

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

August 05, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from to

COMMISSION FILE NUMBER 1-1361

Tootsie Roll Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

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VIRGINIA 22-1318955
(State of Incorporation) (I.R.S. Employer Identification No.)

7401 South Cicero Avenue, Chicago, Illinois 60629
(Address of Principal Executive Offices) (Zip Code)

773-838-3400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 28, 2014).

| Class | Outstanding |
|---|-------------|
| Common Stock, \$.69 4/9 par value | 37,777,410 |
| Class B Common Stock, \$.69 4/9 par value | 22,909,591 |

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TOOTSIE ROLL INDUSTRIES, INC.

June 28, 2014

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This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “Forward-Looking Statements” under Part I — Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this

Quarterly Report on Form 10-Q.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (UNAUDITED)

| | June 28, 2014 | December 31, 2013 | June 29, 2013 |
|--|------------------|----------------------|------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash & cash equivalents | \$ 57,091 | \$ 88,283 | \$ 31,946 |
| Investments | 38,995 | 33,572 | 24,868 |
| Trade accounts receivable, less allowances of \$1,806, \$2,042 & \$1,907 | 25,698 | 40,721 | 24,888 |
| Other receivables | 2,240 | 4,616 | 5,292 |
| Inventories: | | | |
| Finished goods & work-in-process | 73,747 | 37,012 | 69,715 |
| Raw material & supplies | 29,651 | 24,844 | 29,841 |
| Prepaid expenses | 7,200 | 5,581 | 2,221 |
| Deferred income taxes | 3,186 | 5,482 | 4,935 |
| Total current assets | 237,808 | 240,111 | 193,706 |
| PROPERTY, PLANT & EQUIPMENT, at cost: | | | |
| Land | 22,536 | 21,683 | 21,685 |
| Buildings | 111,418 | 111,044 | 108,387 |
| Machinery & equipment | 341,672 | 340,405 | 329,861 |
| Construction in progress | 9,148 | 3,403 | 8,392 |
| | 484,774 | 476,535 | 468,325 |
| Less-accumulated depreciation | 289,248 | 279,619 | 270,827 |
| Net property, plant and equipment | 195,526 | 196,916 | 197,498 |
| OTHER ASSETS: | | | |

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| | | | |
|-------------------------------------|------------|------------|------------|
| Goodwill | 73,237 | 73,237 | 73,237 |
| Trademarks | 175,024 | 175,024 | 175,024 |
| Investments | 162,275 | 148,532 | 170,373 |
| Split dollar officer life insurance | 40,296 | 40,296 | 41,394 |
| Prepaid expenses | 8,753 | 10,260 | — |
| Restricted cash | 1,791 | — | — |
| Deferred income taxes | 4,030 | 4,033 | 5,926 |
| Total other assets | 465,406 | 451,382 | 465,954 |
| Total assets | \$ 898,740 | \$ 888,409 | \$ 857,158 |

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

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(in thousands except per share data) (UNAUDITED)

| | June 28, 2014 | December 31, 2013 | June 29, 2013 |
|--|------------------|----------------------|------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 14,040 | \$ 9,153 | \$ 11,630 |
| Bank loans | 151 | — | — |
| Dividends payable | 4,856 | 4,742 | 4,773 |
| Accrued liabilities | 44,598 | 45,580 | 45,773 |
| Postretirement health care and life insurance benefits | 111 | 319 | 555 |
| Income taxes payable | - | 327 | 249 |
| Total current liabilities | 63,756 | 60,121 | 62,980 |
| NONCURRENT LIABILITIES: | | | |
| Deferred income taxes | 54,503 | 54,939 | 42,862 |
| Bank loans | 930 | — | — |
| Postretirement health care and life insurance benefits | 9,338 | 8,857 | 28,188 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Liability for uncertain tax positions | 9,977 | 7,167 | 8,261 |
| Deferred compensation and other liabilities | 74,028 | 69,520 | 60,941 |
| Total noncurrent liabilities | 156,276 | 147,983 | 147,752 |
| TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY: | | | |
| Common stock, \$.69-4/9 par value- 120,000 shares authorized; 37,777, 37,011 & 37,401, respectively, issued | 26,234 | 25,702 | 25,973 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 22,910, 22,256 & 22,261, respectively, issued | 15,909 | 15,455 | 15,459 |
| Capital in excess of par value | 613,467 | 572,669 | 584,969 |
| Retained earnings | 29,870 | 73,109 | 39,199 |
| Accumulated other comprehensive loss | (5,252) | (4,638) | (17,182) |
| Treasury stock (at cost)- 78, 76 & 76 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total Tootsie Roll Industries, Inc. shareholders' equity | 678,236 | 680,305 | 646,426 |
| Noncontrolling interests | 472 | — | — |
| Total equity | 678,708 | 680,305 | 646,426 |
| Total liabilities and shareholders' equity | \$ 898,740 | \$ 888,409 | \$ 857,158 |

