

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

November 04, 2016

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 30, 2016

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 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (September 30, 2016).

| Class | Outstanding |
|---|-------------|
| Common Stock, \$.69 4/9 par value | 37,774,914 |
| Class B Common Stock, \$.69 4/9 par value | 24,226,459 |

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

September 30, 2016

INDEX

| | Page No. |
|---|----------|
| <u>Part I— Financial Information</u> | |
| <u>Item 1.</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>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></u> | 16-20 |
| <u>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></u> | 20 |
| <u>Item 4. <u>Controls and Procedures</u></u> | 20 |
| <u>Part II—Other Information</u> | |
| <u>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></u> | 21 |
| <u>Item 6. <u>Exhibits</u></u> | 22 |
| <u>Signatures</u> | 22 |

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.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (Unaudited)

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|--|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash & cash equivalents | \$ 94,239 | \$ 126,145 | \$ 70,726 |
| Restricted cash | 409 | 395 | 1,273 |
| Investments | 27,905 | 42,155 | 53,422 |
| Trade accounts receivable, less allowances of \$3,274, \$2,225 & \$3,349 | 81,718 | 51,010 | 98,088 |
| Other receivables | 1,552 | 2,772 | 4,549 |
| Inventories: | | | |
| Finished goods & work-in-process | 36,173 | 35,032 | 45,929 |
| Raw material & supplies | 28,613 | 27,231 | 31,644 |
| Prepaid expenses | 5,077 | 5,935 | 5,401 |
| Deferred income taxes | 3,149 | 3,131 | 6,776 |
| Total current assets | 278,835 | 293,806 | 317,808 |
| PROPERTY, PLANT & EQUIPMENT, at cost: | | | |
| Land | 22,155 | 22,188 | 22,214 |
| Buildings | 114,473 | 114,562 | 113,091 |
| Machinery & equipment | 355,059 | 357,627 | 348,988 |
| Construction in progress | 17,511 | 5,158 | 14,162 |
| | 509,198 | 499,535 | 498,455 |
| Less-accumulated depreciation | 326,609 | 314,949 | 310,887 |
| Net property, plant and equipment | 182,589 | 184,586 | 187,568 |
| OTHER ASSETS: | | | |
| Goodwill | 73,237 | 73,237 | 73,237 |

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

| | | | |
|-------------------------------------|------------|------------|------------|
| Trademarks | 175,024 | 175,024 | 175,024 |
| Investments | 189,956 | 152,930 | 152,491 |
| Split dollar officer life insurance | 26,042 | 26,042 | 26,042 |
| Prepaid expenses and other assets | 1,526 | 3,050 | 3,722 |
| Deferred income taxes | 275 | 308 | 1,505 |
| Total other assets | 466,060 | 430,591 | 432,021 |
| Total assets | \$ 927,484 | \$ 908,983 | \$ 937,397 |

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

3

Table of Contents

(in thousands except per share data) (Unaudited)

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|--|-----------------------|----------------------|-----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 13,366 | \$ 11,322 | \$ 16,592 |
| Bank loans | 164 | 231 | 253 |
| Dividends payable | 5,578 | 5,486 | 5,512 |
| Accrued liabilities | 52,354 | 50,117 | 53,119 |
| Postretirement health care | 448 | 448 | 328 |
| Income taxes payable | 3,955 | 4,436 | 10,737 |
| Liability for uncertain tax positions | - | - | 1,001 |
| Deferred compensation | - | - | 13,514 |
| Deferred income taxes | 666 | 22 | - |
| Total current liabilities | 76,531 | 72,062 | 101,056 |
| NONCURRENT LIABILITIES: | | | |
| Deferred income taxes | 49,276 | 47,594 | 51,608 |
| Bank loans | 283 | 383 | 430 |
| Postretirement health care | 11,283 | 10,952 | 12,475 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Liability for uncertain tax positions | 4,939 | 5,101 | 6,109 |
| Deferred compensation and other liabilities | 72,119 | 66,843 | 64,701 |
| Total noncurrent liabilities | 145,400 | 138,373 | 142,823 |
| TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY: | | | |
| Common stock, \$.69-4/9 par value- 120,000 shares authorized; 37,775, 37,382 & 37,688, respectively, issued | 26,232 | 25,960 | 26,172 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 24,226, 23,542 & 23,555, respectively, issued | 16,824 | 16,348 | 16,358 |
| Capital in excess of par value | 649,514 | 622,882 | 632,667 |
| Retained earnings | 31,557 | 52,349 | 38,123 |
| Accumulated other comprehensive loss | (16,805) | (17,364) | (18,217) |
| Treasury stock (at cost)- 83, 80 & 80 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total Tootsie Roll Industries, Inc. shareholders' equity | 705,330 | 698,183 | 693,111 |
| Noncontrolling interests | 223 | 365 | 407 |
| Total equity | 705,553 | 698,548 | 693,518 |
| Total liabilities and shareholders' equity | \$ 927,484 | \$ 908,983 | \$ 937,397 |

