and then filters and bottles the finished product. The Company's bottling capacity is approximately 10 million cases per year.

*Vinegar and Cooking Wine.* Vinegar is produced by converting alcohol into acetic acid. Several varieties of vinegar, including white distilled, red wine, white wine, corn, rice wine, malt, balsamic and apple cider, are produced at the Lake Alfred and Louisville facilities, which have a combined capacity of 10 million grain gallons per year. Cooking wine is produced by the controlled fermentation of red or white grape juice into wine and is then denatured with salt or other ingredients. Because of this denaturing process, these products are not subject to federal excise taxes. Several varieties of cooking wine, including red, white, sherry, golden, marsala and chablis, are produced at the Lake Alfred, Auburndale and Louisville facilities.

*Quality Control.* Each of the Company's facilities is equipped with a quality control laboratory. The Company employs several chemists who continually test to ensure the quality of raw materials and end products.

*Raw Materials.* The cost of raw materials fluctuates depending upon a number of factors, including crop conditions, weather, governmental programs and purchases by foreign governments.

The principal raw materials used in the Company's distilling operations are citrus molasses, a byproduct of citrus juice production, and cane molasses, a byproduct of sugar production. Citrus molasses, which is used in the production of citrus brandy and citrus spirits, accounted for approximately 65% of the raw materials used in the Company's distilling operations in Fiscal 2004. Cane molasses, which is used in the production of rum and cane spirits, accounted for the remaining 35%. Citrus juice concentrate is the primary raw material used in the Company's winery operations. The Company purchases such raw materials from a variety of suppliers. The Company purchases distilled products, used in its bulk alcohol products and bottling operations businesses, from several suppliers. Glass bottles and other materials, such as caps, labels and cardboard cartons, are used in bottling and packaging and, with the exception of glass bottles, are available from numerous suppliers. Alcohol and grape juice concentrate are the primary raw materials used in the Company's vinegar and cooking wine operations. As more fully described below, during Fiscal 2004, two suppliers each accounted for more than 10% of all of the Company's raw material purchases.

The Company purchases the majority of its glass bottle requirements from Saxco International, Inc. Glass bottle costs are one of the largest components of the Company's cost of goods sold. The glass bottle industry is highly concentrated with only a small number of producers. The Company has decided to utilize one supplier for cost-based reasons. The inability of the Company's glass bottle supplier to satisfy the Company's requirements could adversely affect the Company's operations, although the Company could, relatively easily, shift its business to one or more other suppliers.

The Company uses cane molasses as a raw material for the production of rum at its facilities in St. Croix, United States Virgin Islands. The Company purchases its cane molasses raw material requirements through Westway Trading Corporation, a broker that specializes in the South American and Caribbean molasses markets. This arrangement is beneficial to the Company in securing a higher quality molasses at lower prices than the Company could obtain by going directly to the individual molasses suppliers. Based on an analysis of the world-wide cane molasses

market provided to the Company by the Company's molasses broker, management believes that there are adequate supplies of cane molasses available to meet the Company's cane molasses raw material requirements, and the company could, relatively easily, shift its business to one or more other suppliers.

**Fluctuations In Operating Results; Seasonality**



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The size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities at one time or place significant orders at one time for contract bottling services, distilled spirits, vinegar

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and cooking wine. Additionally, some Company products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also 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.

#### **Marketing and Distribution**



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Bulk alcohol products are sold primarily in large quantities through Company-employed salespeople. The Company's marketing strategy emphasizes the cost advantages of these products over other ingredients available to end producers. Bulk alcohol products are sold primarily to other bottlers, distillers and end producers located in the United States and exports bulk alcohol products to approximately 20 foreign countries.

The Company manufactures, imports, exports and markets a variety of premium branded spirits to wholesalers in the United States and internationally. The Company's marketing and promotional programs for its premium brands are directed at consumers, retailers and wholesalers and include consumer and trade print advertising, event sponsorship, product sampling, in-store displays, price promotions, point-of-sale materials and public relations.

The Company sells proprietary and private label spirits to wholesalers for distribution primarily in the Southeastern United States. The Company's marketing strategy for these products places primary emphasis upon the Company's cost advantages, directed at wholesalers and retailers, rather than consumers. Wholesalers market these products to retailers who then market them directly to consumers. Although competition for retail shelf space in the beverage alcohol industry is significant, wholesalers of such products, and not the Company, generally must address such competition. Sales of the Company's premium branded spirits and proprietary and private label products are generally made FOB (free on board) at the Company's facilities and, accordingly, the purchasers of such products are responsible for the risk of loss and transportation costs. In addition to its own sales force, the Company works through various brokers to develop and service its sales to wholesalers and retailers.

The Company's marketing strategy with respect to its contract bottling services emphasizes the cost advantages and quality of the Company's services. Arrangements with bottling customers are typically negotiated by the Company's executive officers.

Vinegar and cooking wine are sold primarily in large quantities to manufacturers, distributors and retailers through the Company's own sales force. These products are also sold through wholesalers and directly to retailers under the Company's proprietary labels and the private labels of retailers.

### **Trademarks and Distribution Agreements**

Trademarks are an important aspect of the Company's business. The Company sells its products under a number of trademarks, which the Company owns or uses under license. The Company's important trademarks include Cruzan Rum, Cruzan Estate Rum, Cruzan Flavored Rum, Ron Carlos Rum, Conch Republic Rum and Edmundo Cooking Wine. Throughout its segments, the Company also has various licenses and distribution agreements for the sale, or the production and sale, of its products and products of third parties. These licenses and distribution agreements have varying terms and durations. Agreements include, among others, import, marketing and distribution agreements ( Imported Spirits Distribution Agreements ) with Antioqueno Aguardiente, expiring in May 2006, and Hine Cognac, which is a year to year renewable arrangement for services to be performed by the Company. The Company also has distribution agreements with several third parties to distribute Cruzan Rum in foreign countries, including V&S Vin and Spirit AB ( V&S ) for V&S to distribute Cruzan products in the international spirits market.

All of the Company's Imported Spirits Distribution Agreements may be terminated if the Company fails to meet certain performance criteria. The Company believes it is currently in compliance with all material terms of its Imported Spirits Distribution Agreements. Although there can be no assurance that the Company's material Imported Spirits Distribution Agreements will be renewed, given the Company's long-term relationships with its suppliers, the Company expects that such agreements will be renewed prior to their expiration and does not believe that these agreements will be terminated.





**Competition**



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The markets in which the Company's business segments operate are highly competitive with respect to price, service and product quality, and there are several companies with substantially greater financial and other resources than the Company. The following is a summary of the Company's main competitors, geographic area of operations and market share for the Company's principal products.

The Company's bulk rum products compete primarily with two Caribbean rum producers, West Indies Rum Distillery and Foursquare Distillery, both in Barbados. The Company competes with these other bulk rum producers primarily in the United States, although the Company does sell small quantities of bulk rum internationally. Management believes that the Company is the largest supplier of bulk rum in the United States based on reports of U.S. Imports for Consumption prepared by the Department of Census and that the Company's market-share of bulk rum products in the United States is approximately 90%.

The Company's citrus brandy and citrus spirits products are sold in the United States and management is aware of only one other domestic producer, Bartow Ethanol Company. Management believes that the Company is the largest supplier of bulk citrus brandy and citrus spirits in the United States and that the Company's market-share of citrus brandy and citrus spirits in the United States is approximately 80% and 60%, respectively.

The Company's cane spirits are sold in the United States. Management is not aware of any other domestic producers of cane spirits and is not able to determine the Company's market share for this product.

The Company's fortified wine products are sold in the United States, and to a much lesser extent, in Northern Europe. Although management is aware of only two other producers of citrus-based fortified wine, Meier's Wine Cellars, Inc. and Alko, Inc. (Netherlands), there are several producers of grape-based fortified wine that compete with the Company's fortified wine products. Some producers of grape-based fortified wine include Golden State Vintners, Inc., Constellation Brands and Mogen David. Management is not able to determine the number of competitors for the Company's fortified wine products or the Company's share of the fortified wine market.

The Company's premium branded spirits products, primarily Cruzan Estate Rums and Cruzan Flavored Rums, are sold in the United States and thirteen other countries internationally. The Company's premium branded spirits products compete against other distilled spirits products, including premium labels, mid-price and popular-price products. The Company's largest competitors in this segment are Bacardi, Inc. (Bacardi Rum), Diageo (Captain Morgan Rum), Allied Domecq (Malibu Rum) and Pernot Ricard (Mount Gay Rum). Each of these competitors has greater financial resources than the Company. Based on data published in the Adams Liquor Handbook, management estimates that the Company has less than a 1% share of the distilled spirits market in the United States and a 2% share of the United States rum market. The Company's premium branded spirits products compete with those of companies for whom the Company performs contract bottling services and to whom the Company sells its bulk alcohol products. The Company believes that its relationships with its customers are good, and it has not experienced any adverse effects, such as termination or non-renewal of ongoing contracts, as a result of competition. In addition, the Company does not expect to experience any material adverse effects from such competition in the foreseeable future.

The Company's proprietary and private label products compete mainly in the Southeastern United States against other distilled spirits products, including premium labels, mid-price and popular-price products. The Company's main competitors for its proprietary and private label products include Heaven Hill Distillers, Barton Brands, Ltd., LeVecke Corporation and McCormick Distilling. Management is not able to determine the Company's market share for these products.

The Company's contract bottling operations compete against other bottlers located throughout the Southeastern United States. Management is not able to determine the number of other competitors or its market share for these services.

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The Company's vinegar products are sold primarily in the Southeast and Midwest United States. In the United States, the vinegar industry is dominated by two large manufacturers, Mizkan and Fleishman, with

approximately 20 vinegar plants, and there are about a ten smaller manufacturers, including National Vinegar and Creole Fermentation, with an aggregate of approximately 24 vinegar plants. Management is not able to determine the Company's market share of vinegar products. Since vinegar is a low margin commodity, the sale of vinegar is limited to within a small radius of a particular manufacturing plant due to the cost of shipping to the customer. Therefore, with the exception of certain higher margin specialty vinegars which are sold throughout the United States, the majority of the Company's vinegar products are only competitive within a limited radius of the Company's manufacturing facility, generally 200 to 500 miles.

The Company's higher margin cooking wine products are sold throughout the United States and Canada. The Company's competitors for its cooking wine products include Canandaigua Wine Company, San Antonio Winery, Gibson Winery and Heck Cellers. Although published data is not available, management is not aware of any competitors of the Company's size and believes that the Company is the largest supplier of cooking wine in the United States.

### **Regulation and Taxation**



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The Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department regulates the wine and spirits industry with respect to production, blending, bottling, sales, advertising and transportation of alcohol products. Also, each state regulates advertising, promotion, transportation, sale and distribution of alcohol products.

Pursuant to federal and state environmental requirements, the Company is required to obtain permits and licenses to operate certain facilities, and to treat and remove effluents discharged from its distilling, winery and bottling operations. Management believes it is presently in material compliance with all applicable federal and state regulations.

Beverage alcohol produced and bottled by the Company is subject to federal excise taxes. As of September 30, 2004, excise taxes were being imposed at flat rates of \$13.50 per proof gallon for distilled spirits and \$1.57 per gallon for fortified wine.

The Company's fortified wine products, as an ingredient of beverage alcohol, have a cost advantage under the component method of taxation, which taxes wine at a lower rate than distilled spirits. Changes in, or the elimination of, the component method of taxation, as it relates to wine, could have a material adverse effect on the Company's results of operations.

### **Employees**





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As of September 30, 2004, the Company had approximately 415 full-time employees. Additional workers are generally employed at the Company's bottling facilities during the summer months, when the bulk of contract bottling takes place. None of the Company's employees is a member of any labor union, nor are there any collective bargaining agreements between the Company and its employees, with the exception of 35 of the Company's 55 United States Virgin Islands employees. Management believes that its relations with its employees are good.