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

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (UNAUDITED)

| | Quarter Ended | | Year to Date Ended | |
|---|------------------|------------------|--------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Net product sales | \$ 104,061 | \$ 101,988 | \$ 210,873 | \$ 212,267 |
| Rental and royalty revenue | 869 | 898 | 1,839 | 1,905 |
| Total revenue | 104,930 | 102,886 | 212,712 | 214,172 |
| Product cost of goods sold | 66,182 | 66,972 | 133,047 | 139,141 |
| Rental and royalty cost | 223 | 225 | 481 | 475 |
| Total costs | 66,405 | 67,197 | 133,528 | 139,616 |
| Product gross margin | 37,879 | 35,016 | 77,826 | 73,126 |
| Rental and royalty gross margin | 646 | 673 | 1,358 | 1,430 |
| Total gross margin | 38,525 | 35,689 | 79,184 | 74,556 |
| Selling, marketing and administrative expenses | 28,296 | 26,487 | 53,927 | 54,454 |
| Earnings from operations | 10,229 | 9,202 | 25,257 | 20,102 |
| Other income, net | 3,033 | 1,705 | 4,699 | 4,296 |
| Earnings before income taxes | 13,262 | 10,907 | 29,956 | 24,398 |
| Provision for income taxes | 4,305 | 2,538 | 11,642 | 6,960 |
| Net earnings | 8,957 | 8,369 | 18,314 | 17,438 |
| Less: Net loss attributable to noncontrolling interests | 69 | - | 293 | - |
| Net earnings attributable to Tootsie Roll Industries, Inc. | 9,026 | 8,369 | 18,607 | 17,438 |
| Net earnings attributable to Tootsie Roll Industries, Inc. per share | \$ 0.15 | \$ 0.14 | \$ 0.31 | \$ 0.28 |
| Dividends per share * | \$ 0.08 | \$ 0.08 | \$ 0.16 | \$ 0.16 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Average number of shares outstanding | 60,659 | 61,431 | 60,742 | 61,550 |
| Retained earnings at beginning of period | \$ 25,694 | \$ 35,598 | \$ 73,109 | \$ 80,210 |
| Net earnings attributable to Tootsie Roll Industries, Inc. | 9,026 | 8,369 | 18,607 | 17,438 |
| Cash dividends | (4,850) | (4,768) | (9,565) | (9,421) |
| Stock dividends | - | - | (52,281) | (49,028) |
| Retained earnings at end of period | \$ 29,870 | \$ 39,199 | \$ 29,870 | \$ 39,199 |

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

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

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

(in thousands except per share amounts) (UNAUDITED)

| | Quarter Ended | | Year to Date Ended | |
|---|------------------|------------------|--------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Net earnings | \$ 8,957 | \$ 8,369 | \$ 18,314 | \$ 17,438 |
| Other comprehensive income (loss), before tax: | | | | |
| Foreign currency translation adjustments | 138 | (1,223) | (1,180) | (101) |
| Pension and post-retirement reclassification adjustments: | | | | |
| Unrealized gains (losses) for the period on postretirement and pension benefits | - | - | - | - |
| Less: reclassification adjustment for (gains) losses to net income | (451) | - | (902) | - |
| Unrealized gains (losses) on postretirement and pension benefits | (451) | - | (902) | - |
| Investments: | | | | |
| Unrealized gains (losses) for the period on investments | 185 | 589 | (31) | (181) |
| Less: reclassification adjustment for (gains) losses to net income | - | - | - | - |
| Unrealized gains (losses) on investments | 185 | 589 | (31) | (181) |
| Derivatives: | | | | |
| Unrealized gains (losses) for the period on derivatives | 1,388 | (802) | 555 | (1,732) |
| Less: reclassification adjustment for (gains) losses to net income | 73 | 546 | 510 | 901 |
| Unrealized gains (losses) on derivatives | 1,461 | (256) | 1,065 | (831) |
| Total other comprehensive income (loss), before tax | 1,333 | (890) | (1,048) | (1,113) |
| Income tax benefit (expense) related to items of other comprehensive income | (432) | (128) | 434 | 378 |
| Total comprehensive earnings | 9,858 | 7,351 | 17,700 | 16,703 |
| Comprehensive earnings attributable to noncontrolling interests | 69 | - | 293 | - |
| Total comprehensive earnings attributable to Tootsie Roll Industries, Inc. | \$ 9,927 | \$ 7,351 | \$ 17,993 | \$ 16,703 |

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

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (UNAUDITED)

| | Year to Date Ended | |
|---|--------------------|------------------|
| | June 28, 2014 | June 29, 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 18,314 | \$ 17,438 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization | 10,189 | 9,783 |
| Loss on step acquisition | 529 | - |
| Loss from equity method investment | - | 477 |
| Amortization of marketable security premiums | 1,689 | 1,468 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 16,520 | 17,207 |
| Other receivables | 3,710 | (594) |
| Inventories | (39,770) | (37,188) |
| Prepaid expenses and other assets | 1,063 | 27,442 |
| Accounts payable and accrued liabilities | 348 | 3,317 |
| Income taxes payable and deferred | (1,119) | (5,159) |
| Postretirement health care and life insurance benefits | (421) | 1,362 |
| Deferred compensation and other liabilities | 1,764 | 1,620 |
| Other | 101 | (80) |
| Net cash from operating activities | 12,917 | 37,093 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash acquired in step acquisition | 161 | - |
| Restricted cash | 193 | - |
| Capital expenditures | (5,895) | (5,960) |
| Net sales (purchases) of trading securities | (2,627) | (2,269) |
| Purchase of available for sale securities | (27,331) | (63,992) |
| Sale and maturity of available for sale securities | 11,566 | 18,530 |
| Net cash used in investing activities | (23,933) | (53,691) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |

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| | | |
|--|-----------|-----------|
| Shares purchased and retired | (10,381) | (10,568) |
| Dividends paid in cash | (9,567) | (4,750) |
| Repayment of bank loans | (228) | - |
| Net cash used in financing activities | (20,176) | (15,318) |
| Decrease in cash and cash equivalents | (31,192) | (31,916) |
| Cash and cash equivalents at beginning of year | 88,283 | 63,862 |
| Cash and cash equivalents at end of quarter | \$ 57,091 | \$ 31,946 |
| Supplemental cash flow information: | | |
| Income taxes paid, net | \$ 10,496 | \$ 12,996 |
| Interest paid | \$ 31 | \$ 17 |
| Stock dividend issued | \$ 52,165 | \$ 48,925 |

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

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TOOTSIE ROLL INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 28, 2014

(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 2013 Annual Report on Form 10-K.

Results of operations for the period ended June 28, 2014 are not necessarily indicative of results to be expected for the year to end December 31, 2014 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.

The results of the Company's two less than wholly owned Spanish companies are consolidated and a noncontrolling interest has been recorded. (See Note 10.)

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, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact it will have on the condensed consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, which includes amendments that change the requirements for reporting discontinued operations. The new guidance requires that the disposal of a component of an entity be reported as discontinued operations only if the action represents a strategic shift that will have a major effect on an entity's operations and financial results, and would require expanded disclosures. This guidance will be effective beginning in the first quarter 2015. We do not expect the adoption of this guidance to have a significant impact on the condensed consolidated financial statements.

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 adoption of this guidance did not have a significant impact on the condensed 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

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resided, or, if a controlling financial interest is no longer held. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

Note 2 — Average Shares Outstanding

The average number of shares outstanding for year to date ended June 28, 2014 reflect stock purchases of 347 shares for \$10,381 and a 3% stock dividend distributed on April 4, 2014. The average number of shares outstanding for year to date ended June 29, 2013 reflect stock purchases of 356 shares for \$10,568 and a 3% stock dividend distributed on April 5, 2013.

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 2010 through 2013. With few exceptions, the Company is no longer subject to examination by tax authorities for the year 2009 and prior. The consolidated effective tax rates were 32.5% and 23.3% in second quarter 2014 and 2013, respectively, and 38.9% and 28.5% in first half 2014 and 2013, respectively. The higher effective income tax rate in first half 2014 reflects the reversal of deferred tax assets of \$2,350 in first quarter 2014 relating to the step acquisition of the Spanish companies as discussed in Note 10. The more favorable effective income tax rates in prior year second quarter and first half 2013 reflects the benefits of a release of certain tax valuation allowances relating to prior capital losses as a result of capital gains realized on the sale of certain investments primarily in second quarter 2013.

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 June 28, 2014, December 31, 2013 and June 29, 2013, 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.

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The following table presents information about the Company's financial assets and liabilities measured at fair value as of June 28, 2014, December 31, 2013 and June 29, 2013, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

| | Estimated Fair Value June 28, 2014 | | | |
|---|--|-------------------|------------|-----------|
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 57,091 | \$ 57,091 | \$ - | \$ - |
| Available for sale securities | 132,688 | - | 132,688 | - |
| Foreign currency forward contracts | 81 | - | 81 | - |
| Commodity futures contracts | 150 | 150 | - | - |
| Trading securities | 68,582 | 68,582 | - | - |
| Total assets measured at fair value | \$ 258,592 | \$ 125,823 | \$ 132,769 | \$ - |
| | | | | |
| | Estimated Fair Value December 31, 2013 | | | |
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 88,283 | \$ 88,283 | \$ - | \$ - |
| Available for sale securities | 118,647 | - | 118,647 | - |
| Foreign currency forward contracts | (684) | - | (684) | - |
| Commodity futures contracts, net | (130) | (130) | - | - |
| Trading securities | 63,215 | 63,215 | - | - |
| Total assets measured at fair value | \$ 269,331 | \$ 151,368 | \$ 117,963 | \$ - |
| | | | | |
| | Estimated Fair Value June 29, 2013 | | | |
| | Total | Input Levels Used | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 31,946 | \$ 31,946 | \$ — | \$ — |
| Auction rate security | 10,162 | — | — | 10,162 |
| Available for sale securities excluding the auction rate security | 127,704 | — | 127,704 | — |
| Foreign currency forward contracts | (759) | — | (759) | — |
| Commodity futures contracts | (223) | (223) | — | — |
| Trading securities | 55,753 | 55,753 | — | — |
| Total assets measured at fair value | \$ 224,583 | \$ 87,476 | \$ 126,945 | \$ 10,162 |