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

4

Table of Contents

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, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net product sales | \$ 185,473 | \$ 183,806 | \$ 393,094 | \$ 396,811 |
| Rental and royalty revenue | 884 | 819 | 2,827 | 2,571 |
| Total revenue | 186,357 | 184,625 | 395,921 | 399,382 |
| Product cost of goods sold | 114,748 | 117,046 | 245,581 | 252,924 |
| Rental and royalty cost | 235 | 213 | 782 | 671 |
| Total costs | 114,983 | 117,259 | 246,363 | 253,595 |
| Product gross margin | 70,725 | 66,760 | 147,513 | 143,887 |
| Rental and royalty gross margin | 649 | 606 | 2,045 | 1,900 |
| Total gross margin | 71,374 | 67,366 | 149,558 | 145,787 |
| Selling, marketing and administrative expenses | 32,101 | 26,338 | 81,772 | 78,161 |
| Earnings from operations | 39,273 | 41,028 | 67,786 | 67,626 |
| Other income (loss), net | 1,943 | (2,879) | 4,147 | (1,085) |
| Earnings before income taxes | 41,216 | 38,149 | 71,933 | 66,541 |
| Provision for income taxes | 12,619 | 12,008 | 22,406 | 20,077 |
| Net earnings | 28,597 | 26,141 | 49,527 | 46,464 |
| Less: Net earnings (loss) attributable to noncontrolling interests | (40) | (30) | (142) | 80 |
| Net earnings attributable to Tootsie Roll Industries, Inc. | \$ 28,637 | \$ 26,171 | \$ 49,669 | \$ 46,384 |
| Net earnings attributable to Tootsie Roll Industries, Inc. per share | \$ 0.46 | \$ 0.41 | \$ 0.80 | \$ 0.73 |
| Dividends per share * | \$ 0.09 | \$ 0.09 | \$ 0.27 | \$ 0.26 |
| Average number of shares outstanding | 62,174 | 63,172 | 62,358 | 63,408 |
| Retained earnings at beginning of period | \$ 8,491 | \$ 17,454 | \$ 52,349 | \$ 64,927 |
| Net earnings attributable to Tootsie Roll Industries, Inc. | 28,637 | 26,171 | 49,669 | 46,384 |
| Cash dividends | (5,571) | (5,502) | (16,645) | (15,829) |
| Stock dividends | - | - | (53,816) | (57,359) |

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

| | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|
| Retained earnings at end of period | \$ 31,557 | \$ 38,123 | \$ 31,557 | \$ 38,123 |
|------------------------------------|-----------|-----------|-----------|-----------|

*Does not include 3% stock dividend to shareholders of record on 3/8/16 and 3/10/15.

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

5

Table of Contents

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, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net earnings | \$ 28,597 | \$ 26,141 | \$ 49,527 | \$ 46,464 |
| Other comprehensive income (loss), before tax: | | | | |
| Foreign currency translation adjustments | (906) | (1,995) | (2,337) | (3,706) |
| Pension and postretirement reclassification adjustments: | | | | |
| Unrealized gains (losses) for the period on postretirement and pension benefits | - | - | - | - |
| Less: reclassification adjustment for (gains) losses to net earnings | (411) | (362) | (1,232) | (1,088) |
| Unrealized gains (losses) on postretirement and pension benefits | (411) | (362) | (1,232) | (1,088) |
| Investments: | | | | |
| Unrealized gains (losses) for the period on investments | (289) | 108 | 710 | 108 |
| Less: reclassification adjustment for (gains) losses to net earnings | - | - | 4 | - |
| Unrealized gains (losses) on investments | (289) | 108 | 714 | 108 |
| Derivatives: | | | | |
| Unrealized gains (losses) for the period on derivatives | 1,288 | (2,022) | 4,411 | (4,537) |
| Less: reclassification adjustment for (gains) losses to net earnings | (337) | 1,628 | 646 | 3,302 |
| Unrealized gains (losses) on derivatives | 951 | (394) | 5,057 | (1,235) |
| Total other comprehensive income (loss), before tax | (655) | (2,643) | 2,202 | (5,921) |
| Income tax benefit (expense) related to items of other comprehensive income | (91) | 235 | (1,643) | 802 |
| Total comprehensive earnings | 27,851 | 23,733 | 50,086 | 41,345 |
| Comprehensive earnings (loss) attributable to noncontrolling interests | (40) | (30) | (142) | 80 |
| Total comprehensive earnings attributable to Tootsie Roll Industries, Inc. | \$ 27,891 | \$ 23,763 | \$ 50,228 | \$ 41,265 |

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

6

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (Unaudited)

| | Year to Date Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 49,527 | \$ 46,464 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization | 14,651 | 15,112 |
| Deferred income taxes | 23 | 170 |
| Amortization of marketable security premiums | 2,221 | 2,349 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (31,367) | (55,672) |
| Other receivables | 2,622 | (966) |
| Inventories | (2,826) | (7,804) |
| Prepaid expenses and other assets | 3,678 | 11,364 |
| Accounts payable and accrued liabilities | 6,906 | 11,136 |
| Income taxes payable | 3 | 8,195 |
| Postretirement health care and life insurance benefits | (902) | (597) |
| Deferred compensation and other liabilities | 2,496 | 509 |
| Net cash from operating activities | 47,032 | 30,260 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Restricted cash | - | 227 |
| Capital expenditures | (13,067) | (12,421) |
| Purchases of trading securities | (3,064) | (3,333) |
| Sales of trading securities | 645 | 2,275 |
| Purchase of available for sale securities | (45,298) | (45,826) |
| Sale and maturity of available for sale securities | 26,517 | 40,390 |
| Net cash used in investing activities | (34,267) | (18,688) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Shares purchased and retired | (26,293) | (22,998) |
| Dividends paid in cash | (16,694) | (15,269) |
| Proceeds from bank loans | 2,156 | - |
| Repayment of bank loans | (2,339) | (87) |
| Net cash used in financing activities | (43,170) | (38,354) |
| Effect of exchange rate changes on cash | (1,501) | (2,600) |
| Decrease in cash and cash equivalents | (31,906) | (29,382) |
| Cash and cash equivalents at beginning of year | 126,145 | 100,108 |
| Cash and cash equivalents at end of quarter | \$ 94,239 | \$ 70,726 |

