

TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
November 06, 2013
[Table of Contents](#)

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 28, 2013

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)

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

VIRGINIA
(State of Incorporation)

22-1318955
(I.R.S. Employer Identification No.)

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

60629
(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (September 28, 2013).

Class	Outstanding
Common Stock, \$.69 4/9 par value	37,376,085
Class B Common Stock, \$.69 4/9 par value	22,259,270

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

September 28, 2013

INDEX

	Page No.
<u>Part I</u>	
	<u>Financial Information</u>
<u>Item 1.</u>	<u>Financial Statements:</u>
	<u>Condensed Consolidated Statements of Financial Position</u> 3-4
	<u>Condensed Consolidated Statements of Earnings and Retained Earnings</u> 5
	<u>Condensed Consolidated Statements of Comprehensive Earnings</u> 6
	<u>Condensed Consolidated Statements of Cash Flows</u> 7
	<u>Notes to Condensed Consolidated Financial Statements</u> 8-15
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 16-20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 21
<u>Item 4.</u>	<u>Controls and Procedures</u> 21
<u>Part II</u>	
	<u>Other Information</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 22
<u>Item 6.</u>	<u>Exhibits</u> 22
<u>Signatures</u>	23
Certifications	24-26

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.

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (UNAUDITED)

	September 28, 2013	December 31, 2012	September 29, 2012
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	\$ 32,734	\$ 63,862	\$ 37,124
Investments	31,579	18,746	14,563
Trade accounts receivable, less allowances of \$3,446, \$2,142 & \$3,501	102,786	42,108	111,578
Other receivables	3,466	5,528	6,539
Inventories:			
Finished goods & work-in-process	40,437	37,046	36,506
Raw material & supplies	29,044	25,337	28,925
Prepaid expenses	1,463	4,148	4,167
Deferred income taxes	4,942	466	600
Total current assets	246,451	197,241	240,002
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	21,679	21,687	21,694
Buildings	108,376	108,391	107,962
Machinery & equipment	328,520	331,110	323,277
Construction in progress	12,878	2,539	9,566
	471,453	463,727	462,499
Less-accumulated depreciation	274,448	262,437	258,112
Net property, plant and equipment	197,005	201,290	204,387
OTHER ASSETS:			
Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	162,371	126,812	129,345
Split dollar officer life insurance	41,394	66,911	70,549
Prepaid expenses			680
Deferred income taxes	6,026	6,222	8,015
Total other assets	458,052	448,206	456,850
Total assets	\$ 901,508	\$ 846,737	\$ 901,239

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

Table of Contents(in thousands except per share data) **(UNAUDITED)**

	September 28, 2013	December 31, 2012	September 29, 2012
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>CURRENT LIABILITIES:</u>			
Accounts payable	\$ 14,801	\$ 8,942	\$ 18,050
Dividends payable	4,770		4,689
Accrued liabilities	49,539	45,150	49,891
Postretirement health care and life insurance benefits	555	555	574
Income taxes payable	11,113	6,118	8,137
Total current liabilities	80,778	60,765	81,341
<u>NONCURRENT LIABILITIES:</u>			
Deferred income taxes	43,423	38,748	43,265
Postretirement health care and life insurance benefits	29,401	26,826	27,788
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	7,794	7,866	8,019
Deferred compensation and other liabilities	64,988	55,217	54,665
Total noncurrent liabilities	153,106	136,157	141,237
<u>SHAREHOLDERS' EQUITY:</u>			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 37,376, 36,649 & 36,998, respectively, issued	25,955	25,450	25,693
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 22,259, 21,627 & 21,629, respectively, issued	15,458	15,018	15,020
Capital in excess of par value	584,128	547,576	556,771
Retained earnings	60,478	80,210	101,171
Accumulated other comprehensive loss	(16,403)	(16,447)	(18,002)
Treasury stock (at cost)- 76, 73 & 73 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders' equity	667,624	649,815	678,661
Total liabilities and shareholders' equity	\$ 901,508	\$ 846,737	\$ 901,239