During the fourth quarter 2013, the Company sold its investment in Jefferson County Alabama Sewer Revenue Refunding Warrants for \$10,840. This was an auction rate security (ARS) originally purchased for \$13,550 in 2008 with an insurance-backed AAA rating. The Company recorded an other-than-temporary pre-tax impairment of \$5,140 in 2008 on this ARS investment which resulted in a carrying value of \$8,410 at that time. Since recording the initial impairment in 2008, the Company carried this ARS investment at its estimated fair value utilizing a valuation model with Level 3 inputs, as defined by guidance, and resulting changes in the market value since the original impairment

charge in 2008 were recorded as changes to accumulated other comprehensive income (loss) each year. The fair value of this instrument at June 29, 2013 was \$10,162, with an unrealized loss in other comprehensive earnings of \$677 recorded during the first half 2013.

The fair value of the Company's industrial revenue development bonds at June 28, 2014, December 31, 2013 and June 29, 2013 were valued using Level 2 inputs which approximates the carrying value of \$7,500 for both periods. Interest rates on these bonds are reset weekly based on current market conditions.

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Note 5 — Derivative Instruments and Hedging Activities

From time to time, 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 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.

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The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at June 28, 2014, December 31, 2013 and June 29, 2013:

| | June 28, 2014 | | |
|---|---------------|--------|-------------|
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 38,978 | \$ 534 | \$ (453) |
| Commodity futures contracts | 5,563 | 192 | (42) |
| Total derivatives designated as hedging instruments | | 726 | (495) |
| Derivatives not designated as hedging instruments: | | | |
| Commodity futures contracts | - | - | - |
| Total derivatives not designated as hedging instruments | | - | - |
| Total derivatives | | \$ 726 | \$ (495) |

| | December 31, 2013 | | |
|---|-------------------|--------|-------------|
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 34,244 | \$ - | \$ (684) |
| Commodity futures contracts | 5,601 | 41 | (191) |
| Total derivatives designated as hedging instruments | | 41 | (875) |
| Derivatives not designated as hedging instruments: | | | |
| Commodity futures contracts | 321 | 20 | - |
| Total derivatives not designated as hedging instruments | | 20 | - |
| Total derivatives | | \$ 61 | \$ (875) |

| | June 29, 2013 | | |
|---|---------------|--------|-------------|
| | Notional | | |
| | Amounts | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency forward contracts | \$ 23,383 | \$ - | \$ (759) |
| Commodity futures contracts | 1,600 | - | (246) |
| Total derivatives designated as hedging instruments | | - | (1,005) |
| Derivatives not designated as hedging instruments: | | | |
| Commodity futures contracts | 1,272 | 25 | (2) |
| Total derivatives not designated as hedging instruments | | 25 | (2) |

| | | |
|-------------------|-------|------------|
| Total derivatives | \$ 25 | \$ (1,007) |
|-------------------|-------|------------|

The effects of derivative instruments on the Company's Condensed Consolidated Statement of Earnings and Retained Earnings, and the Condensed Consolidated Statement of Comprehensive Earnings for periods ended June 28, 2014 and June 29, 2013 are as follows:

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| | For Quarter Ended June 28, 2014 | | |
|------------------------------------|--------------------------------------|--|--|
| | 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 | \$ 1,505 | \$ (189) | \$ - |
| Commodity futures contracts | (117) | 116 | - |
| Commodity option contracts | - | - | - |
| Total | \$ 1,388 | \$ (73) | \$ - |
| | For Quarter Ended June 29, 2013 | | |
| | 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 | \$ (585) | \$ (73) | \$ - |
| Commodity futures contracts | (217) | (473) | - |
| Commodity option contracts | - | - | - |
| Total | \$ (802) | \$ (546) | \$ - |
| | For Year to Date Ended June 28, 2014 | | |
| | 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 | \$ 314 | \$ (451) | \$ - |
| Commodity futures contracts | 241 | (59) | - |
| Commodity option contracts | - | - | - |
| Total | \$ 555 | \$ (510) | \$ - |
| | For Year to Date Ended June 29, 2013 | | |
| | 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 | \$ (867) | \$ (108) | \$ - |
| Commodity futures contracts | (865) | (793) | - |
| Commodity option contracts | - | - | - |

| | | | |
|-------|------------|----------|------|
| Total | \$ (1,732) | \$ (901) | \$ - |
|-------|------------|----------|------|

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During the quarters and years to date ended June 28, 2014 and June 29, 2013, the Company recognized earnings (loss) of \$(6) and \$(31), and \$(20) and \$(39) respectively, related to mark-to-market accounting for certain commodity option and future contracts.