Supplemental cash flow information:

| | | |
|------------------------|-----------|-----------|
| Income taxes paid, net | \$ 22,622 | \$ 11,766 |
| Interest paid | \$ 19 | \$ 15 |
| Stock dividend issued | \$ 61,671 | \$ 57,220 |

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

7

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(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. (the Company) and in the opinion of management all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the interim period have been reflected. 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 2015 Form 10-K.

Results of operations for the period ended September 30, 2016 are not necessarily indicative of results to be expected for the year to end December 31, 2016 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to pre-Halloween sales.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

The Company is currently evaluating the new guidance to determine the impact it may have on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17 which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in the standard. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. The Company is currently evaluating the new guidance to determine the impact it may have on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 which modifies certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose

Table of Contents

additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for the Company on January 1, 2019. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, which contains amendments to the new revenue recognition standard on identifying performance obligations and accounting for licenses of intellectual property. The amendments related to identifying performance obligations clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract. The licensing implementation amendments clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether revenue is recognized over time or at a point in time. This new standard has the same effective date and transition requirements as ASU 2014-09. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, the amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of the amendments to the standard is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

Note 2 — Average Shares Outstanding

The average number of shares outstanding for nine months 2016 reflect stock purchases of 740 shares for \$26,293 and a 3% stock dividend distributed on April 8, 2016. The average number of shares outstanding for nine months 2015 reflect stock purchases of 728 shares for \$22,998 and a 3% stock dividend distributed on April 10, 2015.

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 2013 through 2015. With few exceptions, the Company is no longer subject to examination by tax authorities for the year 2012 and prior. The consolidated effective tax rates were 30.6% and 31.5% in third quarter 2016 and 2015, respectively, and 31.1% and 30.2% in nine months 2016 and 2015, respectively. The lower effective tax rate in nine months 2015 compared to nine months 2016 principally reflects a \$1,066 release of an uncertain income tax liability and resulting income tax benefit due to a decision by a foreign court issued in the second quarter 2015.

Note 4 — Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received on 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 30, 2016, December 31, 2015 and September 30, 2015, 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. The Company's available for sale securities principally consist of corporate and municipal bonds that are publicly traded, and its trading securities principally consist of equity mutual funds that are publicly traded.

.

9

Table of Contents

The following table presents information about the Company's financial assets and liabilities measured at fair value as of September 30, 2016, December 31, 2015 and September 30, 2015 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

| | Estimated Fair Value September 30, 2016 | | | |
|-------------------------------------|---|-------------------|------------|---------|
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 94,239 | \$ 94,239 | \$ - | \$ - |
| Available for sale securities | 151,776 | 2,429 | 149,347 | - |
| Foreign currency forward contracts | (532) | - | (532) | - |
| Commodity futures contracts | 3,234 | 3,234 | - | - |
| Trading securities | 66,085 | 66,085 | - | - |
| Total assets measured at fair value | \$ 314,802 | \$ 165,987 | \$ 148,815 | \$ - |

| | Estimated Fair Value December 31, 2015 | | | |
|-------------------------------------|--|-------------------|------------|---------|
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 126,145 | \$ 126,145 | \$ - | \$ - |
| Available for sale securities | 134,501 | 2,430 | 132,071 | - |
| Foreign currency forward contracts | (2,626) | - | (2,626) | - |
| Commodity futures contracts, net | 271 | 271 | - | - |
| Trading securities | 60,584 | 60,584 | - | - |
| Total assets measured at fair value | \$ 318,875 | \$ 189,430 | \$ 129,445 | \$ - |

| | Estimated Fair Value September 30, 2015 | | | |
|-------------------------------------|---|-------------------|------------|---------|
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 70,726 | \$ 70,726 | \$ - | \$ - |
| Available for sale securities | 134,542 | 2,453 | 132,089 | - |
| Foreign currency forward contracts | (2,977) | - | (2,977) | - |
| Commodity futures contracts | (932) | (932) | - | - |
| Trading securities | 71,371 | 71,371 | - | - |
| Total assets measured at fair value | \$ 272,730 | \$ 143,618 | \$ 129,112 | \$ - |

The fair value of the Company's industrial revenue development bonds at September 30, 2016, December 31, 2015 and September 30, 2015 were valued using Level 2 inputs which approximates the carrying value of \$7,500 for the respective periods. Interest rates on these bonds are reset weekly based on current market conditions.

