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Todhunter International, Inc.

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Telephone: (561) 655-8977

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<http://www.todhunter.com>

Statistics:

Public Company

Incorporated: 1964

Employees: 335

Sales: \$75.1 million (1998)

Stock Exchanges: American

Ticker Symbol: THT

SICs: 2084 Wines, Brandy & Brandy Spirits (Manufacturers); 2082 Malt Beverages (Manufacturers); 2085 Distillers; 2086 Bottlers; 5099 Importers & Exporters; 5181 Beer & Ale--Wholesale; 5182 Wines--Wholesale

Company History:

Todhunter International, Inc. produces alcoholic and nonalcoholic products, as well as by-products and related products. Its primary business is in rum, brandies, wines, and various other spirits, some of which it bottles itself--most notably under the Cruzan Rum and **Porfidio** Tequila labels--and some of which it sells to other beverage companies, who bottle it. In addition, it bottles various light alcoholic drinks, including wine coolers and cocktails, for other liquor companies. Alcohol-related products and by-products include vinegar, cooking wines, industrial alcohol, and residuum, a by-product sold as animal feed. Todhunter had more than \$75 million in annual revenues in 1998.

1960s Beginnings in the Bahamas

Todhunter was founded in 1964 by A. Kenneth Pincourt, Jr., who into the 1990s remained the company's chairman. As for its unusual name, there is undoubtedly a story behind it, but it is not one the company relates in its promotional literature. Established in the Bahamas, where it was able to operate tax-free, the company continued its ties with the island nation long after it moved to its U.S. mainland location in West Palm Beach, Florida.

During the 1970s Todhunter began to experience explosive growth, and in 1987 it signed a wine cooler production agreement with a giant in the spirits industry, Joseph E. Seagram & Sons, Inc. In 1989 it bought up all of the production facilities in Florida belonging to its biggest competitor and on October 13, 1992 made an initial public offering (IPO) of its stock. At that time the stock was traded on NASDAQ; five years later, in October 1997, the company would switch to the American Stock Exchange (AMEX).

Thus the early history of Todhunter, with the exception of its offshore founding, is not unlike that of most American companies. The production of rum, in which Todhunter participates, has an exotic reputation, however, due to its association with the West Indies and the rich history of that region. When Todhunter acquired the Cruzan Rum label in the mid-1990s, the company also acquired an intriguing history. Todhunter makes much of the latter in its promotional literature.

The Rich History of Cruzan

A list of "Significant Dates of St. Croix and Cruzan Distillery History" published by Todhunter begins all the way back in 1493, when the "First 'Cruise Ship' docks in St. Croix: Christopher Columbus, on second voyage, with 17 ships and 1,500 men, sails into Salt River Bay of the island he names Santa Cruz. Calls it a 'lush garden.' Claims island for Spain. Encounters the indigenous population called Ay-Ay. Brings sugar cane to the West Indies, a prelude to the Piña Colada." The history then proceeds to the 17th and 18th centuries, when European powers--England, The Netherlands, Spain, France, and the Knights of Malta--"play 'capture the flag.'" Again, there is more than a touch of romance to this history: "Pirates and buccaneers based in the islands disrupt trade; bury treasure."

The history continues with a number of interesting facts--including the information that Denmark, not a major New World colonist, owned St. Croix from the 1700s until 1917--the point when the Nelthropp family became established on the island. They eventually controlled the Diamond Estate distillery, later renamed Cruzan Distillery. The latter was shut down for nearly 15 years beginning in 1919, while the United States (by then the owners of the Virgin Islands) underwent Prohibition. In the 1930s Donald Carr ("Hardy") Nelthropp--future president of Cruzan when it became a subsidiary of Todhunter--was born, and in 1961 Schenley Distilleries bought Cruzan, though the latter continued to run its own operation.

"Over the years," according to Todhunter, "Hardy Nelthropp has seen many changes in the rum industry, including the closing of other distilleries in St. Croix, until only his own remains; change in ownership of the Cruzan Distillery; and changes in consumer consumption trends. However, Hardy has persevered, making, as he proudly asserts, 'Only one product: rum--good, clean rum of the highest quality.' Today, the business is owned by Todhunter International ... but it is still operated by Hardy in recognition of his many talents, skills, and dedication."

Growth and Growing Pains in the Early 1990s

Cruzan was the most notable of Todhunter's several acquisitions during the early to mid-1990s. The label came to it as part of its purchase of Virgin Islands Rum Industries, announced by Todhunter executives in January 1994. In addition to Cruzan, through which Virgin Islands Rum sold its product throughout the United States, the company also supplied bulk rum to bottlers and distillers throughout the country. At the same time it purchased Virgin Islands Rum, Todhunter announced the acquisition of Yellowstone Distillery in Louisville, Kentucky, where it would begin producing fortified wine late in 1994.

During those years of growth the company also experienced a few growing pains. In January 1993 it announced the resignation of one of its leading officers, Peter D. Kuc, who was leaving to pursue other interests. Along with this transition, there was a shuffle of executives as Chief Operating Officer (COO) Arnold R. Beinstein became vice-chairman of the board; Vice-President of Sales Dennis C. Mitchell replaced Beinstein as COO; and Treasurer Troy Edwards became chief financial officer (CFO).

Todhunter also was hit with a fine of more than \$780,000 by the Environmental Protection Agency (EPA) in July 1993. The federal agency charged that by burning small quantities of alcohol by-products on five occasions in 1991 and 1992, the company was attempting to destroy waste illegally. Todhunter responded that it was simply using the alcohol, according to Pincourt in the *South Florida Business Journal*, to "reduce water pollution and our use of imported fuel oil. We believe that the by-products are clean-burning and present no potential for harm to human health or the environment."