Note 6 — Pension Plans

During 2012 and 2013, the Company received notices from the Bakery and Confectionery Union and Industry International (BC&T) Pension Fund (Plan), a multi-employer defined benefit pension plan for certain Company union employees. The notices indicate that the Plan's actuary has certified that the Plan is in critical status, the "Red Zone", as defined by the Pension Protection Act (PPA), and that a plan of rehabilitation was adopted by the Trustees of the Plan in fourth quarter 2012. The rehabilitation plan adopted requires that employer contributions include 5% compounded annual surcharges each year for an unspecified period of time beginning January 2013 (in addition to the 5% interim surcharge initiated in June 2012) as well as certain plan benefit reductions. The Company was advised by the Plan that if the Company had withdrawn from the Plan during 2012 its estimated withdrawal liability would have been \$37,200. The Company does not have any updated information as to its withdrawal liability. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than \$37,200, would be payable to the Plan. The Company's existing labor contract with its BC&T local union commits the Company's participation in this Plan through third quarter 2017. Pension expense, including surcharges as discussed above, for the BC&T Plan for first half 2014 and 2013 was \$1,354 and \$1,208, respectively. 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 could be material to its consolidated results of operations in one or more future periods. See also the Company's consolidated financial statements and related notes and Management and Discussion and Analysis incorporated into the Company's 2013 Form 10-K.

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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, 2013 | \$ (13,527) | \$ 54 | \$ (436) | \$ (96) | \$ 9,367 | \$ (4,638) |
| Other comprehensive earnings (loss) before reclassifications | (699) | (20) | 200 | 155 | - | (364) |
| Reclassifications from accumulated other comprehensive loss | - | - | 288 | 38 | (576) | (250) |
| Other comprehensive earnings (loss) before tax | (699) | (20) | 488 | 193 | (576) | (614) |
| Balance at June 28, 2014 | \$ (14,226) | \$ 34 | \$ 52 | \$ 97 | \$ 8,791 | \$ (5,252) |
| | Foreign Currency Translation | Investments | Foreign Currency Derivatives | Commodity Derivatives | Postretirement and Pension Benefits | Accumulated Other Comprehensive Earnings (Loss) |
| Balance at December 31, 2012 | \$ (13,406) | \$ 908 | \$ - | \$ (111) | \$ (3,838) | \$ (16,447) |
| Other comprehensive earnings (loss) before reclassifications | (90) | (115) | (553) | (551) | - | (1,309) |
| Reclassifications from accumulated other comprehensive loss | - | - | 69 | 505 | - | 574 |
| Other comprehensive earnings (loss) before tax | (90) | (115) | (484) | (46) | - | (735) |
| Balance at June 29, 2013 | \$ (13,496) | \$ 793 | \$ (484) | \$ (157) | \$ (3,838) | \$ (17,182) |

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

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) | | | | Location of (Gain) Loss Recognized in Earnings |
|--|--|---------------------|--------------------|------------------|---|
| | Quarter Ended | | Year to Date Ended | | |
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 | |
| Foreign currency derivatives | \$ 189 | \$ 73 | \$ 451 | \$ 108 | Other income, net |
| Commodity derivatives | (116) | 473 | 59 | 793 | Product cost of goods sold |
| Postretirement and pension benefits | (230) | - | (460) | - | Selling, marketing and administrative expenses |
| Postretirement and pension benefits | (221) | - | (442) | - | Product cost of goods sold |
| Total before tax | (378) | 546 | (392) | 901 | |
| Tax (expense) benefit | 137 | (198) | 142 | (326) | |
| Net of tax | \$ (241) | \$ 348 | \$ (250) | \$ 575 | |

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Note 8 — Restricted Cash

Restricted cash comprises certain cash deposits of the Company's less than wholly owned Spanish companies (see Note 10) 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 less than wholly owned Spanish companies (see Note 10) which are held in international banks. The average weighted interest rate in second quarter 2014 was of 3.2% and maturity dates range from 1 to 4 years. Short term bank loans also relate to the Company's less than wholly owned Spanish companies.

Note 10 — Step Acquisition

During first quarter 2014, the Company gained operating control of its two 50% owned Spanish companies when Company employee representatives assumed all positions on their boards of directors. This was considered a step acquisition, whereby the Company remeasured the previously held investment to fair value in first quarter 2014. As a result, the Company's first quarter 2014 net earnings include a net loss of \$529, including an income tax provision of \$2,350 relating to deferred income taxes. The Company purchased newly issued capital stock of the Spanish companies for \$736 which further increased the Company's ownership and control to 75% at the end of second quarter 2014.

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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, new accounting pronouncements 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 footnotes and with the Company's Condensed Consolidated Financial Statements and related notes and Management's Discussion and Analysis included in the Company's 2013 Form 10-K.

Net product sales were \$104,061 in second quarter 2014 compared to \$101,988 in second quarter 2013, an increase of \$2,073 or 2.0%. First half 2014 net product sales were \$210,873 compared to \$212,267 in first half 2013, a decrease of \$1,394 or 0.7%. Although many of our retail customers in the United States continue to experience challenges with sales and consumer spending, our second quarter 2014 sales in the United States moved slightly ahead of second quarter 2013. Second quarter and first half sales, however, were adversely affected by lower sales in both Mexico and Canada compared to the corresponding periods in 2013.