Note 5 — Derivative Instruments and Hedging Activities

The Company uses derivative instruments, including foreign currency forward contracts, commodity futures contracts and commodity option contracts, to manage its exposures to foreign exchange and commodity prices. Commodity futures contracts and most commodity option contracts are intended and effective as hedges of market price risks associated with the anticipated purchase of certain raw materials (primarily sugar). Foreign currency forward contracts are intended and effective as hedges of the Company's exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of products manufactured in Canada and sold in the United States. The Company does not engage in trading or other speculative use of derivative instruments.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Statement of Financial Position. Derivative assets are recorded in other receivables and derivative liabilities are recorded in accrued liabilities. The Company uses either hedge accounting or mark-to-market accounting for its derivative instruments. Derivatives that qualify for hedge accounting are designated as cash flow hedges by formally documenting the hedge relationships, including identification of the hedging instruments, the hedged items

Table of Contents

and other critical terms, as well as the Company's risk management objectives and strategies for undertaking the hedge transaction.

Changes in the fair value of the Company's cash flow hedges are recorded in accumulated other comprehensive loss, net of tax, and are reclassified to earnings in the periods in which earnings are affected by the hedged item. Substantially all amounts reported in accumulated other comprehensive loss for commodity derivatives are expected to be reclassified to cost of goods sold. Substantially all amounts reported in accumulated other comprehensive loss for foreign currency derivatives are expected to be reclassified to other income, net.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at September 30, 2016, December 31, 2015 and September 30, 2015:

| | September 30, 2016 | | |
|--|--------------------|----------|-------------|
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 5,684 | \$ - | \$ (532) |
| Commodity futures contracts | 11,047 | 3,256 | (22) |
| Total derivatives | | \$ 3,256 | \$ (554) |
| | | | |
| | December 31, 2015 | | |
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 15,668 | \$ - | \$ (2,626) |
| Commodity futures contracts | 13,202 | 484 | (213) |
| Total derivatives | | \$ 484 | \$ (2,839) |
| | | | |
| | September 30, 2015 | | |
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 22,500 | \$ - | \$ (2,977) |
| Commodity futures contracts | 10,263 | 49 | (981) |
| Total derivatives | | \$ 49 | \$ (3,958) |

Table of Contents

The effects of derivative instruments on the Company's Condensed Consolidated Statements of Earnings and Retained Earnings and the Condensed Consolidated Statements of Comprehensive Earnings for periods ended September 30, 2016 and September 30, 2015 are as follows:

For Quarter Ended September 30, 2016

| | Gain (Loss) Recognized in OCI | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings |
|------------------------------------|--|--|--|
| Foreign currency forward contracts | \$ (77) | \$ (456) | \$ - |
| Commodity futures contracts | 1,365 | 793 | - |
| Total | \$ 1,288 | \$ 337 | \$ - |

For Quarter Ended September 30, 2015

| | Gain (Loss) Recognized in OCI | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings |
|------------------------------------|--|--|--|
| Foreign currency forward contracts | \$ (1,195) | \$ (712) | \$ - |
| Commodity futures contracts | (827) | (916) | - |
| Total | \$ (2,022) | \$ (1,628) | \$ - |

For Year to Date Ended September 30, 2016

| | Gain (Loss) Recognized in OCI | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings |
|------------------------------------|--|--|--|
| Foreign currency forward contracts | \$ 613 | \$ (1,482) | \$ - |
| Commodity futures contracts | 3,798 | 836 | - |
| Total | \$ 4,411 | \$ (646) | \$ - |

For Year to Date Ended September 30, 2015

| | Gain (Loss) | Gain (Loss) on Amount Excluded |
|--|-------------|-----------------------------------|
|--|-------------|-----------------------------------|

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

| | Gain (Loss) Recognized in OCI | Reclassified from Accumulated OCI into Earnings | from Effectiveness Testing Recognized in Earnings |
|------------------------------------|--|---|---|
| Foreign currency forward contracts | \$ (2,772) | \$ (1,733) | \$ - |
| Commodity futures contracts | (1,765) | (1,569) | - |
| Total | \$ (4,537) | \$ (3,302) | \$ - |

Table of Contents

Note 6 — Pension Plans

During 2015 and 2016, the Company received updated notices that the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, is in “critical and declining status”, as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC), and that the Plan is projected to become insolvent in 14 years. The Company has been advised that its withdrawal liability would have been \$61,000 if it had withdrawn from the Plan during 2015. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amount, could be payable to the Plan.

The Company is currently unable to determine the ultimate outcome of the above discussed matter and therefore, is unable to determine the effects on its consolidated financial statements, but the ultimate outcome or the effects of any modifications to the current rehabilitation plan could be material to its consolidated results of operations or cash flows in one or more future periods. See also the Company’s Consolidated Financial Statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations incorporated into the Company’s 2015 Form 10-K.

Table of Contents

Note 7 — Accumulated Other Comprehensive Earnings (Loss)

Accumulated Other Comprehensive Earnings (Loss) consists of the following components:

| | Foreign Currency Translation | Investments | Foreign Currency Derivatives | Commodity Derivatives | Postretirement and Pension Benefits | Accumulated Other Comprehensive Earnings (Loss) |
|--|------------------------------------|-------------|------------------------------------|--------------------------|---|--|
| Balance at December 31, 2015 | \$ (21,644) | \$ (605) | \$ (1,675) | \$ 173 | \$ 6,387 | \$ (17,364) |
| Other comprehensive earnings (loss) before reclassifications | (2,337) | 451 | 391 | 2,424 | - | 929 |
| Reclassifications from accumulated other comprehensive loss | - | 3 | 946 | (533) | (786) | (370) |
| Other comprehensive earnings (loss) net of tax | (2,337) | 454 | 1,337 | 1,891 | (786) | 559 |
| Balance at September 30, 2016 | \$ (23,981) | \$ (151) | \$ (338) | \$ 2,064 | \$ 5,601 | \$ (16,805) |
| | Foreign Currency Translation | Investments | Foreign Currency Derivatives | Commodity Derivatives | Postretirement and Pension Benefits | Accumulated Other Comprehensive Earnings (Loss) |
| Balance at December 31, 2014 | \$ (17,499) | \$ (332) | \$ (1,236) | \$ (470) | \$ 6,439 | \$ (13,098) |
| Other comprehensive earnings (loss) before reclassifications | (3,706) | 69 | (1,769) | (1,125) | - | (6,531) |
| Reclassifications from accumulated other comprehensive loss | - | - | 1,106 | 1,000 | (694) | 1,412 |
| Other comprehensive earnings (loss) net of tax | (3,706) | 69 | (663) | (125) | (694) | (5,119) |
| Balance at September 30, 2015 | \$ (21,205) | \$ (263) | \$ (1,899) | \$ (595) | \$ 5,745 | \$ (18,217) |

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

The amounts reclassified from accumulated other comprehensive income (loss) consisted of the following:

| Details about Accumulated Other Comprehensive Income Components | Quarter Ended September | | Year to Date Ended September | | Location of (Gain) Loss |
|--|----------------------------|-----------------------|---------------------------------|-----------------------|--|
| | 30, 2016 | September 30, 2015 | 30, 2016 | September 30, 2015 | Recognized in Earnings |
| Investments | \$ - | \$ - | \$ 4 | \$ - | Other income, net |
| Foreign currency derivatives | 456 | 712 | 1,482 | 1,733 | Other income, net |
| Commodity derivatives | (793) | 916 | (836) | 1,569 | Product cost of goods sold |
| Postretirement and pension benefits | (209) | (185) | (628) | (555) | Selling, marketing and administrative expenses |
| Postretirement and pension benefits | (202) | (177) | (604) | (533) | Product cost of goods sold |
| Total before tax | (748) | 1,266 | (582) | 2,214 | |
| Tax (expense) benefit | 271 | (458) | 212 | (802) | |
| Net of tax | \$ (477) | \$ 808 | \$ (370) | \$ 1,412 | |

Table of Contents

Note 8 — Restricted Cash

Restricted cash comprises certain cash deposits of the Company's majority-owned Spanish companies with international banks that are pledged as collateral for letters of credit and bank borrowings.

Note 9 — Bank Loans

Long term bank loans comprise borrowings by the Company's majority-owned Spanish companies which are held by international banks. The interest rate at September 30, 2016 and 2015 was 2.0 % and 2.2%, respectively, and maturity dates range from 2 to 3 years for both periods. Short term bank loans also relate to the Company's majority-owned Spanish companies.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This financial review discusses the Company's financial condition, results of operations, liquidity and capital resources and other matters. Dollars are presented in thousands, except per share amounts. This review should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes included in this Form 10-Q and with the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K").

Net product sales were \$185,473 in third quarter 2016 compared to \$183,806 in third quarter 2015, an increase of \$1,667 or 0.9%. Nine months 2016 net product sales were \$393,094 compared to \$396,811 in nine months 2015, a decrease of \$3,717 or 0.9%. Third quarter and nine months 2016 net product sales were adversely impacted by the effects of a stronger U.S. dollar and related currency translation of foreign sales, but benefited from the timing of certain customer sales between third and fourth quarters in the comparative 2016 and 2015 periods. A stronger U.S. dollar and unfavorable currency translation resulted in \$716 and \$2,265 of lower foreign sales in third quarter and nine months 2016, respectively.

Product cost of goods sold were \$114,748 in third quarter 2016 compared to \$117,046 in third quarter 2015, and nine months 2016 product cost of goods sold were \$245,581 compared to \$252,924 in nine months 2015. Product cost of goods sold includes \$522 and \$(671) of certain deferred compensation expenses (credits) in third quarter 2016 and 2015, respectively, and \$816 and \$(253) of certain deferred compensation expenses (credits) in nine months 2016 and 2015, respectively. These deferred compensation expenses (credits) principally result from the changes in the market value of investments and investment income from trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned, product cost of goods sold decreased from \$117,717 in third quarter 2015 to \$114,226 in third quarter 2016, a decrease of \$3,491 or 3.0%; and decreased from \$253,177 in nine months 2015 to \$244,765 in nine months 2016, a decrease of \$8,412 or 3.3%. As a percentage of net product sales, adjusted product cost of goods sold was 61.6% and 64.0% in third quarter 2016 and 2015, respectively, a favorable decrease of 2.4%; and adjusted product cost of goods sold was 62.3% and 63.8% in nine months 2016 and 2015, respectively, a favorable decrease of 1.5%. Adjusted cost of goods sold as a percent of sales benefited from higher price realization, continuing improvements in manufacturing operations driven by capital improvements and ongoing cost containment programs. However, adjusted costs of goods sold for third quarter and nine months 2016 were adversely affected by higher costs for ingredients and increased manufacturing costs. These higher manufacturing costs reflect efforts to comply with changes to new product labeling requirements, including the adverse effects of lower production volumes and inventory reductions and resulting reduced efficiencies during nine months 2016. This inventory reduction was in response to uncertainties surrounding certain changes in state and national labeling regulations as well as other new labeling requirements which have specific compliance dates. Higher costs for wages and benefits also adversely affected adjusted cost of goods sold in third quarter and nine months 2016 compared to third quarter and nine months 2015.