### **Information about Foreign and Domestic Operations and Export Sales**



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The Company has facilities in Florida and Kentucky for the production of bulk alcohol products, premium branded spirits, contract bottling services, vinegar and cooking wine. The Company sells its products and services primarily to customers in the United States but also exports certain products to foreign countries, primarily in Europe, Canada, Central America and the Caribbean. The Company's rum production facilities are located in St. Croix, United States Virgin Islands. Bulk rum produced in the Virgin Islands is sold primarily to other bottlers of rum, producers of beverage alcohol, food companies and flavor manufacturers located in the United States, but is also sold to foreign countries in the Caribbean, South America and Europe. See Note 13 to the Company's consolidated financial statements for additional information about the Company's foreign and domestic operations and export sales.

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**PART II**



**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**





**Introduction**



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Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. See Introductory Note on page 1.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for Fiscal 2004 compared to Fiscal 2003, and Fiscal 2003 compared to Fiscal 2002, and (ii) financial liquidity and capital resources for Fiscal 2004. 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 7 have been rounded to the nearest thousand and hundred thousand, as applicable, but the percentages are based on actual amounts without rounding.

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

Information regarding net sales, operating income (loss) and total assets of each of the Company's business segments and information regarding geographic areas is set forth in Note 13 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K.

Tables 3 and 4 below set forth statement of operation items as a percentage of net sales and information on net sales, gross profit (loss) and operating income (loss) by operating segment.

**Table 3 Statement of Operations as a Percent of Net Sales**

	Year Ended September 30,		
	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	71.2	67.6	67.8
Gross margin	28.8	32.4	32.2
Selling, general and administrative expenses	32.5	25.7	23.3
Operating income (loss)	(3.7)	6.7	8.9
Other expense, net	(1.1)	(4.0)	(2.1)
Income (loss) before income taxes	(4.8)	2.7	6.8
Income tax (expense) benefit	3.9	1.1	(1.2)
Net income (loss)	(0.9)%	3.8%	5.6%

**Table 4 Net Sales, Gross Profit (Loss) and Operating Income (Loss) by Operating Segment**

	Year Ended September 30,		
	2004	2003	2002
	(In thousands)		
<b>Net Sales</b>			
Bulk alcohol products	\$ 37,249	\$ 35,203	\$ 35,447
Premium branded spirits	26,846	20,808	21,778
Bottling operations	11,911	14,278	18,661
Vinegar and cooking wine	20,410	20,155	20,953
	\$ 96,416	\$ 90,444	\$ 96,839
<b>Gross Profit (Loss)</b>			
Bulk alcohol products	13,562	15,103	14,528
Premium branded spirits	12,038	9,723	9,597
Bottling operations	(2,236)	(913)	1,312
Vinegar and cooking wine	4,368	5,357	5,702
	\$ 27,732	\$ 29,270	\$ 31,139
<b>Operating Income (Loss)</b>			
Bulk alcohol products	9,021	11,432	10,539
Premium branded spirits	(7,569)	(2,271)	(331)
Bottling operations	(3,904)	(1,901)	129
Vinegar and cooking wine	3,041	4,190	4,602
Corporate operations	(4,168)	(5,385)	(6,339)
	\$ (3,579)	\$ 6,065	\$ 8,600

Table 5 below provides unit sales volume data for certain Company products.

**Table 5 Unit Sales Volume Data**

	Year Ended September 30,			% Change	
	2004	2003	2002		
	(In thousands)			04/03	03/02
<b>Bulk alcohol products:</b>					
<b>Distilled products, in proof gallons</b>					
Citrus brandy	1,265	1,363	1,170	(7.2)	16.5
Citrus spirits	233	306	504	(23.8)	(39.4)
Rum	4,885	4,702	4,413	3.9	6.6
Cane spirits	473	485	605	(2.4)	(19.8)
Fortified wine, in gallons	12,070	10,280	10,072	17.4	2.1
Premium branded spirits, in cases	708	599	587	18.2	2.0
Bottling operations, in cases	3,257	3,750	5,571	(13.2)	(32.7)
<b>Vinegar</b>					
Bulk, in 100 grain gallons	5,099	5,836	5,453	(12.6)	7.0
Cases	499	527	667	(5.3)	(20.9)
Drums, in 100 grain gallons	1,654	1,452	1,733	13.9	(16.2)
<b>Cooking Wine</b>					
Bulk, in gallons	2,620	4,212	3,113	(37.8)	35.3
Cases	634	615	648	3.1	(5.0)

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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.

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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 size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities or place significant orders for contract bottling services, distilled spirits, vinegar and cooking wine. Additionally, some Company products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also 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**





**Fiscal 2004 Compared to Fiscal 2003**



*Net Sales.* Net sales were \$96.4 million in 2004, an increase of 6.6% from net sales of \$90.4 million in 2003.

Net sales of bulk alcohol products were \$37.2 million in 2004, an increase of 5.8% from net sales of \$35.2 million in 2003. The increase resulted primarily from increased shipments of rum and fortified wine offset by decreased shipments of citrus brandy, citrus spirits and cane spirits. The decrease in citrus brandy, citrus spirits and cane spirits was due in part to the timing of customer orders. In addition, in 2003, the Company had sales of cane spirits to a new customer that had difficulty sourcing bulk alcohol from its regular supplier. These sales of approximately \$250,000 did not reoccur in 2004. Management believes that the Company's sales of citrus spirits have declined approximately \$176,000 during 2004 due to a market surplus of grape spirits which some of the Company's customers may be using as an alternative ingredient in their product formulations. However, management believes that this decline in business is temporary and that the Company's sales of citrus spirits will increase in the future as the market surplus of grape spirits declines. In 2004, unit sales of citrus brandy and spirits decreased 7.2% and 23.8%, respectively, compared to 2003, and the average selling price of citrus brandy decreased 5.7%. Also in 2004, unit sales of the Company's fortified wine products increased 17.4% compared to 2003, although the average selling price for the Company's fortified wine decreased 3.4%. The average selling prices for these bulk alcohol products decreased due to management lowering prices as a result of increased competition from grape spirits distillers and foreign wine producers.

Net sales of premium branded spirits were \$26.8 million in 2004, an increase of 29.0% from net sales of \$20.8 million in 2003. Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 24.1% in 2004 compared to 2003. Sales of Cruzan Estate Rums and Cruzan Flavored Rums increased from \$2.2 million in fiscal 1996 to \$21.0 million in fiscal 2004. 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. Since January 2003, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which could adversely affect the Company's sales growth of Cruzan Estate Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management significantly increased its marketing budget for fiscal 2004 in an effort to support the continued growth of the Company's Cruzan brand, causing a current increase in the operating loss for this business segment. Management intends to continue its increased expenditures in 2005 to improve brand growth.

In August and September 2004, the eyes of three major hurricanes struck within approximately thirty miles of all of the Company's facilities in Central Florida. Physical damage to the Company's facilities of less than \$100,000 occurred as a result of these hurricanes. However, while difficult to quantify, disruptions to business caused by these hurricanes, including several days of plant shut-downs, prolonged loss of power, product shipment interruptions and increased labor costs, contributed to lost sales in the premium branded spirits segment, as well as to the additional costs in the bottling and vinegar and cooking wine segments as discussed below. The Company and its insurance advisor determined that the losses incurred during these hurricanes, including physical damage and business interruption, did not meet the deductible levels of the Company's casualty insurance policies due mainly to the fact that each hurricane had a separate deductible requirement and the Company's disruptions were incurred over the course of all of the hurricanes, as well as the relatively minor physical damage incurred.

Net sales of the Company's bottling operations were \$11.9 million in 2004, a decrease of 16.6% from net sales of \$14.3 million in 2003. During the first quarter of fiscal 2004, the Company lost a large private label bottling customer. Net sales to this private label bottling customer were approximately \$2.5 million and 193,719 cases for the year ended September 30, 2003, or approximately 17.6% of bottling operations net sales and 5.2% of bottling operations volume. Also during 2004, excise taxes decreased \$4.8 million compared to 2003, primarily due to the decrease in sales to this private label bottling customer. Sales in the Company's bottling operations also continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its

bottling operations to reduce overhead. However, bottling operations volume has not met even the Company's reduced expectations for 2004, which has caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. At the present time, the Company has not taken an impairment charge relating to its bottling operations as the carrying value of its bottling assets is less than management's estimate of fair value.

Net sales of vinegar and cooking wine were \$20.4 million in 2004, an increase of 1.3% from net sales of \$20.2 million in 2003. In 2004, total unit sales of vinegar and cooking wine decreased 16.9% compared to 2003, although the average selling price per unit increased 21.9%. The average selling prices of vinegar and cooking wine increased due to a combination of decreased sales of lower priced white distilled vinegar and bulk cooking wine and a slight increase in sales of higher priced cooking wine case goods.

**Gross Profit.** Gross profit was \$27.7 million in 2004, a decrease of 5.3% from gross profit of \$29.3 million in 2003. During 2004, bulk alcohol gross profit decreased \$1.5 million as a result of higher citrus molasses and citrus concentrate raw material costs; premium branded spirits gross profit increased with sales; bottling operations gross profit decreased with sales and increased costs as a result of hurricane disruptions; and vinegar and cooking wine gross profit decreased \$0.4 million due to higher grain alcohol and citrus concentrate raw material cost and increased production costs as a result of hurricane disruptions. Gross margin was 28.8% in 2004 and 32.4% in 2003

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$31.3 million in 2004, an increase of 34.9% from \$23.2 million in 2003. The increase was primarily attributable to a \$7.6 million increase in 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. During 2004, the Company increased its selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. Also during 2004, the Company's Compensation and Stock Option Committee approved a new Supplemental Executive Retirement Plan for certain key executives of the Company. See Note 15 to the Company's consolidated financial statements. This new plan replaces a deferred compensation plan, which resulted in the cancellation of a \$0.7 million liability which was credited to selling, general and administrative expenses.

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

	Year Ended September 30,	
	2004	2003
	(In thousands)	
Bulk alcohol products	\$ 9,021	\$ 11,432
Premium branded spirits	(7,569)	(2,271)
Bottling operations	(3,904)	(1,901)
Vinegar and cooking wine	3,041	4,190
Corporate operations	(4,168)	(5,385)

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\$ (3,579) \$ 6,065

As a result of the above factors, operating loss was \$3.6 million in 2004, as compared to operating income of \$6.1 million in 2003.

The Company's premium branded spirits segment experienced operating losses of \$7.6 million in 2004 and \$2.3 million in 2003. The operating losses reflected the Company's continuing efforts to increase market share by reinvesting segment gross profits in selling and marketing expenses.

As a result of the factors described under "Net Sales" above, the Company's bottling operations segment reported an operating loss of \$3.9 million in 2004 and \$1.9 million in 2003.

**Interest Expense.** Interest expense was \$2.2 million in 2004 and \$3.4 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 had 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 continued to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491, which was paid in October 2003, and a second bonus payment of \$119,138, which was paid in August 2004. Among other benefits, Mr. Pincourt was also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during 2003 and there were no charges with respect to this in 2004. The effect of this charge was included in other expense in the Company's consolidated statement of operations 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

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

**Income Tax Expense.** During 2004 and 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$3.7 million and \$1.0 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2004 and 2003.

**Fiscal 2003 Compared to Fiscal 2002**





*Net Sales.* Net sales were \$90.4 million in 2003 and \$96.8 million in 2002.

Net sales of bulk alcohol products were \$35.2 million in 2003, a decrease of 0.7% from net sales of \$35.4 million in 2002. In 2003, unit sales of citrus brandy and rum increased 16.5% and 6.6%, respectively, compared to 2002, although the average selling price of citrus brandy and rum decreased 2.6% and 1.7%, respectively. The average selling price for citrus brandy decreased due to management lowering prices as a result of increased competition and the average selling price for rum decreased as a result of selling more of the Company's lower priced rum. Management believes that the Company's citrus brandy may continue to experience pricing pressure due to competition from other producers.

