

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

May 08, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 30, 2013**

**OR**

**o** **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**  
(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 (March 30, 2013).

Class	Outstanding
Common Stock, \$.69 4/9 par value	37,592,730
Class B Common Stock, \$.69 4/9 par value	22,263,024

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**TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES**

**MARCH 30, 2013**

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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. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (UNAUDITED)

	March 30, 2013	December 31, 2012	March 31, 2012
<b>ASSETS</b>			
<b><u>CURRENT ASSETS</u></b>			
Cash & cash equivalents	\$ 50,887	\$ 63,862	\$ 79,909
Investments	22,356	18,746	10,994
Trade accounts receivable, Less allowances of \$2,187, \$2,142 & \$1,618	37,708	42,108	37,227
Other receivables	5,352	5,528	2,966
Inventories, at cost			
Finished goods & work in process	42,205	37,046	41,617
Raw material & supplies	34,770	25,337	30,737
Prepaid expenses	3,413	4,148	5,312
Deferred income taxes	4,951	466	593
<b>Total current assets</b>	<b>201,642</b>	<b>197,241</b>	<b>209,355</b>
<b><u>PROPERTY, PLANT &amp; EQUIPMENT, at cost</u></b>			
Land	21,723	21,687	21,697
Buildings	108,453	108,391	107,968
Machinery & equipment	330,914	331,110	323,612
Construction in progress	4,716	2,539	5,797
	465,806	463,727	459,074
Less-accumulated depreciation	266,979	262,437	248,369
<b>Net property, plant and equipment</b>	<b>198,827</b>	<b>201,290</b>	<b>210,705</b>
<b><u>OTHER ASSETS</u></b>			
Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	157,600	124,685	101,866
Split dollar officer life insurance	41,394	66,911	74,209
Prepaid expenses			2,389
Equity method investment	1,794	2,127	3,937
Deferred income taxes	6,151	6,222	7,914
<b>Total other assets</b>	<b>455,200</b>	<b>448,206</b>	<b>438,576</b>
<b>Total assets</b>	<b>\$ 855,669</b>	<b>\$ 846,737</b>	<b>\$ 858,636</b>

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

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

	March 30, 2013	December 31, 2012	March 31, 2012
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b><u>CURRENT LIABILITIES</u></b>			
Accounts payable	\$ 12,328	\$ 8,942	\$ 10,398
Dividends payable	103		97
Accrued liabilities	43,322	45,150	40,890
Postretirement health care and life insurance benefits	555	555	574
Income taxes payable	4,846	6,118	2,376
<b>Total current liabilities</b>	<b>61,154</b>	<b>60,765</b>	<b>54,335</b>
<b><u>NONCURRENT LIABILITIES</u></b>			
Deferred income taxes	42,734	38,748	43,493
Postretirement health care and life insurance benefits	27,558	26,826	26,338
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	8,013	7,866	7,548
Deferred compensation and other liabilities	58,940	55,217	51,967
<b>Total noncurrent liabilities</b>	<b>144,745</b>	<b>136,157</b>	<b>136,846</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 37,593, 36,649 & 37,390, respectively, issued	26,106	25,450	25,965
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 22,263, 21,627 & 21,652, respectively, issued	15,460	15,018	15,036
Capital in excess of par value	590,762	547,576	566,599
Retained earnings	35,598	80,210	80,128
Accumulated other comprehensive loss	(16,164)	(16,447)	(18,281)
Treasury stock (at cost)- 76, 73 & 73 shares, respectively	(1,992)	(1,992)	(1,992)
<b>Total shareholders' equity</b>	<b>649,770</b>	<b>649,815</b>	<b>667,455</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 855,669</b>	<b>\$ 846,737</b>	<b>\$ 858,636</b>

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

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**TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS**  
(in thousands except per share amounts) (UNAUDITED)