Selling, marketing and administrative expenses were \$32,101 in third quarter 2016 compared to \$26,338 in third quarter 2015, and nine months 2016 selling, marketing and administrative expenses were \$81,772 compared to \$78,161 in nine months 2015. Selling, marketing and administrative expenses includes \$1,439 and \$(2,485) of certain deferred compensation expenses (credits) in third quarter 2016 and 2015, respectively, and \$2,266 and \$(1,117) of certain deferred compensation expenses (credits) in nine months 2016 and 2015, respectively. As discussed above, these expenses principally result from changes in the market value of investments and investment income from trading securities relating to compensation deferred in previous years, and are not reflective of current operating results. Adjusting for the aforementioned, selling, marketing and administrative expenses increased from \$28,823 in third quarter 2015 to \$30,662 in third quarter 2016, an increase of \$1,839 or 6.4%; and selling, marketing and administrative expenses increased from \$79,278 in nine months 2015 to \$79,506 in nine months 2016, an increase of \$228 or 0.3%. The increase in adjusted selling, marketing and administrative expenses for the third quarter 2016 reflects increases in expenses associated with higher sales, as well as increases in expenses relating to compensation and employee benefits and meeting new product labeling requirements. As a percentage of net product sales, adjusted selling, marketing and administrative expenses increased from 15.7% in third quarter 2015 to 16.5% in 2016, an unfavorable

Table of Contents

increase of 0.8% as a percent of net sales; and selling, marketing and administrative expenses increased from 20.0% in nine months 2015 to 20.2% in nine months 2016, an unfavorable increase of 0.2% as a percent of net sales. Selling, marketing and administrative expenses include \$11,620 and \$11,624 for freight, delivery and warehousing expenses in third quarter 2016 and 2015, respectively, and \$30,265 and \$30,706 for freight, delivery and warehousing expenses in nine months 2016 and 2015, respectively. These expenses were 6.3% of net product sales in both third quarter 2016 and 2015, respectively, and 7.7% of net product sales in both nine months 2016 and 2015, respectively.

Earnings from operations were \$39,273 in third quarter 2016 compared to \$41,028 in third quarter 2015, and were \$67,786 in nine months 2016 compared to \$67,626 in nine months 2015. Earnings from operations include \$1,961 and \$(3,156) of certain deferred compensation expenses (credits) in third quarter 2016 and 2015, respectively, and include \$3,082 and \$(1,370) of certain deferred compensation expenses (credits) in nine months 2016 and 2015, respectively, which are discussed above. Adjusting for these deferred compensation costs and expenses, operating earnings were \$41,234 and \$37,872 in third quarter 2016 and 2015, respectively, an increase of \$3,362 or 8.9%; and adjusted operating earnings were \$70,868 and \$66,256 in nine months 2016 and 2015, respectively, an increase of \$4,612 or 7.0%. As a percentage of net product sales, these adjusted operating earnings were 22.2% and 20.6% in third quarter 2016 and 2015, respectively, a favorable increase of 1.6% as a percentage of net product sales; and as a percentage of net product sales, these adjusted operating earnings were 18.0% and 16.7% in nine months 2016 and 2015, respectively, a favorable increase of 1.3% as a percentage of net product sales. Third quarter and nine months 2016 operating earnings principally reflect the benefits of higher price realization on sales, but were adversely impacted by higher ingredient costs and increases in manufacturing costs and selling, marketing and administrative expenses as discussed above. Management believes the presentation in this and the preceding paragraphs relating to amounts adjusted for deferred compensation expense are more reflective of the underlying operations of the Company.

Other income (loss), net was \$1,943 in third quarter 2016 compared to \$(2,879) in third quarter 2015, a favorable increase of \$4,822; and other income (loss), net was \$4,147 in nine months 2016 compared to \$(1,085) in nine months 2015, a favorable increase of \$5,232. Other income (loss), net for third quarter 2016 and 2015 includes net gains (losses) and investment income of \$1,961 and \$(3,156), respectively, on trading securities which provide an economic hedge of the Company's deferred compensation liabilities; and other income (loss), net for nine months 2016 and 2015 includes net gains (losses) and investment income of \$3,082 and \$(1,370), respectively, on trading securities relating to these programs. These changes in trading securities were substantially offset by a like amount of deferred compensation expense or credit included in product cost of goods sold and selling, marketing, and administrative expenses in the respective periods as discussed above. Other income (loss), net includes gains (losses) on foreign exchange of \$(582) and \$(51) in third quarter 2016 and 2015, respectively, and \$(572) and \$(818) in nine months 2016 and 2015, respectively.

The consolidated effective tax rates were 30.6% and 31.5% in third quarter 2016 and 2015, respectively, and 31.1% and 30.2% in nine months 2016 and 2015, respectively. The lower effective tax rate in the prior year nine months 2015 compared to nine months 2016 principally reflects a \$1,066 release of an uncertain income tax liability and resulting income tax benefit due to a decision by a foreign court issued in the second quarter 2015.