Net sales of premium branded spirits were \$20.8 million in 2003, a decrease of 4.5% from net sales of \$21.8 million in 2002. In 2002, net sales of premium branded spirits included \$1.9 million of bulk tequila sales and \$1.5 million of new Cruzan ready-to-drink products. Bulk tequila sales represented the liquidation of inventory that was held to produce Porfidio tequila. During the third quarter of 2002, the Company introduced a new line of

Cruzan products in the ready-to-drink category, sales of which are included in the Company's premium branded spirits segment. The Company sold approximately 134,000 cases of this new product, representing net sales of \$1.5 million through September 30, 2002. During 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 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. During the fourth quarter of 2003, sales of the Company's ready-to-drink products were \$1.0 million. Excluding bulk tequila and Cruzan ready-to-drink product sales, net sales of premium branded spirits were \$19.8 million in 2003, an increase of 8.4% from net sales of \$18.3 million in 2002. Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 13.5% in 2003 compared to 2002.

Net sales of the Company's bottling operations were \$14.3 million in 2003, a decrease of 23.5% from net sales of \$18.7 million in 2002. The unit volume of the Company's bottling operations decreased 32.7% in 2003 as a result of the decision of a large bottling customer to shift production from the Company to its own bottling facilities. During Fiscal 2002, this customer represented approximately 48% of the Company's unit volume in bottling operations. During the third quarter of Fiscal 2003, management implemented a plan to consolidate the Company's bottling operations to increase efficiencies and reduce overhead.

Net sales of vinegar and cooking wine were \$20.2 million in 2003, a decrease of 3.8% from net sales of \$21.0 million in 2002. In 2003, total unit sales of vinegar and cooking wine increased 8.9% compared to 2002, although the average selling price per unit decreased 11.6%. The average selling price of vinegar and cooking wine decreased due to a combination of increased sales of lower priced white distilled vinegar and bulk cooking wine and decreased sales of higher priced vinegar and cooking wine case goods.

**Gross Profit.** Gross profit was \$29.3 million in 2003, a decrease of 6.0% from gross profit of \$31.1 million in 2002. Gross margin increased to 32.4% in 2003 from 32.2% in 2002. In 2002, gross profit included approximately \$0.5 million related to the liquidation sale of bulk tequila, and \$0.2 million related to the sale of ready-to-drink products.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$23.2 million in 2003, an increase of 3.0% from \$22.5 million in 2002.

**Operating Income.** The following table sets forth the operating income (loss) by operating segment of the Company for 2003 and 2002 and the percent change for the periods.

	Year Ended September 30,	
	2003	2002
	(in thousands)	
Bulk alcohol products	\$ 11,432	\$ 10,539
Premium branded spirits	(2,271)	(331)
Bottling operations	(1,901)	129
Vinegar and cooking wine	4,190	4,602
Corporate operations	(5,385)	(6,339)
	\$ 6,065	\$ 8,600

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As a result of the above factors, operating income was \$6.1 million in 2003, as compared to operating income of \$8.6 million in 2002.

The Company's premium branded spirits segment experienced operating losses of \$2.3 million in 2003 and \$0.3 million in 2002. 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 \$1.9 million in 2003 compared to operating income of \$0.1 million in 2002. The operating loss reflected the decision of a large bottling customer to shift production from the Company to its own bottling facilities. This customer represented approximately 48% of the Company's annual bottling operations unit volume for fiscal year 2002. During the third quarter of Fiscal 2003,

management implemented a plan to consolidate the Company's bottling operations to increase efficiencies and reduce overhead.

**Interest Expense.** Interest expense was \$3.4 million in 2003 and \$3.1 million in 2002. The net increase in interest expense was a result of higher interest rates during 2003 as compared to 2002, the payment of \$296,250 in amendment fees during 2003, partially offset by lower average borrowings. 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.

**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 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 continued to receive monthly payments of \$41,004 through July 15, 2004, one bonus payment of \$150,491 which was paid in October 2003, and a second bonus payment of \$119,138 which was paid in August 2004. Among other benefits, Mr. Pincourt was also able to participate in any health insurance plan, employee benefit plan or other arrangement made available by the Company or its subsidiaries to its executives and key management employees, through July 15, 2004. The Company recorded a charge for the retirement of Mr. Pincourt during the first quarter of Fiscal 2003. The effect of this charge was included in other expense in the Company's consolidated statement of operations 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, 2002		(549,220)
Charged to expense	\$	1,503,925

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

**Income Tax Expense.** The Company's effective income tax rate was 17.1% in 2002. The low tax rate was attributable to a 90% exemption of the Company's Virgin Islands subsidiary 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

2003 and 2002. During 2003, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$1.3 million.

**Financial Liquidity and Capital Resources**



**General**





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The Company's principal use of cash in its operating activities is for purchasing raw materials to be used in its manufacturing operations and purchasing imported products for its premium branded spirits business. The Company's source of liquidity has historically been cash flow from operations and its line of credit. Some of the Company's manufacturing operations are seasonal and the Company's borrowings on its line of credit vary during the year.

The Florida citrus harvest is generally during the months from November through June. The majority of the Florida citrus harvest is processed as fresh fruit juice or juice concentrate. A byproduct of citrus juice production is citrus molasses which the Company uses as a raw material at its two Florida distilleries to produce citrus brandy and spirits. Due to the seasonal availability and short shelf-life of the citrus molasses raw material, the Company produces its estimated annual customer requirements during a seven month period, and therefore, carries a higher than normal level of inventory in relation to sales during this seven month period. Generally, the Company's inventory level increases during this seven month period and decreases after the citrus harvest ends when the Company supplies its customers with citrus brandy and spirits from inventory from July through October.

There are no federal regulations that require minimum aging to be designated rum. However, due to the Company's high quality standards, the Company ages its Cruzan Estate Rums for two to five years and certain of the Company's super premium rums are aged up to twelve years. Due to the Company's own aging requirements, production of Cruzan Estate Rums is scheduled to meet demand two to three years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses. Management expects to continue to increase the Company's inventory of barrel aged rums to meet projected increased sales in the future.

Another seasonal business of the Company is its contract bottling services. Demand for contract bottling services is highest from April through October. During these months the Company's requirements increase for ingredients, glass bottles, caps, labels, packaging materials and labor. During 2004, the Company incurred losses from its bottling operations of \$3.9 million. Management has explored alternatives for its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices.

During 2004, management increased selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. To the extent that the increased expenditures do not result in increased sales of the Cruzan brand, the Company's short-term liquidity may be adversely affected. However, management actively monitors sales and expenditures on an ongoing basis, and retains the ability to adjust its level of expenditures in response to market conditions and in order to maintain sufficient liquidity.

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**



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Net cash provided by operating activities in 2004 was \$3.5 million, which resulted from \$0.6 million in net income adjusted for noncash items, and a \$2.9 million net change in operating assets and liabilities. In 2004, the Company spent \$0.9 million on sprinkler systems and safety equipment in its distilling and bottling operations to satisfy insurance requirements, which reduced the Company's insurance premiums.

### **Investing and Financing Activities**



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Net cash used in investing activities in 2004 was \$3.2 million, including capital expenditures of \$5.3 million partially offset by a redemption of short-term investments of \$1.6 million.

Net cash used in financing activities in 2004 was \$11.6 million, which resulted primarily from a \$17.5 million net decrease in borrowings under the revolving credit facility, \$4.1 million of payments on long-term debt off-set by \$10.1 million from the issuance of common stock.

In October 2001, the Company entered into a \$70 million credit agreement, consisting of a \$40 million term loan and a \$30 million revolving loan facility. During March 2004, the credit agreement was amended to reduce the revolving loan facility to \$15 million. In June 2004, the credit agreement was modified to extend the

maturity date of the revolving loans to be the same as the term loans, September 2006. See Note 9 to the Company's consolidated financial statements for additional information related to the Company's long-term debt.

In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarter ended September 30, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for the following fiscal year. The Company agreed to a .25% increase from its current interest rates so long as the Funded Debt to EBITDA ratio is between 2.50 and 3.25. In addition, if the Company's Funded Debt to EBITDA ratio is between 3.26 and 4.00, the interest rate would be .25% higher than the rate for the 2.50 to 3.25 level. The maturity of the credit agreement was modified to January 31, 2006, and the Company paid an amendment fee of \$107,500.

The Company's bank debt was \$29.5 million as of September 30, 2004, and its ratio of total debt to equity was 0.60 to 1.

The Company's share of the undistributed earnings of its Bahamian and Virgin Islands subsidiaries was approximately \$43.7 million as of September 30, 2004. No provision has been made for taxes which would result from the remittance of such undistributed earnings, as the Company intends to reinvest these earnings indefinitely. See Note 10 to the Company's consolidated financial statements for additional information on income taxes related to these subsidiaries.

Based on current plans and business conditions, management expects that its cash and cash equivalents, 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.

#### **Critical Accounting Policies**





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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 this Annual Report on Form 10-K. 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.

**Contractual Obligations and Commitments**

The following table reflects scheduled maturities of contractual obligations including principal maturities on long-term debt and future minimum payments on operating leases with terms of one year or more. Purchase obligations include an event sponsorship contract and a contract to purchase spirits.

	Total	Payments Due By Period			After 5 Years
		Within 1 Year	2-3 Years	4-5 Years	
Long-term debt	\$ 29,674,240	\$ 4,000,000	\$ 25,674,240	\$ 0	\$ 0
Operating leases	912,239	416,699	495,540	0	0
Unconditional purchase obligations:					
Kenny Chensey event sponsorship	4,271,745	1,058,500	3,213,245	0	0
Purchase contracts	1,500,000	700,000	800,000	0	0
Other long-term liabilities:					
Supplemental executive retirement plan	173,339	0	0	76,517	96,822
Legal settlement	215,805	120,000	95,805	0	0
Abandoned facilities lease	481,862	108,402	189,285	184,175	0
Other	220,242	154,242	66,000	0	0
Total contractual cash obligations	\$ 37,449,472	\$ 6,557,843	\$ 30,534,115	\$ 260,692	\$ 96,822

**Notes:**

- a) The above table does not include variable rate interest payments on the Company's long-term debt obligations. The estimated variable rate interest payments on the Company's long-term debt are: \$1,887,100 within one year; and \$581,917 within two to three years. These payments are based on the rates in effect as of December 20, 2004, and assume an average of \$10 million outstanding under the revolving loans, normal amortization of the term-loans, with all long-term debt maturing on January 31, 2006.

**Retirement of Chairman and Chief Executive Officer and Chief Financial Officer**



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During November 2002, the Company announced the retirement of A. Kenneth Pincourt, Jr., its Founder, Chairman and Chief Executive Officer. The Company entered into an agreement with Mr. Pincourt, setting forth the terms of his retirement. Under this agreement, the Company elected to accelerate retirement benefits and continue to pay compensation and provide related benefits through July 15, 2004. The Company recorded a charge for these items during the first quarter of its 2003 fiscal year.

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

The effect of these charges, net of income tax benefits, was approximately \$1.1 million or \$.19 per common share in Fiscal 2003.

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



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



**Risks That May Affect Future Results**



In addition to the risks and uncertainties of ordinary business operations, important factors that could cause the Company's actual results to differ materially from those contained in or implied by any forward-looking statements contained in this Annual Report on Form 10-K include:

***The Company faces competition that may reduce its market share and margins.***

The Company is in a highly competitive industry and the dollar amount and unit volume of its sales could be negatively affected by the Company's inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption or the decision of wholesale customers, retailers or consumers to purchase competitors' products instead of the Company's products. Since March 2003, no less than four of the Company's largest competitors—Bacardi, Diageo, Allied Domecq and Pernot Ricard—have introduced competitive flavored rum product offerings. Each of these competitors has greater financial resources than the Company. Wholesaler, retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products, including their quality or pricing, compared to competitive products. Unit volume and dollar sales could also be affected by pricing, purchasing, financing, operational, advertising or promotional decisions made by wholesalers, state and provincial agencies, and retailers, which could affect their supply of, or consumer demand for, the Company's products. The Company could also experience higher than expected selling, general and administrative expenses if management finds it necessary to increase the number of personnel or advertising or promotional expenditures to maintain the Company's competitive position or for other reasons. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the Company's market share, which would adversely affect the Company's results and hinder its growth potential.