Product cost of goods sold were \$66,182 in second quarter 2014 compared to \$66,972 in second quarter 2013, and first half 2014 product cost of goods sold were \$133,047 compared to \$139,141 in first half 2013. Product cost of goods sold includes \$564 and \$241 of certain deferred compensation expenses in second quarter 2014 and 2013, respectively, and \$632 and \$937 of certain deferred compensation expenses in first half 2014 and 2013, respectively. These deferred compensation expenses principally result from the increase 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 \$66,731 in second quarter 2013 to \$65,618 in second quarter 2014, a decrease of \$1,113 or 1.7%; and decreased from \$138,204 in first half 2013 to \$132,415 in first half 2014, a decrease of \$5,789 or 4.2%. As a percentage of net product sales, adjusted product cost of goods sold was 63.1% and 65.4% in second quarter 2014 and 2013, respectively, a favorable decrease of 2.3%; and adjusted product cost of goods sold was 62.8% and 65.1% in first half 2014 and 2013, respectively, a favorable decrease of 2.3%. These favorable changes reflect lower ingredient costs as well as manufacturing plant efficiencies driven by capital investments and ongoing cost containment programs. Although overall comparative ingredient costs were more favorable in second quarter and first half 2014 compared to the corresponding periods in the prior year, certain key ingredient costs are higher this year. The Company is continuing to make progress on restoring its margins to their historical levels before the increases in commodity and other input costs in past years.

Selling, marketing and administrative expenses were \$28,296 in second quarter 2014 compared to \$26,487 in second quarter 2013, and first half 2014 selling, marketing and administrative expenses were \$53,927 compared to \$54,454 in first half 2013. Selling, marketing and administrative expenses includes \$1,899 and \$811 of certain deferred compensation expenses in second quarter 2014 and 2013, respectively, and \$2,109 and \$3,168 of certain deferred compensation expenses in first half 2014 and 2013, 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 \$25,676 in second quarter 2013 to \$26,397 in second quarter 2014, an increase of \$721 or 2.8%; and selling, marketing and administrative expenses increased from \$51,286 in first half 2013 to \$51,818 in first half 2014, an increase of \$532 or 1.0%. As a percentage of net product sales, adjusted selling, marketing and administrative expenses increased from 25.2% in second quarter 2013 to 25.4% in second quarter 2014, an unfavorable increase of 0.2% as a percent of net sales; and adjusted selling, marketing and administrative expenses increased from 24.2% in first half 2013 to 24.6% in first half 2014, an unfavorable increase of 0.4%. Selling, marketing and administrative expenses include \$10,693 and \$10,380 for freight, delivery and warehousing expenses in second quarter 2014 and 2013, respectively, and \$20,889 and \$20,504 for freight, delivery and warehousing expenses in first half 2014 and 2013, respectively. These expenses were 10.3% and 10.2% of net product sales in second quarter 2014 and 2013, respectively, and 9.9% and 9.7% of

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net product sales in first half 2014 and 2013, respectively, and contributed to the above discussed increases in selling, marketing and administrative expenses in both second quarter and first half 2014.

Earnings from operations were \$10,229 in second quarter 2014 compared to \$9,202 in second quarter 2013, and were \$25,257 in first half 2014 compared to \$20,102 in first half 2013. Earnings from operations include \$2,463 and \$1,052 of certain deferred compensation expenses in second quarter 2014 and 2013, respectively, and include \$2,741 and \$4,105 of certain deferred compensation expenses in first half 2014 and 2013, respectively. As discussed above, these deferred compensation expenses relate to changes in deferred compensation liabilities resulting from corresponding changes in the market value of trading securities and related investment income that hedge these liabilities. Adjusting for the aforementioned, operating earnings were \$12,692 and \$10,254 in second quarter 2014 and 2013, respectively, an increase of \$2,438 or 23.8%; and adjusted operating earnings were \$27,998 and \$24,207 in first half 2014 and 2013, respectively, an increase of \$3,791 or 15.7%. As a percentage of net product sales, these adjusted operating earnings were 12.2% and 10.1% in second quarter 2014 and 2013, respectively, a favorable increase of 2.1% as a percentage of net product sales; and adjusted operating earnings were 13.3% and 11.4% in first half 2014 and 2013, respectively, a favorable increase of 1.9% as a percentage of net product sales. The above discussed increases in adjusted operating earnings principally reflect more favorable gross profit margins which are 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 (expense) net, was \$3,033 in second quarter 2014 compared to \$1,705 in second quarter 2013, a favorable increase of \$1,328; and other income (expense), net, was \$4,699 in first half 2014 compared to \$4,296 in first half 2013, a favorable increase of \$403. Other income (expense), net for second quarter 2014 and 2013 includes aggregate net gains and investment income of \$2,463 and \$1,052, respectively, on trading securities relating to deferred compensation programs as discussed above; and other income, net for first half 2014 and 2013 includes aggregate net gains and investment income of \$2,741 and \$4,105, respectively, on trading securities relating to these programs. As discussed above, these increases in trading securities were substantially offset by a like amount of deferred compensation expense included in product cost of goods sold and selling, marketing, and administrative expenses in the respective periods as discussed above. Other income (expense) net, includes gains (losses) on foreign exchange of \$211 and \$281 in second quarter 2014 and 2013, respectively, and includes gains (losses) on foreign exchange of \$(789) and \$(323) in first half 2014 and 2013, respectively. In addition, first quarter and first half 2014 other income, net includes a pre-tax gain of approximately \$1,800 resulting from the step acquisition of the two Spanish companies discussed above.

