

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

November 05, 2014

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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 27, 2014

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 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, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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 27, 2014).

Class	Outstanding
Common Stock, \$.69 4/9 par value	37,560,992
Class B Common Stock, \$.69 4/9 par value	22,897,204

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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 27, 2014	December 31, 2013	September 28, 2013
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	\$ 45,142	\$ 88,283	\$ 32,734
Investments	36,062	33,572	31,579
Trade accounts receivable, less allowances of \$3,391, \$2,042 & \$3,446	102,325	40,721	102,786
Other receivables	2,732	4,616	3,466
Inventories:			
Finished goods & work-in-process	47,854	37,012	40,437
Raw material & supplies	31,187	24,844	29,044
Prepaid expenses	5,307	5,581	1,463
Deferred income taxes	3,161	5,482	4,942
Total current assets	273,770	240,111	246,451
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	22,453	21,683	21,679
Buildings	111,351	111,044	108,376
Machinery & equipment	340,381	340,405	328,520
Construction in progress	10,750	3,403	12,878
	484,935	476,535	471,453
Less-accumulated depreciation	293,642	279,619	274,448
Net property, plant and equipment	191,293	196,916	197,005
OTHER ASSETS:			

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Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	160,175	148,532	162,371
Split dollar officer life insurance	40,296	40,296	41,394
Prepaid expenses	7,201	10,260	—
Restricted cash	1,664	—	—
Deferred income taxes	3,858	4,033	6,026
Total other assets	461,455	451,382	458,052
Total assets	\$ 926,518	\$ 888,409	\$ 901,508

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

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(in thousands except per share data) (UNAUDITED)

	September 27, 2014	December 31, 2013	September 28, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 15,572	\$ 9,153	\$ 14,801
Bank loans	285	—	—
Dividends payable	4,835	4,742	4,770
Accrued liabilities	52,590	45,580	49,539
Postretirement health care and life insurance benefits	111	319	555
Income taxes payable	5,090	327	11,113
Total current liabilities	78,483	60,121	80,778
NONCURRENT LIABILITIES:			
Deferred income taxes	53,569	54,939	43,423
Bank loans	796	—	—
Postretirement health care and life insurance benefits	9,519	8,857	29,401
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	9,474	7,167	7,794
Deferred compensation and other liabilities	75,751	69,520	64,988
Total noncurrent liabilities	156,609	147,983	153,106
TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 37,561, 37,011 & 37,376, respectively, issued	26,084	25,702	25,955
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 22,897, 22,256 & 22,259, respectively, issued	15,901	15,455	15,458
Capital in excess of par value	607,216	572,669	584,128
Retained earnings	51,709	73,109	60,478
Accumulated other comprehensive loss	(7,905)	(4,638)	(16,403)
Treasury stock (at cost)- 78, 76 & 76 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	691,013	680,305	667,624
Noncontrolling interests	413	—	—
Total equity	691,426	680,305	667,624
Total liabilities and shareholders' equity	\$ 926,518	\$ 888,409	\$ 901,508

(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 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net product sales	\$ 191,093	\$ 191,807	\$ 401,966	\$ 404,074
Rental and royalty revenue	921	902	2,760	2,807
Total revenue	192,014	192,709	404,726	406,881
Product cost of goods sold	123,164	125,833	256,211	264,974
Rental and royalty cost	251	223	732	698
Total costs	123,415	126,056	256,943	265,672
Product gross margin	67,929	65,974	145,755	139,100
Rental and royalty gross margin	670	679	2,028	2,109
Total gross margin	68,599	66,653	147,783	141,209
Selling, marketing and administrative expenses	31,840	33,166	85,767	87,620
Earnings from operations	36,759	33,487	62,016	53,589
Other income, net	166	3,105	4,865	7,401
Earnings before income taxes	36,925	36,592	66,881	60,990
Provision for income taxes	10,316	10,549	21,958	17,509
Net earnings	26,609	26,043	44,923	43,481
Less: Net loss attributable to noncontrolling interests	59	-	352	-
Net earnings attributable to Tootsie Roll Industries, Inc.	26,668	26,043	45,275	43,481
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 0.44	\$ 0.42	\$ 0.75	\$ 0.71
Dividends per share *	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.24

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Average number of shares outstanding	60,525	61,343	60,668	61,487
Retained earnings at beginning of period	\$ 29,870	\$ 39,199	\$ 73,109	\$ 80,210
Net earnings attributable to Tootsie Roll Industries, Inc.	26,668	26,043	45,275	43,481
Cash dividends	(4,829)	(4,764)	(14,394)	(14,185)
Stock dividends	-	-	(52,281)	(49,028)
Retained earnings at end of period	\$ 51,709	\$ 60,478	\$ 51,709	\$ 60,478

*Does not include 3% stock dividend to shareholders of record on 4/4/14 and 4/5/13.

(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 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net earnings	\$ 26,609	\$ 26,043	\$ 44,923	\$ 43,481
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(1,004)	(144)	(2,184)	(245)
Pension and post-retirement reclassification adjustments:				
Unrealized gains (losses) for the period on postretirement and pension benefits	-	-	-	-
Less: reclassification adjustment for (gains) losses to net income	(451)	-	(1,353)	-
Unrealized gains (losses) on postretirement and pension benefits	(451)	-	(1,353)	-
Investments:				
Unrealized gains (losses) for the period on investments	(286)	400	(317)	219
Less: reclassification adjustment for (gains) losses to net income	-	-	-	-
Unrealized gains (losses) on investments	(286)	400	(317)	219
Derivatives:				
Unrealized gains (losses) for the period on derivatives	(2,254)	768	(1,699)	(964)
Less: reclassification adjustment for (gains) losses to net income	408	315	918	1,216
Unrealized gains (losses) on derivatives	(1,846)	1,083	(781)	252
Total other comprehensive income (loss), before tax	(3,587)	1,339	(4,635)	226
Income tax benefit (expense) related to items of other comprehensive income	934	(560)	1,368	(182)
Total comprehensive earnings	23,956	26,822	41,656	43,525
Comprehensive earnings attributable to noncontrolling interests	59	-	352	-
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	\$ 24,015	\$ 26,822	\$ 42,008	\$ 43,525

(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 27, 2014	September 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 44,923	\$ 43,481
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	15,568	14,863
Loss on step acquisition	529	-
Loss from equity method investment	-	733
Amortization of marketable security premiums	2,498	2,274
Changes in operating assets and liabilities:		
Accounts receivable	(60,434)	(60,765)
Other receivables	3,004	2,315
Inventories	(15,694)	(7,141)
Prepaid expenses and other assets	3,344	28,193
Accounts payable and accrued liabilities	9,153	10,301
Income taxes payable and deferred	4,982	5,124
Postretirement health care and life insurance benefits	(691)	2,575
Deferred compensation and other liabilities	2,609	2,801
Net cash from operating activities	9,791	44,754
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash acquired in step acquisition	161	-
Restricted cash	169	-
Capital expenditures	(7,315)	(10,593)
Net sales (purchases) of trading securities	(3,062)	(2,612)
Purchase of available for sale securities	(37,416)	(63,992)
Sale and maturity of available for sale securities	26,375	22,436
Net cash used in investing activities	(21,088)	(54,761)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shares purchased and retired	(16,792)	(11,429)

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Dividends paid in cash	(14,415)	(9,517)
Repayment of bank loans	(130)	-
Net cash used in financing activities	(31,337)	(20,946)
Effect of exchange rate changes on cash	(507)	(175)
Decrease in cash and cash equivalents	(43,141)	(31,128)
Cash and cash equivalents at beginning of year	88,283	63,862