***The Company's bottling operations have declined, and may continue to decline in the short-term.***

Net sales of the Company's bottling operations for Fiscal 2004 decreased by 16.6% from Fiscal 2003. During the first quarter of fiscal 2004, the Company lost a large private label-bottling customer that accounted for approximately 17.6% of its bottling operations net sales and 5.2% of its bottling operations volume. Sales in the Company's bottling operations also continued to decline as a result of a contraction in the ready-to-drink product category, for which the Company is a major contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its bottling operations to reduce overhead. However, bottling operations volume has not met even management's reduced expectations for Fiscal 2004, which has caused a continuing loss in this segment. The Company has been placing a renewed emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable production line bottling vinegar, cooking wine and juices. Management cannot assure that its efforts will be successful, or that this segment will experience operating profits in the future.

***The Company's premium branded spirits segment has experienced, and may continue to experience, operating losses as the Company reinvests its gross profit from that and other segments in the Company's selling, general and administrative expense for the premium branded spirits segment.***

Net sales of the Company's premium branded spirits segment, which includes Cruzan Estate Rums and Cruzan Flavored Rums, for Fiscal 2004 increased by 29% compared to Fiscal 2003. However, during Fiscal 2004, the Company's premium branded spirits segment experienced operating losses of \$7.6 million, up from operating losses of \$2.3 million in Fiscal 2003. These operating losses reflect management's continuing efforts to increase market share by reinvesting this and other segments' gross profits in selling and marketing expenses for the premium branded spirits segment. During 2004, the Company increased its selling, general and administrative expenses in its Premium Branded Spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management intends to continue its increased expenditures in 2005 to improve brand growth. The Company cannot assure that its increased selling and marketing efforts will be successful, or that this segment will experience operating profits in the future.



***The seasonality of the Company's business and the timing of orders could cause operating results to fluctuate.***

The size and timing of purchase orders and product shipments can cause the Company's operating results to fluctuate significantly from quarter to quarter, particularly since some customers purchase bulk alcohol products in significant quantities at one time or place significant orders at one time for contract bottling services, vinegar and cooking wine. Additionally, some of the Company's products generate higher profit margins than others, and changes in the Company's product mix will therefore cause gross margins to fluctuate. Certain aspects of the Company's business are also seasonal, with increased demand for the Company's contract bottling services from April to October and increased production of some 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 be erratic, varying significantly from quarter to quarter.

***The Company's dependence on distribution channels may limit its ability to sell its products.***

The Company sells its popular price and premium branded spirits principally to wholesalers for resale to retail outlets, including package liquor stores and restaurants. The replacement or poor performance of the Company's major wholesalers or the Company's inability to collect accounts receivable from its major wholesalers could materially and adversely affect the Company's results of operations and financial condition. Distribution channels for alcoholic beverages have been characterized in recent years by rapid change, including consolidations of certain wholesalers. Wholesalers and retailers of the Company's products offer products which compete directly with the Company's products for retail shelf space and consumer purchases. Accordingly, there is a risk that these wholesalers or retailers may give higher priority to competitors products. The Company cannot assure that its wholesalers and retailers will continue to purchase the Company's products or provide the Company's products with adequate levels of promotional support.

***The Company must maintain a relatively large inventory of its products to support customer delivery requirements, and if this inventory becomes obsolete and the Company is required to write down its inventory, the Company's operating results would be adversely affected.***

The Company must maintain a relatively large inventory to meet customer delivery requirements for the Company's products, including those in its bulk alcohol, premium branded spirits, bottling operations, and vinegar and cooking wine segments. Inventory may become obsolete as the Company and its customers introduce new products, cease to produce old products, or modify the design of a product's packaging. The Company maintains a provision for inventory obsolescence to cover potential write-downs in inventory for obsolescence, but the Company cannot assure that this provision is adequate, and inventory obsolescence could harm the Company's operating results.

***The Company may be unable to comply with its lender's financial covenants, and therefore the Company's debt repayment may be accelerated unexpectedly.***

In October 2001, the Company entered into a \$70 million credit agreement, consisting of a \$40 million term loan and a \$30 million revolving loan facility. During March 2004, the credit agreement was amended to reduce the revolving loan facility to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loans to be the same as the term loans, September 2006.

In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarter ended September 30, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for the following

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fiscal year. The Company agreed to a .25% increase from its current interest rates so long as the Funded Debt to EBITDA ratio is between 2.50 and 3.25. In addition, if the Company's Funded Debt to EBITDA ratio is between 3.26 and 4.00, the interest rate would be .25% higher than the rate for the 2.50 to 3.25 level. The maturity of the credit agreement was modified to January 31, 2006, and the Company paid an amendment fee of \$107,500. See Note 9 to the Company's consolidated financial statements for additional information related to the Company's long-term debt.

The Company cannot assure that it will be able to continue to comply with the financial covenants. In addition, if the Company is unable to comply with the financial covenants, it cannot assure that its lenders will grant a waiver of a covenant violation. In the event that the Company is not in compliance with a financial covenant its lenders have the ability to call the Company's debts, which would have a severe adverse impact upon the Company's operations and its ability to continue as a going concern.

*An increase in excise taxes or government regulations could have a material adverse effect on the Company's business.*

In the United States and other countries in which the Company operates, the Company is subject to the imposition of excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise or other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. Many states have considered proposals to increase, and some of these states have increased, state alcohol excise taxes. In addition, the beverage alcohol industry is subject to extensive regulation by federal, state, local and foreign governmental agencies concerning such matters as licensing, trade and pricing practices, permitted and required labeling, advertising and relations with wholesalers and retailers. Certain federal and state regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on the Company's financial condition or results of operations.

*A decline in the consumption of products the Company sells could adversely affect the Company's sales revenues or margin.*

There have been periods in the past in which there were substantial declines in the overall per capita consumption of beverage alcohol products in the United States and other markets in which the Company operates. A limited or general decline in consumption in one or more of the Company's product categories could occur in the future due to a variety of factors, including:

a decline in the popularity of flavored spirits;

demographic and social trends, changes in travel, vacation or leisure activity, patterns and a downturn in economic conditions;

increased concern about the health consequences of consuming beverage alcohol products and about drinking and driving;

increased activity of anti-alcohol consumer groups;

increased federal, state or foreign excise or other taxes on beverage alcohol products; and

Any decline in the consumption of products the Company sells could have a significant adverse effect on its sales revenue or margin.

*A small number of customers account for a high percentage of the Company's net sales and if the Company loses a few customers or is unable to attract new customers, net sales could decline.*

The Company's bulk alcohol, contract bottling services and proprietary and private label products are sold to a relatively small number of customers and the Company has large customers for vinegar and cooking wine. The loss of a few of these customers could have a material adverse effect on the Company's liquidity and results of operations. For example, the Company's net sales for its bottling operations decreased 16.6% between Fiscal 2003 and Fiscal 2004, and 23.5% between Fiscal 2002 and Fiscal 2003 largely because of the loss of two large customers. The Company cannot assure that it will not lose other customers.

The Company expects that sales of certain products to a small number of customers will continue to account for a high percentage of the Company's net sales for the foreseeable future. For example, for the Fiscal years ended September 30, 2004, 2003 and 2002, the Company's top 10 customers accounted for approximately 43%, 58% and 31%, respectively, of the Company's total net sales. The Company's future success depends on its ability to retain the Company's current customers, and to attract new customers. The loss of one or several customers, whether through termination of agreements, acquisitions or bankruptcy, could significantly reduce the Company's net sales.



*Changes in the regulatory environment for the operation of the Company's business or those of its customers could pose risks and increased expenses.*

The Sarbanes-Oxley Act of 2002 and new rules subsequently implemented by the Securities and Exchange Commission have required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the Securities and Exchange Commission, the American Stock Exchange has adopted revisions to its requirements for listed companies. The Company continues to review all of its accounting policies and practices, legal disclosure and corporate governance policies under the new legislation, including those related to the Company's relationships with its independent auditors, enhanced financial disclosures, internal controls, board and board committee practices, corporate responsibility and loan practices, and intend fully to continue to comply with such laws. Management expects these new rules and regulations to make it more difficult for the Company to attract and retain qualified executive officers and qualified members of its Board of Directors, particularly to serve on the various committees of the Board, including and in particular, the audit committee. In addition, compliance with new rules imposed by the Securities and Exchange Commission and the American Stock Exchange will likely cause the Company to incur increased expenses, including legal and accounting expenses.

*If the Company does not successfully address the risks inherent in selling to international customers, the Company's net sales and financial results could decline.*

The Company derived 8% of its net sales from international sales in Fiscal 2004 and 6% in Fiscal 2003. Management plans to expand net sales and to grow the Company's international operations. The Company has limited experience in international sales and may not be able to compete or operate effectively in international markets. The Company faces certain risks inherent in conducting business internationally, including:

fluctuations in currency exchange rates and imposition of currency exchange controls;

language and translation issues;

difficulties in collecting accounts receivable and longer collection periods;

changes in regulatory requirements;

political and economic instability; and

potential adverse tax consequences.

Any of these factors could harm the Company's international sales and, consequently, its business and operating results. Specifically, failure to successfully manage international growth could result in higher operating costs than anticipated or could delay or preclude altogether the Company's ability to generate net sales in key international markets.

*The Company has a material amount of goodwill and adverse results in operations could result in a write-down of goodwill, which would further adversely affect the Company's results of operations.*

As of September 30, 2004, goodwill represented approximately \$20.5 million, or 16% of the Company's total assets. Goodwill is the amount by which the costs of an acquisition account for using the purchase method exceeds the fair value of the net assets acquired. The Company adopted Statement of Financial Accounting Standard No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets, in its entirety, on October 1, 2001. Under SFAS No. 142, goodwill is no longer amortized, but instead is subject to a periodic impairment evaluation based on the fair value of the reporting unit. Reductions in the Company's net income caused by a write-down of goodwill could materially and adversely affect the Company's results of operations.

*Adverse public opinion about alcohol may harm the Company's business.*

In recent years there has been substantial publicity regarding the possible health benefits of moderate alcohol consumption. The results of a number of studies suggest that moderate consumption of beverage alcohol could result in decreased mortality, lower risk of cardiovascular disease, and other health benefits. Alternatively, anti-alcohol groups have, in the past, successfully advocated more stringent labeling requirements and other regulations designed to discourage consumption of beverage alcohol. More restrictive regulations, negative publicity regarding alcohol consumption, publication of studies that indicate a significant health risk from moderate

consumption of alcohol or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol generally could adversely affect the sale and consumption of alcohol and the demand for beverage alcohol and could have a material adverse effect on the Company's business, financial condition, and results of operations.

**Item 9A. Disclosure Controls and Procedures**



**Evaluation of Disclosure Controls and Procedures**



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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, 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**





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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 changes in the Company's internal controls during the fourth quarter of Fiscal 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **PART III**



**Item 10. Directors and Executive Officers of the Registrant**



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The Company has adopted a Code of Ethics applicable to its Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions. In addition, the Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees. Both Codes are available on the Company's website at <http://www.todhunter.com>. The Company also intends to post any amendments to, or waivers from, either Code on the Company's website. In addition, the Company will also provide to any person without charge, upon request, a copy of either or both Codes. Such request may be made in writing to Ezra Shashoua, the Company's Executive Vice President and Chief Financial Officer at 222 Lakeview Avenue, Suite 1500, West Palm Beach, Florida 33401, or by phone at (561) 655-5677.