Another challenge came in the form of a fire at Todhunter's Lake Alfred, Florida distillery in September 1993. Damage was estimated at \$3 million, including inventory. The fire was contained within a tank storage facility area and a barrel

warehouse where the company aged its rum.

But along with the growing pains was noticeable growth, and Wall Street certainly paid attention. Thus *Fortune* profiled Todhunter in November 1993 as one of its "Companies to Watch." Richard S. Teitelbaum of that magazine identified several factors influencing Todhunter's increasing success: "The company," he wrote, "makes high-octane ingredients that liquor producers blend with everything from whiskey to blueberry brandy. Because alcohol consumption is declining, [leading alcohol companies such as] Heublein, Seagram, Brown-Forman, and others are trying hard to cut costs, and Todhunter's sauces are among the least expensive around." Teitelbaum in turn attributed the low prices to the quantity of "cheap, abundant oranges" at its Florida location: specifically, the company had a "pipeline" from a Minute Maid orange juice factory nearby, which sent pulp and other citrus residue to Todhunter's Auburndale, Florida distillery. There Todhunter turned this into citrus brandy, which tastes relatively benign but packs a staggering 189-proof punch.

The Blair Debacle in the 1990s

Along with its acquisitions in 1994, Todhunter sold off its assets in Todhunter-Mitchell & Co., a firm based in Freeport, Bahamas, to Butler & Sands of Nassau. In addition, the company had acquired Blair Importers along with Virgin Islands Rum, but this second purchase did not prove as successful as its predecessor. Blair, importer of Yago Sangria, a Spanish wine, turned into an \$11 million loss on Todhunter's books in 1995, and by September the parent company was announcing the sale of its troubled subsidiary. "We shut it down ... because it wasn't making any money," Pincourt told the *Palm Beach Post*, adding "We had high hopes for it, but it didn't work out."

Blair held distribution rights for Cruzan, which Todhunter retained; the remainder of the company went to David Sherman Corp. of St. Louis, Missouri for \$6 million. Later Pincourt and other company officials would hold that Blair's management deliberately overvalued their company, and in November 1995 they filed an \$11 million arbitration claim. The former owners of Blair filed a counterclaim, charging that Todhunter still owed them \$2.8 million for assumed debts, along with as much as \$8 million in stock. In January 1998 Todhunter settled with Blair, agreeing to pay the \$2.8 million. As for the remainder, this would be settled through nonbinding mediation, but "If it doesn't settle through mediation within 60 days," Pincourt told the *Palm Beach Post*, "then we go back to fighting."

Despite what the *Palm Beach Daily Business Review* described in a headline as a "Sour Deal's Aftertaste," Todhunter remained an attractive stock. According to Mike Vogel of the Palm Beach publication, "Its best margins are in making bulk alcohol products--fortified citrus wine, brandy and spirits, cane spirits and rum--for other manufacturers to use in their products. It also has made good money in recent years bottling other alcohol and non-alcohol beverages, and by making vinegar." After starting at \$6 a share in 1992, the company's stock had risen to \$16 in 1994, before the Blair debacle. As of October 1997, when it made the switch to the American Stock Exchange, the company's stock had hit a 52-week high of \$10.38.

Todhunter, which had previously tangled with the EPA, in March 1998 had to take on another government agency: the Internal Revenue Service (IRS). Again, the ill-fated Blair Importers adventure had come back to haunt the company. Because it had purchased Blair for \$8 million and sold it for \$6 million a year later, Todhunter attempted to take a deduction of \$2.1 million, most of which it claimed was for "sales promotion." The IRS refused to allow the deduction, but Todhunter filed a petition to appeal.

Moving into the Limelight in the Late 1990s

In a September 1998 profile of Todhunter subsidiary Florida Distillers, Paul Power, Jr., of *The Ledger* in Lakeland, Florida wrote that "since most of its production traditionally has been used for manufacturing other companies' spirits, the group is little known. It threw itself into the spotlight about five years ago when its vats at the Lake Alfred distillery ignited.... Now it's trying to catapult itself in a different but equally dramatic fashion, shifting from a somewhat anonymous company that sells tankers of ingredients, to a concern that wants to steal alcohol sales from Bacardi and other marketing giants."

Not only the subsidiary, but the parent company, increasingly bid for recognition in its own right--rather than merely as a bottler of others' products--the 1990s drew to a close. With its creation of the Todhunter Imports Ltd. division, along with the introduction of 14 new proprietary labels, Todhunter had made "a grand entrance into the rum and super-premium tequila markets," wrote Kavita Varma in the *South Florida Business Journal*. "So grand," she went on to say, "that in an upcoming episode of the CBS drama 'Dellaventura,' a Todhunter brand will make its television debut. In a scene where actor Danny Aiello is looking for someone in a bar, the bartender says, 'You can't miss him. He drinks **Porfidio**.'"

"We were too dependent on others succeeding with their brands," Thomas Valdes, a former Bacardi executive and later head of Todhunter Imports, told Varma. "Once in a while they would make a mistake, and we could feel it. So we had to take control of that," he noted. Take control they had, launching the 14 new labels and adding 21 distributors who would help the company sell to an affluent market. Overall demand for alcohol was down, but demand for a higher premium in rum and tequila was up. "Those rums are doing a lot of volume now," said Jay Maltby, another former Bacardi executive hired by Pincourt. "People want flavor."

Principal Subsidiaries: Florida Distillers Company; Todhunter Bahamas Limited (Bahamas); Todhunter Imports; Cruzan Rum Distillery, Ltd. (Virgin Islands); Todhunter Foods.

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Source: *International Directory of Company Histories*, Vol. 27. St. James Press, 1999.

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