Net earnings attributable to Tootsie Roll Industries, Inc. were \$28,637 (after \$40 net loss attributed to non-controlling interests) in third quarter 2016 compared to \$26,171 (after \$30 net loss attributed to non-controlling interests) in third quarter 2015, and earnings per share were \$0.46 and \$0.41 in third quarter 2016 and 2015, respectively, an increase of \$0.05 per share, or 12%. Nine months 2016 net earnings attributable to Tootsie Roll Industries, Inc. were \$49,669 (after \$142 net loss attributed to non-controlling interests) compared to nine months 2015 net earnings of \$46,384 (after \$80 net earnings attributed to non-controlling interests), and net earnings per share were \$0.80 and \$0.73 in nine months 2016 and nine months 2015, respectively, an increase of \$0.07 per share or 10%. Higher net earnings for third quarter and nine months 2016 were principally the result of higher earnings from operations, including the effects of certain deferred compensation as discussed above. Earnings per share attributable to Tootsie Roll Industries, Inc. for third quarter and nine months 2016 did benefit from the reduction in average shares outstanding resulting from purchases in the open market by the Company of its common stock. Average shares outstanding decreased from 63,172 in third quarter 2015 to 62,174 in third quarter 2016, and from 63,408 in nine months 2015 to 62,358 in nine months 2016.

Goodwill and intangibles are assessed annually as of December 31 or whenever events or circumstances indicate that the carrying values may not be recoverable from future cash flows. The Company has not identified any triggering

Table of Contents

events, as defined, or other adverse information that would indicate a material impairment of its goodwill or intangibles in nine months 2016. There were also no impairments in the comparative nine months 2015 period.

Beginning in 2012, the Company received periodic notices from the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, that the Plan's actuary certified the Plan to be in "critical status", the "Red Zone", as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC), and that a plan of rehabilitation was adopted by the trustees of the Plan in fourth quarter 2012. During 2015, the Company received notices that the Plan's status was changed to "critical and declining status", as defined by the PPA and PBGC, for the plan year beginning January 1, 2015, and that the Plan was projected to have an accumulated funding deficiency for the 2017 through 2024 plan years. A designation of "critical and declining status" implies that the Plan is expected to become insolvent in the next 20 years. In April 2016, the Company received new notices that the Plan's trustees adopted an updated Rehabilitation Plan effective January 1, 2016, and that the Plan remains in "critical and declining status" and is projected to become insolvent in 14 years. These new notices also advise that the Plan trustees are considering the reduction or elimination of certain retirement benefits and may seek assistance from the PBGC.

Based on these updated notices, the Plan's funded percentages (plan investment assets as a percentage of plan liabilities), as defined, were 62.8%, 65.1% and 66.4% as of the most recent valuation dates available, January 1, 2015, 2014, and 2013, respectively (these valuation dates are as of the beginning of each Plan year). These funded percentages are based on actuarial values, as defined, and do not reflect the actual market value of Plan investments as of these dates. If the market value of investments had been used as of January 1, 2015 the funded percentage would be 59.8% (not 62.8%). As of the January 1, 2015 valuation date (most recent valuation available), 20% of Plan participants were current active employees, 51% were retired or separated from service and receiving benefits, and 29% were retired or separated from service and entitled to future benefits. The number of current active employee Plan participants as of January 1, 2015 fell 3% from the previous year and 6% over the past two years. When compared to the Plan valuation date of January 1, 2011 (four years earlier), current active employees participants have declined 30%, whereas participants who were retired or separated from service and receiving benefits increased 6% and participants who were retired or separated from service and entitled to future benefits increased 9%. The bankruptcy of a major participating employer in the Plan contributed to the above discussed Plan results.

The Company has been advised that its withdrawal liability would have been \$61,000 and \$56,400 if it had withdrawn from the Plan during 2015 and 2014, respectively. The increase from 2014 to 2015 principally reflects a higher share of the Plan's unfunded vested benefits allocated to the Company. Based on the above, including the Plan's projected insolvency in 14 years, management believes that the Company's withdrawal liability will likely increase further in 2016. Based on the Company's actuarial study and certain provisions in ERISA and the law relating to withdrawal liability payments, management believes that the Company's liability would be limited to twenty annual payments of \$2,966 which have a present value in the range of \$34,800 to \$45,400 based on a range of valuation interest rates which management understands is provided under the statute. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amounts, could be payable to the Plan.

The Company's existing labor contract with the local union commits the Company's participation in this Plan through third quarter 2017. The rehabilitation plans require that employer contributions include 5% compounded annual surcharge increases each year for an unspecified period of time beginning in June 2012 as well as certain plan benefit reductions. The Company's pension expense for this Plan for nine months 2016 and 2015 was \$1,959 and \$2,013, respectively. The aforementioned expense includes surcharges of \$417 and \$349 in nine months 2016 and 2015, respectively, as required under the plan of rehabilitation as amended.

The Company is currently unable to determine the ultimate outcome of the above discussed matter and therefore, is unable to determine the effects on its consolidated financial statements, but the ultimate outcome or the effects of any modifications to the current rehabilitation plan could be material to its consolidated results of operations or cash flows in one or more future periods. See also the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated into the Company's 2015 Form 10-K.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities were \$47,032 and \$30,260 in nine months 2016 and 2015, respectively, an increase of \$16,772. Nine months operating cash flows were favorably affected by the timing of sales and collections, and resulting changes in accounts receivable during nine months 2016 compared to nine months 2015.