The other information required by Item 10 is incorporated by reference from the Company's definitive proxy statement for its 2005 annual stockholders' meeting.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of West Palm Beach, State of Florida, on the 15th day of March, 2005.

TODHUNTER INTERNATIONAL, INC.

By: /s/ Jay S. Maltby  
Jay S. Maltby, Chairman of the Board,  
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Jay S. Maltby Jay S. Maltby	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 15, 2005
/s/ Ezra Shashoua Ezra Shashoua	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2005
/s/ Joseph R. Cook Joseph R. Cook	Director	March 15, 2005
/s/ Donald L. Kasun Donald L. Kasun	Director	March 15, 2005
/s/ Edward F. McDonnell Edward F. McDonnell	Director	March 15, 2005
/s/ D. Chris Mitchell D. Chris Mitchell	Director	March 15, 2005
/s/ Leonard G. Rogers Leonard G. Rogers	Director	March 15, 2005
/s/ Thomas A. Valdes Thomas A. Valdes	Director	March 15, 2005

ANNEX F

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2005

Commission File No. 1-13453

**CRUZAN INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**59-1284057**

IRS Employer Identification No.

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

(Address of principal executive offices)

**33401**

(Zip Code)

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

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

Yes  No



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

Yes  No

The number of shares outstanding of registrant's Common Stock, \$.01 par value per share, as of August 9, 2005 was 6,747,306.

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CRUZAN INTERNATIONAL, INC.

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

## CRUZAN INTERNATIONAL, INC.

## CONSOLIDATED BALANCE SHEETS

	June 30, 2005 (Unaudited)	September 30, 2004 *
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,969,992	\$ 3,617,582
Short-term investments	218,351	216,246
Trade receivables	22,056,903	17,970,125
Other receivables	2,955,963	2,448,611
Inventories	31,905,359	29,162,496
Notes receivable, current maturities	527,443	3,559,409
Deferred income taxes	1,521,000	981,000
Other current assets	3,104,289	3,195,781
Total current assets	64,259,300	61,151,250
<b>LONG-TERM INVESTMENTS AND RECEIVABLES</b>		
Investments in and advances to equity investees	2,563,129	2,232,285
Notes receivable from affiliates, less current maturities	375,000	375,000
Notes receivable, less current maturities	335,207	411,060
	3,273,336	3,018,345
<b>PROPERTY AND EQUIPMENT</b>		
	98,490,205	96,666,655
Less accumulated depreciation	59,735,478	56,716,805
	38,754,727	39,949,850
<b>GOODWILL</b>		
	20,524,404	20,524,404
<b>TRADEMARKS</b>		
	838,831	893,648
<b>DEFERRED LOAN COSTS</b>		
	356,966	634,910
<b>DEFERRED INCOME TAXES</b>		
	1,413,500	
<b>OTHER ASSETS</b>		
	2,218,737	1,660,219
	\$ 131,639,801	\$ 127,832,626

\*From audited financial statements.

See Notes to Consolidated Financial Statements.

## CRUZAN INTERNATIONAL, INC.

## CONSOLIDATED BALANCE SHEETS

	June 30, 2005 (Unaudited)	September 30, 2004 *
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 27,100,000	\$ 4,000,000
Accounts payable	14,212,839	11,868,947
Accrued expenses	3,835,292	4,726,253
Total current liabilities	45,148,131	20,595,200
LONG-TERM DEBT, less current maturities	21,774	25,674,240
DEFERRED INCOME TAXES		648,000
OTHER LIABILITIES	1,285,598	1,091,248
	46,455,503	48,008,688
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$.01 per share; authorized 2,500,000 shares; no shares issued		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued 6,846,506 shares June 30, 2005 and 6,437,719 shares September 30, 2004	68,465	64,377
Additional paid-in capital	34,451,041	28,916,707
Retained earnings	51,402,572	51,580,634
	85,922,078	80,561,718
Less cost of 99,200 shares of treasury stock	(737,780)	(737,780)
	85,184,298	79,823,938
	\$ 131,639,801	\$ 127,832,626

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\*From audited financial statements.

See Notes to Consolidated Financial Statements.

## CRUZAN INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Sales	\$ 97,352,138	\$ 88,954,982	\$ 35,367,382	\$ 32,537,957
Less excise taxes	19,856,067	18,988,128	7,575,138	7,052,598
Net sales	77,496,071	69,966,854	27,792,244	25,485,359
Cost of goods sold	51,607,060	46,094,983	18,833,850	17,519,481
Gross profit	25,889,011	23,871,871	8,958,394	7,965,878
Selling, general and administrative expenses	27,038,436	23,109,709	9,879,545	9,479,264
Operating income (loss)	(1,149,425)	762,162	(921,151)	(1,513,386)
Other income (expense):				
Interest income	283,438	433,395	96,867	73,164
Interest expense	(2,010,217)	(1,958,351)	(645,876)	(551,933)
Equity in income of equity investee	330,844	425,993	168,691	76,370
Other, net	74,428	404,681	8,563	111,110
	(1,321,507)	(694,282)	(371,755)	(291,289)
Income (loss) before income taxes	(2,470,932)	67,880	(1,292,906)	(1,804,675)
Income tax expense (benefit):				
Current	308,630	(2,548,928)	188,962	(1,848,169)
Deferred	(2,601,500)	871,500	(1,225,500)	268,000
	(2,292,870)	(1,677,428)	(1,036,538)	(1,580,169)
Net income (loss)	\$ (178,062)	\$ 1,745,308	\$ (256,368)	\$ (224,506)
Earnings (loss) per common share:				
Basic	\$ (0.03)	\$ 0.31	\$ (0.04)	\$ (0.04)
Diluted	\$ (0.03)	\$ 0.30	\$ (0.04)	\$ (0.04)
Common shares and equivalents outstanding:				
Basic	6,351,995	5,620,427	6,378,948	5,647,782
Diluted	6,351,995	5,737,336	6,378,948	5,647,782

See Notes to Consolidated Financial Statements.

CRUZAN INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Nine Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (178,062)	\$ 1,745,308
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,595,884	3,966,232
Amortization of trademarks and other assets	64,666	30,150
Amortization of deferred loan costs	386,944	225,000
(Gain) loss on sale of property and equipment	26,492	(267,997)
Equity in income of equity investees	(330,844)	(425,993)
Deferred income taxes	(2,601,500)	871,500
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(4,594,130)	1,072,554
Inventories	(2,742,863)	(2,986,544)
Other current assets	91,493	(1,510,689)
Increase (decrease) in:		
Accounts payable	2,343,892	1,856,934
Accrued expenses	(890,961)	(2,357,002)
Other liabilities	194,350	(933,064)
Net cash provided by (used in) operating activities	(4,634,639)	1,286,389
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	21,990	503,591
Principal payments received on notes receivable	3,107,819	86,709
Purchase of property and equipment	(2,449,243)	(3,956,717)
(Purchase) redemption of short-term investments	(2,105)	1,603,601
Increase in other assets	(568,367)	(512,659)
Net cash provided by (used in) investing activities	\$ 110,094	\$ (2,275,475)

	Nine Months Ended June 30,	
	2005	2004
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (payments) on line of credit	\$ 600,000	\$ (18,750,000)
Issuance of common stock	5,538,421	10,138,999
Disbursements for loan costs	(109,000)	(67,500)
Principal payments on long-term borrowings	(3,152,466)	(3,102,305)
Net cash provided by (used in) financing activities	2,876,955	(11,780,806)
Net decrease in cash and cash equivalents	(1,647,590)	(12,769,892)
Cash and cash equivalents:		
Beginning	3,617,582	14,918,605
Ending	\$ 1,969,992	\$ 2,148,713
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments (refunds) for:		
Interest	\$ 1,564,173	\$ 1,987,668
Income taxes	\$ 304,999	\$ (1,339,140)

See Notes to Consolidated Financial Statements.

## CRUZAN INTERNATIONAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial information for the periods indicated, have been included. For further information regarding the Company's accounting policies, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004.

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. As of January 1, 2003, the Company adopted SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, an amendment of SFAS 123. The standard amends SFAS 123 to provide alternative methods of transition for voluntary changes to the fair value based method of accounting for stock-based employee compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require pro-forma disclosures when the intrinsic value method continues to be used. The Company has elected to continue accounting for stock-based compensation using the intrinsic method in accordance with APB 25, and has adopted the new disclosure requirements specified under SFAS 148.

If the Company had 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:

	Nine Months		Periods Ended June 30,		Three Months	
	2005	2004	2004	2005	2004	2004
Net income (loss), as reported	\$ (178,062)	\$ 1,745,308	\$ (256,368)	\$ (224,506)		
Compensation costs, net of taxes	235,136	42,034	235,136			
Net income (loss), pro forma	(413,198)	1,703,274	(491,504)	(224,506)		
Earnings (loss) per common share, as reported						
Basic	(0.03)	0.31	(0.04)	(0.04)		(0.04)
Diluted	(0.03)	0.30	(0.04)	(0.04)		(0.04)
Earnings (loss) per common share, pro forma						
Basic	(0.07)	0.30	(0.08)	(0.04)		(0.04)



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Diluted	(0.07)	0.30	(0.08)	(0.04)
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On February 24, 2005, the Company's Compensation Committee granted options to purchase 549,000 shares of the Company's common stock to officers and other key employees of the Company.

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## Note 2. Inventories

The major components of inventories are:

	June 30, 2005 (Unaudited)	September 30, 2004
Finished goods	\$ 18,296,490	\$ 15,155,035
Work in process	1,855,541	2,668,698
Raw materials and supplies	11,753,328	11,338,763
	\$ 31,905,359	\$ 29,162,496

## Note 3. Financing Arrangements

Long-term debt consists of the following as of June 30, 2005:

Term loans under a credit agreement (i) (ii), interest payable monthly based on either the Eurodollar or prime rate at the Company's option, plus an applicable margin as defined in the agreement. The interest rate at June 30, 2005 was 6.76%. Future minimum quarterly principal installments of \$1,000,000 through December 31, 2005 with any remaining balance due January 31, 2006.	\$ 25,000,000
Revolving loans under a credit agreement (i), interest payable quarterly based on either the Eurodollar or prime rate at the Company's option, plus an applicable margin as defined in the agreement. The blended interest rate at June 30, 2005 was 6.175%. The revolving lines of credit terminate on January 31, 2006.	2,100,000
Other	21,774
	27,121,774
Less current maturities	27,100,000
	\$ 21,774

(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. In March 2004, the revolving loan facility was reduced to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loan facility to September 2006. In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarters ended September 30, 2004 and December 31, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for fiscal 2005 and the maturity of the credit agreement was modified to January 31, 2006, at which time the final principal payment plus accrued interest will be due. Currently, the Company is considering its alternatives with respect to refinancing its existing credit agreement, including refinancing with an asset based facility during the quarter ending December 31, 2005, although there is no assurance that it will be able to do so.

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In August 2005, the credit agreement was modified to approve the prospective change in control of the Company from Angostura, Limited to V&S Vin & Sprit AB ( V&S ) and the Company received a waiver of its fixed charge coverage financial covenant for the quarter ended June 30, 2005.

(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 credit agreement.

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

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

	Periods Ended June 30							
	Nine Months				Three Months			
	2005		2004		2005		2004	
Net income (loss)	\$	(178,062)	\$	1,745,308	\$	(256,368)	\$	(224,506)
Determination of shares:								
Weighted average number of common shares outstanding		6,351,995		5,620,427		6,378,948		5,647,782
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds		*		116,909		*		*
Average common shares outstanding for diluted earnings per share computation		6,351,995		5,737,336		6,378,948		5,647,782
Earnings (loss) per common share:								
Basic	\$	(0.03)	\$	0.31	\$	(0.04)	\$	(0.04)
Diluted	\$	(0.03)	\$	0.30	\$	(0.04)	\$	(0.04)

\*The effect of stock options has not been included, 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 \$0.15 and \$0.04 for the nine and three months ended June 30, 2005, respectively, and \$0.19 and \$0.06 for the nine and three months ended June 30, 2004, 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)

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

The Company's executive offices are located in West Palm Beach, Florida and certain of the expenses of the Company's executive offices are classified as Corporate Operations and are not allocated to the operating segments described above. These expenses include salaries and related expenses, legal and professional fees, rent for office space, utilities and insurance.