The consolidated effective tax rates were 32.5% and 23.3% in second quarter 2014 and 2013, respectively, and 38.9% and 28.5% in first half 2014 and 2013, respectively. The higher effective income tax rate in first half 2014 reflects a reversal of deferred tax assets of \$2,350 relating to the step acquisition of the Spanish companies discussed above. The more favorable effective income tax rate in prior year second quarter and first half 2013 also reflects the release of certain tax valuation allowances relating to prior capital losses as a result of capital gains realized on the sale of certain investments primarily in second quarter 2013.

Net earnings attributable to Tootsie Roll Industries, Inc. were \$9,026 (after \$69 net loss attributed to non-controlling interests) in second quarter 2014 compared to \$8,369 in second quarter 2013, and earnings per share were \$0.15 and \$0.14 in second quarter 2014 and second quarter 2013, respectively, an increase of \$0.1 per share or 7%. First half 2014 net earnings attributable to Tootsie Roll Industries, Inc. were \$18,607 (after \$293 net loss attributed to non-controlling interests) compared to first half net earnings of \$17,438, and net earnings per share were \$0.31 and \$.28 in first half 2014 and first half 2013, respectively. an increase of \$0.03 per share or 11%. The increase in earnings per share in second quarter and first half 2014 principally results from the improvements in gross profit margins as discussed above. The prior year comparative second quarter and first half 2013 periods also benefited from a lower effective income tax rate as discussed above. Earnings per share attributable to Tootsie Roll Industries, Inc. for second quarter and first half 2014 did benefit from the reduction in average shares outstanding resulting from common stock purchases in the open market by the Company. As a result, average shares outstanding decreased from 61,431 in second quarter 2013 to 60,659 in second quarter 2014, and from 61,550 in first half 2013 to 60,742 in first half 2014.

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

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identified any triggering events, as defined, or other adverse information that would indicate a material impairment of its goodwill or intangibles in first half 2014. There were also no impairments in the comparative first half 2013 period.

During first quarter 2014, the Company gained operating control of its two 50% owned Spanish companies when Company employee representatives assumed all positions on their boards of directors. This was considered a step acquisition, whereby the Company remeasured the previously held investment to fair value in first quarter 2014. As a result, the Company's first quarter 2014 net earnings include a net loss of \$529, including an additional income tax provision of \$2,350 relating to deferred income taxes. The Company further increased its ownership and control to 75% at the end of second quarter 2014.

During 2012 and 2013, the Company received notices from the Bakery and Confectionery Union and Industry International (BC&T) Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees. The notices indicate that the Plan's actuary has certified that the Plan is in critical status, the "Red Zone", as defined by the Pension Protection Act (PPA), and that a plan of rehabilitation was adopted by the Trustees of the Plan in fourth quarter 2012. The rehabilitation plan requires that employer contributions include 5% compounded annual surcharges each year for an unspecified period of time beginning January 2013 (in addition to the 5% interim surcharge initiated in June 2012) as well as certain plan benefit reductions. The Company was advised by the Plan that if the Company had withdrawn from the Plan during 2012 its estimated withdrawal liability would have been \$37,200. The Company does not have any updated information as to its withdrawal liability. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than \$37,200, would be payable to the Plan. The Company's existing labor contract with its BC&T local union commits the Company's participation in this Plan through third quarter 2017. Pension expense, including surcharges, for the BC&T Plan for first half 2014 and 2013 was \$1,354 and \$1,208, respectively. The aforementioned expense includes surcharges of \$179 and \$112 in first half 2014 and 2013, respectively. 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 could be material to its consolidated results of operations in one or more future periods. See also the Company's consolidated financial statements and related notes and Management and Discussion and Analysis incorporated into the Company's 2013 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities were \$12,917 and \$37,093 in first half 2014 and 2013, respectively. First half 2013 operating cash flows benefited from changes in prepaid expenses and other assets which affect the comparative net cash flows from operating activities for the respective periods.

Net cash used in investing activities was \$23,933 in first half 2014 compared to \$53,691 in first half 2013. Cash flows from investing activities reflect \$27,331 and \$63,992 relating to the purchase of available for sale securities during first half 2014 and 2013, respectively. First half 2014 and 2013 investing activities also include capital expenditures of \$5,895 and \$5,960, respectively. Capital expenditures for the 2014 year are anticipated to be generally in line with

historical annualized spending, and are to be funded from the Company's cash flow from operations and internal sources.