Net cash used in investing activities was \$34,267 in nine months 2016 compared to \$18,688 in nine months 2015. Cash flows from investing activities reflect \$45,298 and \$45,826 of purchases of available for sale securities during nine months 2016 and 2015, respectively, and \$26,517 and \$40,390 of sales and maturities of available for sale securities during nine months 2016 and 2015, respectively. Nine months 2016 and 2015 investing activities include capital expenditures of \$13,067 and \$12,421, respectively. All capital expenditures in 2016 are expected to be funded from the Company's cash flow from operations and internal sources.

The Company's consolidated financial statements include bank borrowings of \$447 and \$683 as of September 30, 2016 and 2015, respectively, all of which relates to its two majority-owned and controlled Spanish companies. The Company had no other outstanding bank borrowings as of September 30, 2016.

Financing activities include Company common stock purchases and retirements of \$26,293 and \$22,998 in nine months 2016 and 2015, respectively. Cash dividends of \$16,694 and \$15,269 were paid in nine months 2016 and 2015, respectively.

The Company's current ratio (current assets divided by current liabilities) was 3.6 to 1 at September 30, 2016 compared to 4.1 to 1 at December 31, 2015 and 3.1 to 1 at September 30, 2015. Net working capital was \$202,304 at September 30, 2016 compared to \$221,744 and \$216,752 at December 31, 2015 and September 30, 2015, respectively.

The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments of \$122,144 at September 30, 2016 compared to \$168,300 and \$124,148 at December 31, 2015 and September 30, 2015, respectively. In addition, long term investments, principally debt securities comprising corporate and municipal bonds and long-term trading securities, were \$189,956 at September 30, 2016, as compared to \$152,930 and \$152,491 at December 31, 2015 and September 30, 2015, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$312,100, \$321,230, and \$276,639, as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively. The aforementioned includes \$66,085, \$60,584, and \$71,371 as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively, relating to trading securities which are used as an economic hedge for the Company's deferred compensation liabilities. At September 30, 2015, the Company expected to pay out \$13,514 of deferred compensation liabilities and sell a like amount of trading securities during fourth quarter 2015, and therefore, had included \$13,514 in both current investments and current

deferred compensation in the Company's Consolidated Statement of Financial Position. Investments in corporate and municipal bonds and other debt securities that matured during nine months 2016 and 2015 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

The Company periodically contributes to a VEBA trust, managed and controlled by the Company, to fund the estimated future costs of certain employee health, welfare and other benefits. The Company is currently using these VEBA funds to pay the actual cost of such benefits in 2015 and 2016, and through part of 2017. The VEBA trust held \$3,379, \$6,727 and \$7,364 of aggregate cash and cash equivalents as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively. This asset value is included in prepaid expenses and long-term other assets in the Company's Consolidated Statement of Financial Position. These assets are categorized as Level 1 within the fair value hierarchy.

ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Company's condensed consolidated financial statements.

Table of Contents

RISK FACTORS

There were no material changes to the risk factors disclosed in the Company's 2015 Form 10-K.

FORWARD-LOOKING STATEMENTS

This discussion and certain other sections contain forward-looking statements that are based largely on the Company's current expectations and are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as "anticipated," "believe," "expect," "intend," "estimate," "project," "plan" and other words of similar meaning in connection with a discussion of future operating or financial performance and are subject to certain factors, risks, trends and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. Such factors, risks, trends and uncertainties, which in some instances are beyond the Company's control, include the overall competitive environment in the Company's industry, changes in assumptions and judgments discussed above under the heading "Significant Accounting Policies and Estimates," and factors identified and referred to above under the heading "Risk Factors."

The risk factors identified and referred to above are believed to be significant factors, but not necessarily all of the significant factors that could cause actual results to differ from those expressed in any forward-looking statement. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made only as of the date of this report. The Company undertakes no obligation to update such forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in and sufficient availability of sugar, corn syrup, edible oils, including palm oils, cocoa, dextrose, milk and whey, and gum-base input ingredients and packaging, and fuel costs principally relating to freight and delivery fuel surcharges. The Company is exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and all labor, benefits and local plant operating costs at its Canadian plants. The Company is exposed to exchange rate fluctuations in Mexico, Canada, and Spain where its subsidiaries sell products in their local currencies. The Company invests in securities with maturities dates of up to approximately three years, the majority of which are held to maturity, which limits the Company's exposure to interest rate fluctuations. There have been no material changes in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, the Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2016 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's purchases of its common stock during the quarter ended September 30, 2016:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | Shares Purchased as Part of Publicly Announced Plans Or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|-----------------|---|--|---|--|
| Jul 1 to Jul 31 | 96,686 | \$ 37.75 | Not Applicable | Not Applicable |
| Aug 1 to Aug 31 | 155,792 | 37.39 | Not Applicable | Not Applicable |
| Sep 1 to Sep 30 | 203,697 | 37.47 | Not Applicable | Not Applicable |
| Total | 456,175 | \$ 37.50 | Not Applicable | Not Applicable |

While the Company does not have a formal or publicly announced stock purchase program, the Company's board of directors periodically authorizes a dollar amount for share purchases. The treasurer executes share purchase transactions according to these guidelines.

Table of Contents

ITEM 6. EXHIBITS

Exhibits 31.1 and 31.2 — Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 — Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS - XBRL Instance Document.

Exhibit 101.SCH - XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB - XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOOTSIE ROLL
INDUSTRIES, INC.

Date: November 4, 2016 BY: /S/ELLEN R. GORDON
Ellen R. Gordon
Chairman and Chief

Executive Officer

Date: November 4, 2016 BY: /S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
Vice President Finance and
Chief Financial Officer