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, 2004. 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.

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Net sales and operating income (loss) for the Company's reportable segments for the nine and three months ended June 30, 2005 and 2004, were as follows:

	Nine Months		Periods Ended June 30,		Three Months	
	2005	2004	2005	2004	2005	2004
	(in thousands)				(in thousands)	
<b>Net Sales</b>						
Bulk Alcohol Products	\$ 29,793	\$ 27,024	\$ 10,191	\$ 9,898		
Premium Branded Spirits	23,734	18,708	9,819	7,184		
Bottling Operations	8,381	8,799	3,128	3,252		
Vinegar and Cooking Wine	15,588	15,436	4,654	5,151		
	\$ 77,496	\$ 69,967	\$ 27,792	\$ 25,485		
<b>Operating Income (Loss)</b>						
Bulk Alcohol Products	\$ 8,048	\$ 8,386	\$ 1,767	\$ 2,195		
Premium Branded Spirits	(4,863)	(4,669)	(1,520)	(2,781)		
Bottling Operations	(2,949)	(2,445)	(749)	(723)		
Vinegar and Cooking Wine	1,897	2,539	515	915		
Corporate Operations	(3,282)	(3,049)	(934)	(1,119)		
	\$ (1,149)	\$ 762	\$ (921)	\$ (1,513)		

Note 6. Supplemental Executive Retirement Plan

During the second quarter of fiscal 2004, the Company's Compensation and Stock Option Committee approved a supplemental executive retirement plan for certain key executives of the Company. The plan is an unfunded plan within the meaning of SFAS No. 132 *Employers Disclosures about Pensions and Other Post Retirement Benefits*. The net periodic benefit cost for the nine and three months ended June 30, 2005 and 2004, was as follows:

	Nine Months		Periods Ended June 30,		Three Months	
	2005	2004	2005	2004	2005	2004
Service cost	\$ 203,408	\$ 88,055	\$ 70,005	\$ 66,041		
Interest cost	17,805	5,283	8,400	3,962		
Net periodic benefit cost	\$ 221,213	\$ 93,338	\$ 78,405	\$ 70,003		

Note 7. Income Taxes

The Company incurred losses for income tax purposes from its U.S. operations of \$5.6 million and \$7.0 million through each of its third quarter of 2005 and 2004, respectively. The Company has recorded an income tax benefit in the Company's consolidated statement of income and an asset on the Company's consolidated balance sheet.

Note 8. Reclassification of Cost of Goods Sold

In the first quarter of fiscal 2005, the Company changed the classification of certain expenses from cost of goods sold to selling, general and administrative as a result of a review and improvement in its financial reporting practices. The Company has reclassified its prior year statement of income to reflect the new classification. This resulted in the reclassification of \$1,516,366 and \$590,214 from cost of goods sold to selling, general and administrative expenses for the nine and three months ended June 30, 2004, respectively.

Note 9. Name Change

On May 2, 2005, the Company announced that it had changed its name from Todhunter International, Inc. to Cruzan International, Inc. The new name, approved by the Company's shareholders on March 15, 2005, reflects the Company's evolving strategic focus on its Cruzan Rum brand, which has continued to experience tremendous growth since its repositioning in the marketplace in the late 1990s. In conjunction with its new corporate identity, on May 3, 2005, the Company's common stock began trading on the American Stock Exchange under the new symbol, RUM.

Note 10. Issuance of Common Stock

In June 2005, the Company received \$5.5 million, net of expenses, from a fully subscribed rights offering and as a result issued 408,787 shares of common stock.

Note 11. Change of Control and Merger Agreement

On June 3, 2005, the Company announced that Angostura, Ltd. ( Angostura ), the Company's controlling stockholder, had entered into a Stock Purchase Agreement with V&S Vin & Sprit AB, the Swedish-based international wine and spirits company ( V&S ), pursuant to which V&S agreed to purchase Angostura's controlling interest in the Company. Upon the terms and subject to the conditions set forth in the Stock Purchase Agreement, V&S agreed to purchase all 4,294,583 shares of the Company's common stock beneficially owned by Angostura, representing approximately 63.6% of the Company's outstanding common stock, for an aggregate consideration of \$121,837,320, or \$28.37 per share. The Stock Purchase Agreement is subject to normal closing conditions, including the approval of the board of directors of the Company. In connection with such approval and any other related issues, the Company's board of directors has appointed a Special Committee of independent directors (the Special Committee ). The purchase and sale is expected to close on or before September 30, 2005.

On July 8, 2005, the Company announced that The Absolut Spirits Company, Inc., a Delaware corporation ( ASCI ), a wholly-owned subsidiary of V&S, had submitted a proposed Agreement and Plan of Merger pursuant to which a wholly-owned subsidiary of ASCI would merge with and into the Company, and each issued share of Company common stock not owned by Angostura would be converted into the right to receive \$28.37 in cash (the ASCI Proposal ). The ASCI Proposal is conditioned upon, among other things, receipt of appropriate stockholder and regulatory approvals.

The Company's board of directors and its Special Committee consisting solely of independent directors intend to evaluate the ASCI Proposal in a manner consistent with their fiduciary duties. The Company cannot assure that the ASCI Proposal will result in a definitive agreement with ASCI, or that any merger under such a definitive agreement will be consummated. If the Company's board of directors determines that the terms of the ASCI Proposal are fair to Company stockholders, and enters into a definitive agreement with ASCI, the Company will call a Special Meeting of its stockholders and file a proxy statement and other relevant documents concerning the ASCI Proposal with the Securities and Exchange Commission.

On July 21, 2005, the Company announced that pursuant to the Hart-Scott-Rodino Antitrust Improvements Act, the U.S. Federal Trade Commission and the U.S. Department of Justice have granted clearance for the proposed acquisition by ASCI of controlling interest in the



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Company from Angostura at a price of \$28.37 per share, pursuant to the Stock Purchase Agreement between Angostura and V&S. The Stock Purchase is conditioned upon, among other things, receipt of certain regulatory approvals, including approval by certain state alcoholic beverage commissions.

## **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. For information concerning these factors and related matters, see Risks that May Affect Future Results in Item 7, and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004. The Company undertakes no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise.

### **Introduction**

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for the nine months ended June 30, 2005 compared to the nine months ended June 30, 2004, (ii) consolidated results of operations of the Company for the three months ended June 30, 2005 compared to the three months ended June 30, 2004, 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.

Market share and industry data and rankings disclosed in this report have been obtained from industry and government publications, as indicated; the Company has not independently verified this information, although management believes such data and rankings to be reasonably accurate.

Management believes that the Company is the largest supplier of bulk rum in the United States based on reports of U.S. Imports for Consumption prepared by the Department of Census and that the Company's market share of bulk rum products in the United States is approximately 80%. Management believes that the Company is the largest supplier of fortified citrus wine in the United States and is not aware of any other domestic suppliers of fortified citrus wine. Management is aware of only one other United States manufacturer of citrus brandy and citrus spirits and believes that the Company's market share for these products is approximately 85%.

The Company's primary spirits brand is Cruzan Rum, which is the fourth-largest premium rum brand in the United States according to statistics published by Impact Databank and Adams Liquor Handbook, two leading spirits industry publications.

The Company's higher margin cooking wine products are sold throughout the United States and Canada. Although published data is not available, management is not aware of any competitors of the Company's size and believes that the Company is the largest supplier of cooking

wine in the United States.

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).

The Company's executive offices are located in West Palm Beach, Florida and certain of the expenses of the Company's executive offices are not allocated to the operating segments described above. The expenses of the Company's corporate operations include salaries and related expenses, legal and professional fees, rent for office space, utilities and insurance.

Information regarding the net sales and operating income (loss) of each of the Company's business segments is set forth in Note 5 to the consolidated financial statements and in Table 2 included in this Item 2.

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 premium branded spirits, contract bottling services, 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**



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Tables 1 and 2 below set forth statement of income items as a percentage of net sales and information on net sales, gross profit (loss) and operating income (loss) by operating segment.

**Table 1 Statement of Income as a Percent of Net Sales**

	Periods Ended June 30, (unaudited)			
	Nine Months		Three Months	
	2005	2004	2005	2004
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	66.6	65.9	67.8	68.7
Gross margin	33.4	34.1	32.2	31.3
Selling, general and administrative expenses	34.9	33.0	35.5	37.2
Operating income (loss)	(1.5)	1.1	(3.3)	(5.9)
Interest expense	(2.6)	(2.8)	(2.3)	(2.2)
Other income, net	0.9	1.8	1.0	1.0
Income (loss) before income taxes	(3.2)	0.1	(4.6)	(7.1)
Income tax benefit	3.0	2.4	3.7	6.2
Net income (loss)	(0.2)%	2.5%	(0.9)%	(0.9)%

**Table 2 Net Sales, Gross Profit (Loss) and Operating Income (Loss) by Operating Segment**

(In Thousands)	Periods Ended June 30, (unaudited)			
	Nine Months		Three Months	
	2005	2004	2005	2004
<b>Net Sales</b>				
Bulk alcohol products	\$ 29,793	\$ 27,024	\$ 10,191	\$ 9,898
Premium branded spirits	23,734	18,708	9,819	7,184
Bottling operations	8,381	8,799	3,128	3,252
Vinegar and cooking wine	15,588	15,436	4,654	5,151
	77,496	69,967	27,792	25,485
<b>Gross Profit (Loss)</b>				
Bulk alcohol products	11,378	12,781	2,933	3,712
Premium branded spirits	11,545	8,281	4,909	3,208
Bottling operations	(904)	(835)	(76)	(221)
Vinegar and cooking wine	3,870	3,645	1,192	1,267
	25,889	23,872	8,958	7,966
<b>Operating Income (Loss)</b>				
Bulk alcohol products	8,048	8,386	1,767	2,195
Premium branded spirits	(4,863)	(4,669)	(1,520)	(2,781)
Bottling operations	(2,949)	(2,445)	(749)	(723)
Vinegar and cooking wine	1,897	2,539	515	915
Corporate operations	(3,282)	(3,049)	(934)	(1,119)
	\$ (1,149)	\$ 762	\$ (921)	\$ (1,513)

Table 3 below provides unit sales volume data for certain Company products.

**Table 3 Unit Sales Volume Data**

(In Thousands)	Periods Ended June 30,			
	Nine Months		Three Months	
	2005	2004	2005	2004
<b>Bulk alcohol products:</b>				
Distilled products, in proof gallons				
Citrus Brandy	985	992	262	354
Citrus Spirits	421	110	113	55
Rum	3,681	3,575	1,286	1,351
Cane Spirits	288	359	106	142
Fortified wine, in gallons	9,505	8,404	3,404	3,081
Premium branded spirits, in cases	551	517	209	175
Bottling operations, in cases	1,987	2,289	809	878
Vinegar				
Bulk, in 100 grain gallons	3,585	3,912	1,167	1,293
Cases	494	364	142	147
Drums, in 100 grain gallons	954	1,193	386	543
Cooking Wine				
Bulk, in gallons	2,075	2,017	705	590
Cases	473	500	107	135

**Nine months ended June 30, 2005 compared to nine months ended June 30, 2004.** Unless otherwise noted, references to 2005 represent the nine-month period ended June 30, 2005 and references to 2004 represent the nine-month period ended June 30, 2004.

*Net Sales.* Net sales were \$77.5 million in 2005, an increase of 10.8% from net sales of \$70.0 million in 2004.