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

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (UNAUDITED)

	Quarter Ended		Year to Date Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net product sales	\$ 191,807	\$ 200,274	\$ 404,074	\$ 418,193
Rental and royalty revenue	902	908	2,807	2,948
Total revenue	192,709	201,182	406,881	421,141
Product cost of goods sold	125,833	135,852	264,974	283,615
Rental and royalty cost	223	232	698	739
Total costs	126,056	136,084	265,672	284,354
Product gross margin	65,974	64,422	139,100	134,578
Rental and royalty gross margin	679	676	2,109	2,209
Total gross margin	66,653	65,098	141,209	136,787
Selling, marketing and administrative expenses	33,166	32,685	87,620	84,946
Earnings from operations	33,487	32,413	53,589	51,841
Other income, net	3,105	1,537	7,401	4,428
Earnings before income taxes	36,592	33,950	60,990	56,269
Provision for income taxes	10,549	11,027	17,509	17,061
Net earnings	26,043	22,923	43,481	39,208
Net earnings per share	\$ 0.44	\$ 0.38	\$ 0.73	\$ 0.65
Dividends per share *	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.24
Average number of shares outstanding	59,579	60,456	59,723	60,634
Retained earnings at beginning of period	\$ 39,199	\$ 82,931	\$ 80,210	\$ 114,269
Net earnings	26,043	22,923	43,481	39,208
Cash dividends	(4,764)	(4,683)	(14,185)	(13,972)
Stock dividends			(49,028)	(38,334)
Retained earnings at end of period	\$ 60,478	\$ 101,171	\$ 60,478	\$ 101,171

*Does not include 3% stock dividend to shareholders of record on 3/5/13 and 3/6/12.

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

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

(in thousands except per share amounts) (UNAUDITED)

	Quarter Ended		Year to Date Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net earnings	\$ 26,043	\$ 22,923	\$ 43,481	\$ 39,208
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(144)	1,303	(245)	1,644
Pension and post-retirement reclassification adjustment				
Investments:				
Unrealized gains (losses) for the period on investments	400	869	219	837
Less: reclassification adjustment for (gains) losses to net income				
Unrealized gains (losses) on investments	400	869	219	837
Derivatives:				
Unrealized gains (losses) for the period on derivatives	768	73	(964)	(120)
Less: reclassification adjustment for (gains) losses to net income	315	41	1,216	(241)
Unrealized gains (losses) on derivatives	1,083	114	252	(361)
Total other comprehensive income (loss), before tax	1,339	2,286	226	2,120
Income tax benefit (expense) related to items of other comprehensive income	(560)	(378)	(182)	(169)
Comprehensive earnings	\$ 26,822	\$ 24,831	\$ 43,525	\$ 41,159

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

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (UNAUDITED)

	Year to Date Ended	
	September 28, 2013	September 29, 2012
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net earnings	\$ 43,481	\$ 39,208
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	14,863	14,992
Loss from equity method investment	733	963
Amortization of marketable security premiums	2,274	1,318
Changes in operating assets and liabilities:		
Accounts receivable	(60,765)	(69,113)
Other receivables	2,315	(3,508)
Inventories	(7,141)	6,696
Prepaid expenses and other assets	28,193	7,009
Accounts payable and accrued liabilities	10,301	13,906
Income taxes payable and deferred	5,124	7,272
Postretirement health care and life insurance benefits	2,575	2,254
Deferred compensation and other liabilities	2,801	2,403
Other	(175)	715
Net cash from operating activities	44,579	24,115
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Capital expenditures	(10,593)	(7,008)
Net purchases of trading securities	(2,612)	(2,489)
Purchase of available for sale securities	(63,992)	(33,502)
Sale and maturity of available for sale securities	22,436	5,743
Net cash used in investing activities	(54,761)	(37,256)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Shares purchased and retired	(11,429)	(14,363)
Dividends paid in cash	(9,517)	(13,984)
Net cash used in financing activities	(20,946)	(28,347)
Decrease in cash and cash equivalents	(31,128)	(41,488)
Cash and cash equivalents at beginning of year	63,862	78,612
Cash and cash equivalents at end of quarter	\$ 32,734	\$ 37,124
Supplemental cash flow information:		
Income taxes paid, net	\$ 13,173	\$ 10,651
Interest paid	\$ 19	\$ 27
Stock dividend issued	\$ 48,925	\$ 38,237