	Quarter Ended	
	March 30, 2013	March 31, 2012
Net product sales	\$ 110,279	\$ 109,763
Rental and royalty revenue	1,007	1,057
<b>Total revenue</b>	<b>111,286</b>	<b>110,820</b>
Product cost of goods sold	72,169	74,905
Rental and royalty cost	250	257
<b>Total costs</b>	<b>72,419</b>	<b>75,162</b>
Product gross margin	38,110	34,858
Rental and royalty gross margin	757	800
<b>Total gross margin</b>	<b>38,867</b>	<b>35,658</b>
Selling, marketing and administrative expenses	27,967	27,239
<b>Earnings from operations</b>	<b>10,900</b>	<b>8,419</b>
Other income, net	2,591	3,335
<b>Earnings before income taxes</b>	<b>13,491</b>	<b>11,754</b>
Provision for income taxes	4,422	2,980
<b>Net earnings</b>	<b>9,069</b>	<b>8,774</b>
Net earnings per share	\$ 0.15	\$ 0.14
Dividends per share *	\$ 0.08	\$ 0.08
<b>Average number of shares outstanding</b>	<b>59,903</b>	<b>60,800</b>
<b>Other comprehensive income (loss), before tax</b>		
Foreign currency translation adjustments	1,122	1,851
Unrealized gains (losses) for the period on investments	(770)	(546)
Less: reclassification adjustment for (gains) losses to net income		
Unrealized gains (losses) on investments	(770)	(546)
Unrealized gains (losses) for the period on derivatives	(930)	506
Less: reclassification adjustment for (gains) losses to net income	355	(167)
Unrealized gains (losses) on derivatives	(575)	339
<b>Total other comprehensive income (loss), before tax</b>	<b>(223)</b>	<b>1,644</b>

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<b>Income tax benefit related to items of other comprehensive income</b>		<b>506</b>		<b>28</b>
<b>Comprehensive earnings</b>	\$	<b>9,352</b>	\$	<b>10,446</b>
<b>Retained earnings at beginning of period</b>	\$	<b>80,210</b>	\$	<b>114,269</b>
<b>Net earnings</b>		<b>9,069</b>		<b>8,774</b>
<b>Cash dividends</b>		<b>(4,653)</b>		<b>(4,581)</b>
<b>Stock dividends</b>		<b>(49,028)</b>		<b>(38,334)</b>
<b>Retained earnings at end of period</b>	\$	<b>35,598</b>	\$	<b>80,128</b>

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\*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.)



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

	Year to Date Ended	
	March 30, 2013	March 31, 2012
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net earnings	\$ 9,069	\$ 8,774
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	4,901	4,953
(Gain) loss from equity method investment	282	122
Amortization of marketable security premiums	632	370
Changes in operating assets and liabilities:		
Accounts receivable	4,644	4,955
Other receivables	(399)	764
Inventories	(14,370)	(175)
Prepaid expenses and other assets	26,299	503
Accounts payable and accrued liabilities	1,467	(2,621)
Income taxes payable and deferred	(1,001)	1,724
Postretirement health care and life insurance benefits	732	804
Deferred compensation and other liabilities	633	511
Other	542	703
<b>Net cash from operating activities</b>	<b>33,431</b>	<b>21,387</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Capital expenditures	(2,241)	(3,250)
Net purchases of trading securities	(1,945)	(1,949)
Purchase of available for sale securities	(47,335)	(2,805)
Sale and maturity of available for sale securities	14,409	1,346
<b>Net cash used in investing activities</b>	<b>(37,112)</b>	<b>(6,658)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Shares purchased and retired	(4,641)	(4,247)
Dividends paid in cash	(4,653)	(9,185)
<b>Net cash used in financing activities</b>	<b>(9,294)</b>	<b>(13,432)</b>
<b>Increase(decrease) in cash and cash equivalents</b>	<b>(12,975)</b>	<b>1,297</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>63,862</b>	<b>78,612</b>
<b>Cash and cash equivalents at end of quarter</b>	<b>\$ 50,887</b>	<b>\$ 79,909</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid, net	\$ 5,990	\$ 1,657
Interest paid	\$ 13	\$ 14
Stock dividend issued	\$ 48,925	\$ 38,237

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

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**TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 30, 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 March 30, 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 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 statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income 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 its 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**

Average shares outstanding for the period ended March 30, 2013 reflect stock purchases of 163 shares for \$4,641 and a 3% stock dividend distributed on April 5, 2013. Average shares outstanding for the period ended March 31, 2012 reflect stock purchases of 179 shares for \$4,247 and a 3% stock dividend distributed on April 5, 2012.

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**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 examinations by tax authorities for the year 2008 and prior. The consolidated effective tax rates were 32.8% and 25.4% in first quarter 2013 and 2012, respectively. The increase in the effective tax rate in first quarter 2013 principally reflects the reduction of uncertain tax positions resulting from the effective settlement of a state income tax examination in first quarter 2012.

**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 obs