Net sales of bulk alcohol products were \$29.8 million in 2005, an increase of 10.2% from net sales of \$27.0 million in 2004. The increase in net sales resulted primarily from increased shipments of citrus spirits, rum and fortified wine, offset by decreased shipments of citrus brandy and cane spirits. The increase in shipments of citrus spirits, rum and fortified wine and decrease in shipments of citrus brandy and cane spirits was due in part to the timing of customer orders. The Company's customers often purchase bulk alcohol products in significant quantities, and accordingly, the size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter. In 2005, unit sales of citrus brandy decreased 0.7% compared to 2004, and the average selling price of citrus brandy decreased 3.3%. Also in 2005, unit sales of the Company's fortified wine products increased 13.1% compared to 2004, although the average selling price for the Company's fortified wine decreased 4.0%. The average selling prices for fortified wine products decreased due to management lowering prices as a result of increased competition from other producers.

Net sales of premium branded spirits were \$23.7 million in 2005, an increase of 26.9% from net sales of \$18.7 million in 2004. In 2004, net sales of premium branded spirits included \$0.7 million of Cruzan ready-to-drink products and other products which were discontinued. Excluding these discontinued product sales, net sales of premium branded spirits were \$23.7 million in 2005, an increase of 31.8% from net sales of \$18.0 million in 2004, as the premium branded spirits segment continued its double digit growth.



Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 30.2% in 2005 compared to 2004. Sales of Cruzan Estate Rums and Cruzan Flavored Rums have increased from \$2.2 million in fiscal 1996 to

\$21.0 million in fiscal 2004. During this time, the Cruzan brand has been recognized as one of the fastest growing brands in the spirits industry by Impact Databank and Adams Liquor Handbook, two leading beverage industry publications. In addition, the Cruzan Rums have won numerous tasting awards from several prestigious beverage industry organizations, including The American Tasting Institute, The Beverage Tasting Institute and the San Francisco World Spirits Competition. Since January 2003, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain prior fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which could adversely affect the Company's sales growth of Cruzan Estate Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management significantly increased its marketing budget for fiscal 2004 in an effort to support the continued growth of the Company's Cruzan brand, causing an increase in the operating loss for this business segment in fiscal 2004. Management has continued to increase expenditures in fiscal 2005 to improve brand growth.

Net sales of the Company's bottling operations were \$8.4 million in 2005, a decrease of 4.8% from net sales of \$8.8 million in 2004. While the unit volume of the Company's bottling operations decreased 13.2% in 2005, average unit prices increased 9.7% as a result of price increases to certain customers and a change in product mix. Sales in the Company's bottling operations have declined in the last three fiscal years as a result of a contraction in the ready-to-drink product category, for which the Company was a large contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its bottling operations. However, bottling operations volume did not even meet the Company's reduced expectations for fiscal 2004, which resulted in a loss in this segment for fiscal 2004. The Company continues to place an emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable bottling line that bottles vinegar, cooking wine and juices. In January 2005, the operation of this bottling line was reduced to one shift. At the present time, the Company has not taken an impairment charge relating to its bottling operations as the carrying value of its bottling assets is less than fair value.

Net sales of vinegar and cooking wine were \$15.6 million in 2005, an increase of 1.0% from net sales of \$15.4 million in 2004. In 2005, total unit sales of vinegar and cooking wine decreased 5.1% compared to 2004, although the average selling price per unit increased 6.4%. The average selling prices of vinegar and cooking wine increased due to a combination of decreased sales of lower priced white distilled vinegar and an increase in sales of higher priced bulk apple vinegar and vinegar case goods.

*Gross Profit.* Gross profit was \$25.9 million in 2005, an increase of 8.4% from gross profit of \$23.9 million in 2004. During 2005, bulk alcohol gross profit decreased as a result of increased citrus molasses and juice concentrate raw material costs as well as price concessions to fortified wine customers; premium branded spirits gross profit increased with sales; bottling operations gross loss was comparable to 2004; and vinegar and cooking wine gross profit increased due to an improved product mix. Gross margin decreased to 33.4% in 2005 from 34.1% in 2004 as a result of the factors discussed above. In the first quarter of fiscal 2005, the Company changed the classification of certain expenses from cost of goods sold to selling, general and administrative as a result of a review and improvement in its financial reporting practices. The Company has restated its prior year statement of income to reflect the new classification. This resulted in the reclassification of \$1,516,366 from cost of goods sold to selling, general and administrative expenses for the nine months ended June 30, 2004.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$27.0 million in 2005, an increase of 17.0% from \$23.1 million in 2004. 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. During fiscal 2004, the Company increased its selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the

Company's Cruzan brand. Management has continued to increase expenditures in fiscal 2005 to improve brand growth. Also during 2005, the Company's corporate overhead has increased as a result of increased legal and professional fees incurred for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. These costs relate to increased compliance activities and the Company's ongoing documentation, testing and improvement of its internal control systems.

*Operating Income (Loss).* Table 2 sets forth the operating income (loss) by reportable segment of the Company for 2005 and 2004. The Company's operating loss was \$1.1 million in 2005, as compared to operating income of \$0.8 million in 2004. The Company's premium branded spirits segment had operating losses of \$4.9 million in 2005 and \$4.7 million in 2004. As a result of the factors described under "Net Sales" above, the Company's bottling operations segment reported an operating loss of \$2.9 million in 2005 and \$2.4 million in 2004.

*Interest Expense.* Interest expense was \$2.0 million in 2005 and 2004. The Company's borrowing rates were higher in 2005 compared to 2004. However, higher rates were offset by slightly lower average borrowings during 2005.

*Income Tax Expense (Benefit).* During 2005 and 2004, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$2.3 million and \$1.7 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2005 and 2004.

**Three months ended June 30, 2005 compared to three months ended June 30, 2004.** Unless otherwise noted, references to 2005 represent the three-month period ended June 30, 2005 and references to 2004 represent the three-month period ended June 30, 2004.

*Net Sales.* Net sales were \$27.8 million in 2005, an increase of 9.1% from net sales of \$25.5 million in 2004.

Net sales of bulk alcohol products were \$10.2 million in 2005, an increase of 3.0% from net sales of \$9.9 million in 2004. The increase in net sales resulted primarily from increased shipments of citrus spirits and fortified wine, offset by decreased shipments of citrus brandy, cane spirits and rum. The increase in shipments of citrus spirits and fortified wine was due to the timing of customer orders. The Company's customers often purchase bulk alcohol products in significant quantities, and accordingly, the size and timing of purchase orders and product shipments can cause operating results to fluctuate significantly from quarter to quarter. In 2005, unit sales of the Company's fortified wine products increased 10.5% compared to 2004, although the average selling price for the Company's fortified wine decreased 4.7%. The average selling prices for these bulk alcohol products decreased due to management lowering prices as a result of increased competition from other producers.

Net sales of premium branded spirits were \$9.8 million in 2005, an increase of 36.7% from net sales of \$7.2 million in 2004.

Sales of the Company's Cruzan Estate Rums and Cruzan Flavored Rums increased 29.8% in 2005 compared to 2004. Sales of Cruzan Estate Rums and Cruzan Flavored Rums have increased from \$2.2 million in fiscal 1996 to \$21.0 million in fiscal 2004. During this time, the Cruzan brand has been recognized as one of the fastest growing brands in the spirits industry by Impact Databank and Adams Liquor Handbook, two leading beverage industry publications. In addition, the Cruzan Rums have won numerous tasting awards from several prestigious beverage industry organizations, including The American Tasting Institute, The Beverage Tasting Institute and the San Francisco World Spirits Competition. Since January 2003, several of the Company's competitors have introduced their own lines of flavored rum products into the marketplace, which, in certain fiscal quarters, has negatively impacted the level of sales growth of Cruzan Flavored Rums. Some of the Company's competitors in the rum and flavored rum categories have significantly greater financial and other resources than the Company, which

could adversely affect the Company's sales growth of Cruzan Estate Rums and Cruzan Flavored Rums. As a response to such increased competition, and in order to provide further impetus to the growth of Cruzan Flavored Rums, management significantly increased its marketing budget for fiscal 2004 in an effort to support the continued growth of the Company's Cruzan brand, causing an increase in the operating loss for this business segment in fiscal 2004. Management has continued to increase expenditures in fiscal 2005 to improve brand growth.

Net sales of the Company's bottling operations were \$3.1 million in 2005, a decrease of 3.8% from net sales of \$3.3 million in 2004. While the unit volume of the Company's bottling operations decreased 7.8% in 2005, average unit prices increased 4.3% as a result of price increases to certain customers and a change in product mix. Sales in the Company's bottling operations have declined in the last three fiscal years as a result of a contraction in the ready-to-drink product category, for which the Company was a major contract bottler. Responding to this decline, in July 2004 the Company completed the partial consolidation of its bottling operations. However, bottling

operations volume did not even meet the Company's reduced expectations for fiscal 2004, which resulted in a loss in this segment for fiscal 2004. The Company continues to place an emphasis on the sales effort in this segment, seeking other contract bottling opportunities. The Company has explored other alternatives in its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable bottling line that bottles vinegar, cooking wine and juices. In January 2005, the operation of this bottling line was reduced to one shift. At the present time, the Company has not taken an impairment charge relating to its bottling operations as the carrying value of its bottling assets is less than fair value.

Net sales of vinegar and cooking wine were \$4.7 million in 2005, a decrease of 9.7% from net sales of \$5.2 million in 2004. The decrease in shipments of certain vinegar and cooking wine products was due to the timing of customer orders. In 2005, total unit sales of vinegar and cooking wine decreased 7.5% compared to 2004, and the average selling price per unit decreased 2.4%. The average selling prices of vinegar and cooking wine decreased due to a change in product mix.

*Gross Profit.* Gross profit was \$9.0 million in 2005, an increase of 12.5% from gross profit of \$8.0 million in 2004. During 2005, bulk alcohol gross profit decreased as a result of decreased shipments of citrus brandy and rum and price concessions to fortified wine customers; premium branded spirits gross profit increased due to increased sales; bottling operations gross loss was comparable to 2004; and vinegar and cooking wine gross profit was comparable to 2004. Gross margin increased to 32.2% in 2005 from 31.3% in 2004 as a result of changes in product mix. In the first quarter of fiscal 2005, the Company changed the classification of certain expenses from cost of goods sold to selling, general and administrative as a result of a review and improvement in its financial reporting practices. The Company has reclassified its prior year statement of income to reflect the new classification. This resulted in the reclassification of \$590,214 from cost of goods sold to selling, general and administrative expenses for the three months ended June 30, 2004.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$9.9 million in 2005, an increase of 4.2% from \$9.5 million in 2004. 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. During fiscal 2005, the Company has increased its selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management has continued to increase expenditures in fiscal 2005 to improve brand growth.

*Operating Income (Loss).* Table 2 sets forth the operating income (loss) by reportable segment of the Company for 2005 and 2004. The Company's operating loss was \$0.9 million in 2005, as compared to an operating loss of \$1.5 million in 2004. The Company's premium branded spirits segment had operating losses of \$1.5 million in 2005 and \$2.8 million in 2004. As a result of the factors described under *Net Sales* above, the Company's bottling operations segment reported an operating loss of \$0.7 million in 2005 and 2004.

*Interest Expense.* Interest expense was \$0.6 million in 2005 and 2004. The Company's borrowings and rates were slightly higher in 2005 compared to 2004 due to higher borrowings and rates.

*Income Tax Expense (Benefit).* During 2005 and 2004, the Company incurred operating losses from its U.S. operations and recorded an income tax benefit of \$1.0 million and \$1.6 million, respectively. The Company's Virgin Islands subsidiary has a 90% exemption from U.S. Virgin Islands income taxes. The exemption is effective through September 2020. In addition, the Company benefited from the extraterritorial income exclusion in 2005 and 2004.

## **Financial Liquidity and Capital Resources**

### **General**

The Company's principal use of cash in its operating activities is for labor, overhead and raw materials 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 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.