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

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 28, 2013

(in thousands except per share amounts) (UNAUDITED)

Note 1 Significant Accounting Policies

General Information

Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain amounts previously reported have been reclassified to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2012 Annual Report on Form 10-K.

Results of operations for the period ended September 28, 2013 are not necessarily indicative of results to be expected for the year to end December 31, 2013 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to Halloween sales.

Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, which requires presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 provides explicit guidance on presentation in financial statements. The amendment is effective for reporting periods beginning after December 15, 2013. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02 which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to present, either on the face of the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income if the amount is reclassified in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The Company's adoption of this standard did not have a significant impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test of an indefinite-lived intangible asset. Per the terms of this ASU, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2012; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact the notes to the consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

Note 2 Average Shares Outstanding

The average number of shares outstanding for year to date ended September 28, 2013 reflect stock purchases of 384 shares for \$11,429 and a 3% stock dividend distributed on April 5, 2013. The average number of shares outstanding for year to date ended September 29, 2012 reflect stock purchases of 593 shares for \$14,363 and a 3% stock dividend distributed on April 5, 2012. The average number of shares for third quarter 2013 and 2012 reflect stock purchases of 28 shares for \$861 and 287 shares for \$7,287, respectively.

Table of Contents**Note 3 Income Taxes**

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2009 through 2012. With few exceptions, the Company is no longer subject to examination by tax authorities for the year 2008 and prior. The consolidated effective tax rates were 28.8% and 32.5% in third quarter 2013 and 2012, respectively, and 28.7% and 30.3% in nine months 2013 and 2012, respectively. The lower effective income tax rate in third quarter 2013 compared to third quarter 2012 reflects lower state income tax expense including the settlement of certain state income tax issues. The lower effective tax rate in the nine months 2013 period is primarily due to the release of certain tax valuation allowances relating to prior capital losses as a result of capital gains realized during nine months 2013. In addition, the Company's overall effective tax rate on foreign earnings, primarily Canada and Mexico, reflect statutory rates which are lower than the 35.0% U.S. statutory corporate income tax rate.

Note 4 Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received in the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Guidance requires disclosure of the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Guidance establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the table below.

As of September 28, 2013, December 31, 2012 and September 29, 2012, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials and foreign currencies, investments in trading securities and available for sale securities, including an auction rate security. The Company's available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

The following table presents information about the Company's financial assets and liabilities measured at fair value as of September 28, 2013, December 31, 2012 and September 29, 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Total Fair Value	Estimated Fair Value September 28, 2013			
		Level 1	Input Levels Used		Level 3
			Level 2		
Cash and cash equivalents	\$ 32,734	\$ 32,734	\$	\$	
Auction rate security	10,162				10,162
Available for sale securities excluding the auction rate security	123,391		123,391		

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Foreign currency forward contracts	29		29	
Commodity futures contracts	97	97		
Trading securities	58,968	58,968		
Total assets measured at fair value	\$ 225,381	\$ 91,799	\$ 123,420	\$ 10,162

	Total Fair Value	Estimated Fair Value December 31, 2012		
		Level 1	Input Levels Used Level 2	Level 3
Cash and cash equivalents	\$ 63,862	\$ 63,862	\$	\$
Auction rate security	9,485			9,485
Available for sale securities excluding the auction rate security	84,568		84,568	
Commodity futures contracts, net	(112)	(112)		