

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

May 10, 2018

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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 March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

COMMISSION FILE NUMBER 1-1361

Tootsie Roll Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

VIRGINIA 22-1318955  
(State of Incorporation) (I.R.S. Employer Identification No.)

7401 South Cicero Avenue, Chicago, Illinois 60629  
(Address of Principal Executive Offices) (Zip Code)

773-838-3400

(Registrant's Telephone Number, Including Area Code)

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 (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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)  
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

Large accelerated filer

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)  
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (March 31, 2018).

Class	Outstanding
Common Stock, \$.69 4/9 par value	38,723,788
Class B Common Stock, \$.69 4/9 par value	25,637,487

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This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “Forward-Looking Statements” under Part I — Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.



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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TOOTSIE ROLL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (Unaudited)

	March 31, 2018	December 31, 2017	March 31, 2017
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash & cash equivalents	\$ 49,867	\$ 96,314	\$ 78,555
Restricted cash	417	406	389
Investments	60,321	41,606	67,002
Trade accounts receivable, less allowances of \$1,914, \$1,921 & \$1,937	42,039	47,354	38,665
Other receivables	7,857	5,425	3,596
Inventories:			
Finished goods & work-in-process	41,090	31,922	40,585
Raw material & supplies	26,904	22,905	27,196
Income taxes receivable	10,257	12,974	-
Prepaid expenses	9,077	12,014	4,022
Total current assets	247,829	270,920	260,010
<b>PROPERTY, PLANT &amp; EQUIPMENT, at cost:</b>			
Land	22,011	21,962	22,138
Buildings	118,569	118,491	116,492
Machinery & equipment	381,805	381,665	370,430
Construction in progress	11,951	4,866	7,776
	534,336	526,984	516,836
Less-accumulated depreciation	352,597	348,012	336,074
Net property, plant and equipment	181,739	178,972	180,762
<b>OTHER ASSETS:</b>			

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Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	195,911	190,510	195,312
Split dollar officer life insurance	26,042	26,042	26,042
Prepaid expenses and other assets	14,731	15,817	344
Deferred income taxes	457	424	-
Total other assets	485,402	481,054	469,959
Total assets	\$ 914,970	\$ 930,946	\$ 910,731

(The accompanying notes are an integral part of these statements.)

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(in thousands except per share data) (Unaudited)

	March 31, 2018	December 31, 2017	March 31, 2017
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 15,100	\$ 11,928	\$ 12,093
Bank loans	425	440	133
Dividends payable	161	5,660	162
Accrued liabilities	37,622	45,157	42,337
Postretirement health care	603	603	513
Income taxes payable	-	-	2,023
Total current liabilities	53,911	63,788	57,261
<b>NONCURRENT LIABILITIES:</b>			
Deferred income taxes	41,431	41,457	44,330
Bank loans	-	-	197
Postretirement health care	12,992	12,894	11,726
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	4,861	4,817	5,263
Deferred compensation and other liabilities	67,815	66,686	77,655
Total noncurrent liabilities	134,599	133,354	146,671
<b>TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:</b>			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 38,724, 37,960 & 38,580, respectively, issued	26,891	26,361	26,792
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 25,637, 24,891 & 24,932, respectively, issued	17,804	17,285	17,314
Capital in excess of par value	703,194	656,752	680,440
Retained earnings	2,306	57,225	3,405
Accumulated other comprehensive loss	(21,683)	(21,791)	(19,294)
Treasury stock (at cost)- 88, 85 & 85 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	726,520	733,840	706,665
Noncontrolling interests	(60)	(36)	134
Total equity	726,460	733,804	706,799
Total liabilities and shareholders' equity	\$ 914,970	\$ 930,946	\$ 910,731

(The accompanying notes are an integral part of these statements.)





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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (Unaudited)

	Quarter Ended	
	March 31, 2018	March 31, 2017
Net product sales	\$ 100,859	\$ 103,425
Rental and royalty revenue	941	1,030
Total revenue	101,800	104,455
Product cost of goods sold	65,834	65,538
Rental and royalty cost	267	266
Total costs	66,101	65,804
Product gross margin	35,025	37,887
Rental and royalty gross margin	674	764
Total gross margin	35,699	38,651
Selling, marketing and administrative expenses	25,857	26,725
Earnings from operations	9,842	11,926
Other income (loss), net	521	2,228
Earnings before income taxes	10,363	14,154
Provision for income taxes	2,262	4,143
Net earnings	8,101	10,011
Less: Net earnings (loss) attributable to noncontrolling interests	(24)	(40)
Net earnings attributable to Tootsie Roll Industries, Inc.	\$ 8,125	\$ 10,051
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 0.13	\$ 0.15
Dividends per share *	\$ 0.09	\$ 0.09
Average number of shares outstanding	64,434	65,474
Retained earnings at beginning of period	\$ 57,225	\$ 43,833
Net earnings attributable to Tootsie Roll Industries, Inc.	8,125	10,051
Adopted ASU's (See Note 1)	2,726	-
Cash dividends	(5,621)	(5,555)
Stock dividends	(60,149)	(44,924)
Retained earnings at end of period	\$ 2,306	\$ 3,405

\*Does not include 3% stock dividend to shareholders of record on 3/6/18 and 3/7/17.

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

(in thousands except per share amounts) (Unaudited)

	Quarter Ended	
	March 31, 2018	March 31, 2017
Net earnings	\$ 8,101	\$ 10,011
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	1,612	2,100
Pension and postretirement reclassification adjustments:		
Unrealized gains (losses) for the period on postretirement and pension benefits	-	266
Less: reclassification adjustment for (gains) losses to net earnings	(331)	(365)
Unrealized gains (losses) on postretirement and pension benefits	(331)	(99)
Investments:		
Unrealized gains (losses) for the period on investments	(1,250)	230
Less: reclassification adjustment for (gains) losses to net earnings	-	-
Unrealized gains (losses) on investments	(1,250)	230
Derivatives:		
Unrealized gains (losses) for the period on derivatives	(1,472)	(550)
Less: reclassification adjustment for (gains) losses to net earnings	287	(1,122)
Unrealized gains (losses) on derivatives	(1,185)	(1,672)
Total other comprehensive income (loss), before tax	(1,154)	559
Income tax benefit (expense) related to items of other comprehensive income	669	393
Total comprehensive earnings	7,616	10,963
Comprehensive earnings (loss) attributable to noncontrolling interests	(24)	(40)
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	\$ 7,640	\$ 11,003

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (Unaudited)

	Quarter Ended	
	March 31, 2018	March 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 8,101	\$ 10,011
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	4,578	4,714
Deferred income taxes	(415)	(230)
Amortization of marketable security premiums	456	593
Changes in operating assets and liabilities:		
Accounts receivable	5,858	4,783
Other receivables	(2,729)	(1,297)
Inventories	(12,845)	(9,926)
Prepaid expenses and other assets	4,052	1,758
Accounts payable and accrued liabilities	(501)	(2,384)
Income taxes payable	2,761	3,546
Postretirement health care benefits	(233)	12
Deferred compensation and other liabilities	584	282
Net cash from operating activities	9,667	11,862
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(7,722)	(4,845)
Purchases of trading securities	(3,258)	(2,584)
Sales of trading securities	239	435
Purchase of available for sale securities	(34,061)	(27,227)
Sale and maturity of available for sale securities	11,670	1,759
Net cash used in investing activities		