The Florida citrus harvest is generally performed during the months from November through June. The majority of the Florida citrus harvest is processed as fresh fruit juice or juice concentrate. A byproduct of citrus juice production is citrus molasses which the Company uses as a raw material at its two Florida distilleries to produce citrus brandy and spirits. Due to the seasonal availability and short shelf-life of the citrus molasses raw material, the Company produces its estimated annual customer requirements during a seven-month period, and therefore, carries a higher than normal level of inventory in relation to sales during this seven-month period. Generally, the Company's inventory level increases during this seven-month period and decreases after the citrus harvest ends when the Company supplies its customers with citrus brandy and spirits from inventory from July through October.

There are no federal regulations that require minimum aging to be designated rum. However, due to the Company's high quality standards, the Company ages its Cruzan Estate Rums for two to five years and certain of the Company's super premium rums are aged up to twelve years. Due to the Company's own aging requirements, production of Cruzan Estate Rums is scheduled to meet demand two to three years in the future. Accordingly, inventories are larger in relation to sales and total assets than would be normal for most other businesses. Management expects to continue to increase the Company's inventory of barrel aged rums to meet projected increased sales in the future.

The Company's contract bottling services business is seasonal. Demand for contract bottling services is highest from April through October. During these months the Company's requirements increase for ingredients, glass bottles, caps, labels, packaging materials and labor. During fiscal 2004, the Company incurred losses from its bottling operations of \$3.9 million. Management has explored alternatives for its two bottling facilities, including further consolidation, a partial sale and shedding less profitable product lines. In December 2004, management decided to discontinue production of all products in the Lake Alfred bottling plant with the exception of one profitable bottling line that bottles vinegar, cooking wine and juices. In January 2005, the operation of this bottling line was reduced to one shift.

During fiscal 2004, management increased selling, general and administrative expenses in its premium branded spirits segment in an effort to support the continued growth of the Company's Cruzan brand. Management has continued to increase expenditures in fiscal 2005 to improve brand growth. To the extent that the increased expenditures do not result in increased sales of the Cruzan brand, the Company's short-term liquidity may be adversely affected. However, management actively monitors sales and expenditures on an ongoing basis, and retains the ability to adjust its level of expenditures in response to market conditions and in order to maintain sufficient liquidity.

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 used in operating activities in 2005 was \$4.6 million, which resulted from \$1.0 million in net income adjusted for noncash items, less \$5.6 million representing the net increase in operating assets and liabilities.

### **Investing and Financing Activities**



Net cash provided by investing activities in 2005 was \$0.1 million, which resulted primarily from principal payments received on notes receivable of \$3.1 million, offset by \$2.4 million of capital expenditures and a \$0.6 million increase in other assets.

Net cash provided by financing activities in 2005 was \$2.9 million, which resulted primarily from proceeds of \$5.5 million from the issuance of common stock, offset by payments of \$3.2 million of long-term debt. In June

2005, the Company received \$5.5 million, net of expenses, from a fully subscribed rights offering and as a result issued 408,787 shares of common stock.

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. In March 2004, the revolving loan facility was reduced to \$15 million. In June 2004, the credit agreement was modified to extend the maturity date of the revolving loan facility to September 2006. In December 2004, the Company received a waiver of its financial covenants compliance requirement for the quarters ended September 30, 2004 and December 31, 2004. The financial covenant requirements were also amended prospectively in accordance with the Company's business plan for fiscal 2005 and the maturity of the credit agreement was modified to January 31, 2006, at which time the final principal payment plus accrued interest will be due. Currently, the Company is considering its alternatives with respect to refinancing its existing credit agreement, including refinancing with an asset based facility during the quarter ending December 31, 2005, although there is no assurance that it will be able to do so.

In August 2005, the credit agreement was modified to approve the prospective change in control of the Company from Angostura, Limited to V&S Vin & Sprit AB ( V&S ) and the Company received a waiver of its fixed charge coverage financial covenant for the quarter ended June 30, 2005.

The Company's total outstanding bank debt was \$27.1 million as of June 30, 2005, and its ratio of total debt to equity was 0.55 to 1.

The Company's share of the undistributed earnings of the Bahamian and Virgin Islands subsidiaries was approximately \$43.7 million as of September 30, 2004. No provision has been made for taxes which would result from the remittance of such undistributed earnings, as the Company intends to reinvest these earnings indefinitely. 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, 2004 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.

#### **Change of Control and Merger Agreement**

On June 3, 2005, the Company announced that Angostura, Ltd. ( Angostura ), the Company's controlling stockholder, had entered into a Stock Purchase Agreement with V&S Vin & Sprit AB, the Swedish-based international wine and spirits company ( V&S ), pursuant to which V&S

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agreed to purchase Angostura's controlling interest in the Company. Upon the terms and subject to the conditions set forth in the Stock Purchase Agreement, V&S agreed to purchase all 4,294,583 shares of the Company's common stock beneficially owned by Angostura, representing approximately 63.6% of the Company's outstanding common stock, for an aggregate consideration of \$121,837,320, or \$28.37 per share. The Stock Purchase Agreement is subject to normal closing conditions, including the approval of the board of directors of the Company. In connection with such approval and any other related issues, the Company's board of directors has appointed a special committee of independent directors (the Special Committee). The purchase and sale is expected to close on or before September 30, 2005.

On July 8, 2005, the Company announced that The Absolut Spirits Company, Inc., a Delaware corporation (ASCI), a wholly-owned subsidiary of V&S, had submitted a proposed Agreement and Plan of Merger pursuant to which a wholly-owned subsidiary (Subsidiary) of ASCI would merge with and into the Company, and each issued share of Company common stock not owned by Angostura would be converted into the right to receive \$28.37 in

cash (the ASCI Proposal). The ASCI Proposal is conditioned upon, among other things, receipt of appropriate stockholder and regulatory approvals.

The Company's board of directors and its Special Committee intend to evaluate the ASCI Proposal in a manner consistent with their fiduciary duties. The Company cannot assure that the ASCI Proposal will result in a definitive agreement with ASCI, or that any merger under such a definitive agreement will be consummated. If the Company's board of directors determines that the terms of the ASCI Proposal are fair to Company stockholders, and enters into a definitive agreement with ASCI, the Company will call a Special Meeting of its stockholders and file a proxy statement and other relevant documents concerning the ASCI Proposal with the Securities and Exchange Commission.

On July 21, 2005, the Company announced that pursuant to the Hart-Scott-Rodino Antitrust Improvements Act, the U.S. Federal Trade Commission and the U.S. Department of Justice have granted clearance for the proposed acquisition by ASCI of controlling interest in the Company from Angostura at a price of \$28.37 per share, pursuant to the Stock Purchase Agreement between Angostura and V&S. The Stock Purchase is conditioned upon, among other things, receipt of certain regulatory approvals, including approval by certain state alcoholic beverage commissions.

#### **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, 2004. 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.

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

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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, 2004. As of June 30, 2005, there have been no material changes to 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, 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 changes in the Company's internal controls during the third quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

- 11.1 Statement of Computation of Per Share Earnings (1)
- 20.1 Earnings press release for the third quarter and nine months ended June 30, 2005 (2)
- 31.1 Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (2)
- 31.2 Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (2)
- 32.1 Certification of Jay S. Maltby, Chairman, Chief Executive Officer and President, pursuant to 18 U.S.C. Section 1350 (2)
- 32.2 Certification of Ezra Shashoua, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (2)

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(1) Filed herewith and incorporated herein by reference to Note 4 of notes to consolidated financial statements, included in Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

(2) Filed herewith.

**Signatures**

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

Date: August 11, 2005

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

Date: August 11, 2005

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

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PROXY

CRUZAN INTERNATIONAL, INC.

PROXY

**Proxy for the Special Meeting of Shareholders  
To be Held on , 2005**

**THIS PROXY IS SOLICITED ON BEHALF  
OF THE BOARD OF DIRECTORS OF CRUZAN INTERNATIONAL, INC.**

The undersigned, revoking all prior proxies, hereby constitutes and appoints [ ], and each of them, as proxies of the undersigned, with full power of substitution, and authorizes each of them to represent and to vote as designated herein all shares of common stock, \$0.01 par value per share, of Cruzan International, Inc., a Delaware corporation (the Company ), held by the undersigned as of the close of business on [ , 2005], at the special meeting of shareholders to be held at the offices of Gunster, Yoakley & Stewart, P.A., located at 777 South Flagler Drive, Suite 500 East, West Palm Beach, FL 33401 on , 2005, at 11:00 a.m. local time, and at any adjournments or postponements thereof. Each of the proposals contained in this proxy for approval by the shareholders has been proposed by the Company, and no proposal contained in this proxy is conditioned upon the approval of any other proposal.

**WHEN THIS PROXY CARD IS PROPERLY EXECUTED, SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AT THE SPECIAL MEETING AS SPECIFIED HEREIN. IF NO SPECIFICATION IS MADE, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR EACH OF THE PROPOSALS LISTED ON THE REVERSE SIDE HEREOF AND, IN THE DISCRETION OF ANY OF THE PERSONS APPOINTED AS PROXIES, AS TO ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE SPECIAL MEETING.**

Attendance at the special meeting by the undersigned or at any adjournment or postponement thereof will not be deemed to revoke this proxy unless the undersigned shall affirmatively revoke this proxy in writing at the special meeting, deliver a subsequently dated proxy to the corporate Secretary of the Company or shall vote in person at the special meeting. If you submitted a proxy by telephone or via the Internet you may revoke your proxy using the same means at any time prior to 11:00 a.m. local time, on , 2005.

**PLEASE DATE, SIGN ON REVERSE SIDE AND RETURN THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID RETURN ENVELOPE OR SUBMIT A PROXY BY TELEPHONE OR VIA THE INTERNET.**

HAS YOUR ADDRESS CHANGED?

DO YOU HAVE ANY COMMENTS?

SEE REVERSE SIDE CONTINUED AND TO BE SIGNED ON REVERSE SIDE SEE REVERSE SIDE

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If you submit a proxy by telephone or via the Internet, please have your proxy card in hand.

**SUBMIT A PROXY BY TELEPHONE**

You may submit a proxy by telephone by  
calling  
[                    ]  
toll-free on a  
touch tone telephone anytime prior to  
11:59 p.m. local time, on     , 2005.

**OR**

**SUBMIT A PROXY BY INTERNET**

You may submit a proxy via Internet  
anytime prior to  
11:59 p.m. local time, on     , 2005, by  
logging on  
to the Internet and going to  
[                    ]

**If you submit a proxy by telephone or via the Internet, please do not mail your proxy card.**

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL

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γ Please mark your votes as in this example.

1. To approve the merger and adopt and approve the Agreement and Plan of Merger, dated as of September 30, 2005, among Cruzan International, Inc., The Absolut Spirits Company, Incorporated and Cruzan Acquisition, Inc., a wholly-owned subsidiary of Absolut, pursuant to which Cruzan Acquisition, Inc. will be merged with and into Cruzan International, Inc., and each holder of shares of Cruzan International, Inc. common stock will be entitled to receive \$28.37 in cash, without interest and less any applicable withholding taxes, for each share of Cruzan International, Inc. common stock held by such holder immediately prior to the merger.

FOR

AGAINST

ABSTAIN

2. To approve adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger and adopt and approve the merger agreement.

FOR

AGAINST

ABSTAIN

MARK BOX AT RIGHT IF AN ADDRESS CHANGE OR COMMENT HAS BEEN NOTED ON THE REVERSE SIDE OF THIS CARD.

The undersigned acknowledges receipt from Cruzan International, Inc. prior to the execution of this proxy of a Notice of Special Meeting of Shareholders and a proxy statement dated [                      , 2005].

**NOTE:** Please sign your name exactly as it appears on your stock certificate(s), write in the date and return this proxy as soon as possible in the enclosed envelope. If the stock is registered in more than one name, each joint owner should sign. If signing as attorney, executor, trustee, administrator or guardian, please give full title as such. Only authorized officers should sign for corporations.

Signature:

Date:

Signature:

Date:

