

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

November 09, 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 September 30, 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)

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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 every Interactive Data File required to be submitted 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 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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (September 30, 2018).

Class	Outstanding
Common Stock, \$.69 4/9 par value	38,621,418
Class B Common Stock, \$.69 4/9 par value	25,599,198

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SEPTEMBER 30, 2018

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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)

	September 30, 2018	December 31, 2017	September 30, 2017
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	\$ 64,333	\$ 96,314	\$ 49,512
Restricted cash	393	406	400
Investments	68,373	41,606	74,272
Trade accounts receivable, less allowances of \$2,873, \$1,921 & \$3,225	93,616	47,354	95,341
Other receivables	5,802	5,425	6,405
Inventories:			
Finished goods & work-in-process	37,148	31,922	41,273
Raw material & supplies	26,172	22,905	26,767
Income taxes receivable and prepaid	-	12,974	-
Prepaid expenses	6,439	12,014	2,489
Total current assets	302,276	270,920	296,459
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	21,968	21,962	22,222
Buildings	118,581	118,491	116,555
Machinery & equipment	381,522	381,665	369,753
Construction in progress	21,106	4,866	14,328
	543,177	526,984	522,858
Less-accumulated depreciation	361,079	348,012	344,809
Net property, plant and equipment	182,098	178,972	178,049
OTHER ASSETS:			

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Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	188,393	190,510	193,991
Split dollar officer life insurance	26,042	26,042	26,042
Prepaid expenses and other assets	13,249	15,817	34
Deferred income taxes	445	424	-
Total other assets	476,390	481,054	468,328
Total assets	\$ 960,764	\$ 930,946	\$ 942,836

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

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(in thousands except per share data) (Unaudited)

	September 30, 2018	December 31, 2017	September 30, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 18,637	\$ 11,928	\$ 14,037
Bank loans	190	440	404
Dividends payable	5,777	5,660	5,667
Accrued liabilities	45,787	45,157	50,552
Postretirement health care	603	603	513
Income taxes payable	3,516	-	7,636
Total current liabilities	74,510	63,788	78,809
NONCURRENT LIABILITIES:			
Deferred income taxes	41,382	41,457	44,316
Postretirement health care	13,167	12,894	11,941
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	4,148	4,817	4,811
Deferred compensation and other liabilities	73,321	66,686	80,936
Total noncurrent liabilities	139,518	133,354	149,504
TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 38,621, 37,960 & 38,046, respectively, issued	26,820	26,361	26,421
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 25,599, 24,891 & 24,918, respectively, issued	17,777	17,285	17,304
Capital in excess of par value	699,140	656,752	660,779
Retained earnings	27,356	57,225	30,890
Accumulated other comprehensive loss	(22,261)	(21,791)	(18,921)
Treasury stock (at cost)- 88, 85 & 85 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	746,840	733,840	714,481
Noncontrolling interests	(104)	(36)	42
Total equity	746,736	733,804	714,523
Total liabilities and shareholders' equity	\$ 960,764	\$ 930,946	\$ 942,836

(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		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net product sales	\$ 181,505	\$ 182,173	\$ 387,987	\$ 390,495
Rental and royalty revenue	798	842	2,925	2,771
Total revenue	182,303	183,015	390,912	393,266
Product cost of goods sold	115,246	114,970	248,561	245,889
Rental and royalty cost	211	240	686	757
Total costs	115,457	115,210	249,247	246,646
Product gross margin	66,259	67,203	139,426	144,606
Rental and royalty gross margin	587	602	2,239	2,014
Total gross margin	66,846	67,805	141,665	146,620
Selling, marketing and administrative expenses	36,620	33,222	91,229	86,502
Earnings from operations	30,226	34,583	50,436	60,118
Other income (loss), net	2,987	4,370	6,871	9,311
Earnings before income taxes	33,213	38,953	57,307	69,429
Provision for income taxes	7,134	12,066	12,657	20,681
Net earnings	26,079	26,887	44,650	48,748
Less: Net earnings (loss) attributable to noncontrolling interests	(25)	(46)	(68)	(131)
Net earnings attributable to Tootsie Roll Industries, Inc.	\$ 26,104	\$ 26,933	\$ 44,718	\$ 48,879
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 0.41	\$ 0.42	\$ 0.70	\$ 0.75
Dividends per share *	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Average number of shares outstanding	64,155	64,855	64,268	65,155
Retained earnings at beginning of period	\$ 7,020	\$ 9,615	\$ 57,225	\$ 43,833
Net earnings attributable to Tootsie Roll Industries, Inc.	26,104	26,933	44,718	48,879
Adopted ASU's (See Note 1)	-	-	2,726	-
Cash dividends	(5,768)	(5,658)	(17,164)	(16,898)

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Stock dividends	-	-	(60,149)	(44,924)
Retained earnings at end of period	\$ 27,356	\$ 30,890	\$ 27,356	\$ 30,890

*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		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net earnings	\$ 26,079	\$ 26,887	\$ 44,650	\$ 48,748
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	1,164	(216)	1,102	2,875
Pension and postretirement reclassification adjustments:				
Unrealized gains (losses) for the period on postretirement and pension benefits	-	4	-	95
Less: reclassification adjustment for (gains) losses to net earnings	(331)	(366)	(993)	(1,097)
Unrealized gains (losses) on postretirement and pension benefits	(331)	(362)	(993)	(1,002)
Investments:				
Unrealized gains (losses) for the period on investments	209	121	(1,071)	500
Less: reclassification adjustment for (gains) losses to net earnings	-	-	-	-
Unrealized gains (losses) on investments	209	121	(1,071)	500
Derivatives:				
Unrealized gains (losses) for the period on derivatives	(573)	19	(2,422)	(1,735)
Less: reclassification adjustment for (gains) losses to net earnings	795	28	1,630	(109)
Unrealized gains (losses) on derivatives	222	47	(792)	(1,844)
Total other comprehensive income (loss), before tax	1,264	(410)	(1,754)	529
Income tax benefit (expense) related to items of other comprehensive income	(24)	70	691	796
Total comprehensive earnings	27,319	26,547	43,587	50,073
Comprehensive earnings (loss) attributable to noncontrolling interests	(25)	(46)	(68)	(131)
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	\$ 27,344	\$ 26,593	\$ 43,655	\$ 50,204

(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)

	Year to Date Ended	
	September 30, 2018	September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 44,650	\$ 48,748
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	13,933	14,364
Deferred income taxes	(443)	153
Amortization of marketable security premiums	1,351	1,840
Changes in operating assets and liabilities:		
Accounts receivable	(45,881)	(51,270)
Other receivables	(649)	(4,265)
Inventories	(8,333)	(10,018)
Prepaid expenses and other assets	8,268	3,313
Accounts payable and accrued liabilities	10,932	8,249
Income taxes payable	15,821	8,706
Postretirement health care benefits	(720)	(677)
Deferred compensation and other liabilities	2,051	(723)
Net cash from operating activities	40,980	18,420
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(16,812)	(11,699)
Purchases of trading securities	(3,807)	(3,387)
Sales of trading securities	817	3,544
Purchase of available for sale securities	(65,098)	(51,935)
Sale and maturity of available for sale securities	45,379	21,328
Net cash used in investing activities	(39,521)	(42,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shares purchased and retired	(16,650)	(30,027)
Dividends paid in cash	(17,208)	(16,965)
Proceeds from bank loans	1,264	1,182
Repayment of bank loans	(1,506)	(1,345)
Net cash used in financing activities	(34,100)	(47,155)
Effect of exchange rate changes on cash	647	1,269
Decrease in cash and cash equivalents	(31,994)	(69,615)
Cash, cash equivalents and restricted cash at beginning of year	96,720	119,527
Cash, cash equivalents and restricted cash at end of quarter	\$ 64,726	\$ 49,912
Supplemental cash flow information:		

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Income taxes paid/(received), net	\$ (2,811)	\$ 12,360
Interest paid	\$ 81	\$ 49
Stock dividend issued	\$ 60,538	\$ 69,739

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

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