The Company's consolidated financial statements include bank borrowings of \$1,081 as of the end of second quarter 2014, all of which relates to its two majority owned and controlled Spanish companies. The Company had no other outstanding bank borrowings as of the end of second quarter 2014.

Financing activities include Company common stock purchases and retirements of \$10,381 and \$10,568 in first half 2014 and 2013, respectively. Cash dividends of \$9,567 and \$4,750 were paid in first half 2014 and 2013, respectively. Fourth quarter 2012 included an accelerated payment (from first quarter 2013) of the regular quarterly dividend of \$4,656 (\$0.08 per share) which has historically been paid during the first week in January. This was in response to the uncertainty surrounding the future federal tax treatment of dividends at that time after giving consideration to the Company's cash and investment position.

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The Company's current ratio (current assets divided by current liabilities) was 3.7 to 1 as of the end of second quarter 2014 as compared to 4.0 to 1 as of the end of fourth quarter 2013 and 3.1 to 1 as of the end of second quarter 2013. Net working capital was \$174,052 as of the end of second quarter 2014 as compared to \$179,990 and \$130,726 as of the end of fourth and second quarter 2013, respectively.

The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments which totaled \$96,086 as of the end of second quarter 2014 compared to \$121,855 and \$56,814 as of the end of fourth and second quarters 2013, respectively. In addition, long term investments, principally debt securities comprising municipal bonds and trading securities, were \$162,275 as of the end of first quarter 2014, as compared to \$148,532 and \$170,373 as of the end of fourth and second quarters 2013, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$258,361, \$270,387, and \$227,187, as of the end of second quarter 2014, and as of the end of fourth and second quarters 2013, respectively. The aforementioned includes \$68,582, \$63,215, and \$55,753 as of the end of the second quarter 2014, and fourth and second quarters 2013, respectively, relating to trading securities which are used as an economic hedge for the Company's deferred compensation liabilities. Investments in municipal bonds and other debt securities that matured during first half 2014 and 2013 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

During fourth quarter 2013, the Company contributed \$15,000 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 using these funds, as well as investment income in this VEBA trust, to pay the actual cost of such benefits beginning in fourth quarter 2013. As of the end of second quarter 2014, the VEBA trust holds \$12,111 of aggregate cash, cash equivalents and investments. This asset is included in prepaid expenses in current and long-term assets on the Company's condensed consolidated statement of financial position.

As discussed above, Company management gained operating control of its two 50% owned Spanish companies in first quarter 2014, and further increased its control and ownership to 75% as of the end of second quarter 2014. The Company invested approximately \$750 in the Spanish companies during second quarter 2014 resulting in its 75% ownership. These Spanish companies had operating losses for each of the years 2008 through 2013 and for first half 2014. Company management has restructured the Spanish operations and management believes that they should be at or near break-even cash flows from operating activities going forward as a result of this restructuring. Management believes that the business, competitive and economic challenges in Spain are likely to continue, and therefore, additional cash financing of these Spanish companies may be required in the future.

ACCOUNTING PRONOUNCEMENTS

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

RISK FACTORS

The Company's operations and financial results are subject to a number of risks and uncertainties that could adversely affect the Company's operating results and financial condition. Significant risk factors, without limitation, that could impact the Company, are the following: (i) significant competitive activity, including advertising, promotional and price competition, and changes in consumer demand for the Company's products; (ii) fluctuations in the cost and availability of commodities and ingredients, including the effects adverse weather and climate change, and the ability to recover cost increases through product sales price increases; (iii) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance of product pricing changes and seasonal events such as Halloween; (iv) the effect of acquisitions on the Company's results of operations and financial condition; (v) the effect of changes in foreign currencies on the Company's foreign subsidiaries operating results, and the effect of the fluctuation of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (vi) the Company's reliance on third party vendors for various goods and services, including commodities used for ingredients that are primarily grown or sourced from foreign locations; (vii) the Company's ability to successfully implement new production processes and manufacturing automation; (viii) the effect of changes in assumptions, including discount rates, sales growth and profit margins, which could affect the

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Company's impairment testing and analysis of its goodwill and trademarks; (ix) changes in the confectionery marketplace including actions taken by major retailers and customers; (x) customer, consumer and competitor response to marketing programs and price and product weight adjustments, and new products; (xi) dependence on significant customers, including the volume and timing of their purchases, availability of shelf space, and competitive products; (xii) increases in energy costs, including freight and delivery, that cannot generally be passed along to customers through increased price realization due to competitive reasons; (xiii) any significant labor stoppages, strikes or production interruptions; (xiv) changes in governmental laws or regulations that affect ingredients used in products, or taxes, tariffs or other government restrictions on products sold; (xv) the adverse effects should the Company either voluntarily or involuntarily recall its product(s) from the marketplace; (xvi) the risk that the market value of Company's investments could decline including being classified as "other-than-temporary" as defined; (xvii) the Company's dependence on its enterprise resource planning (ERP) computer system to manage its supply chain and customer deliveries, and the risk that the Company's information technology systems fail to perform adequately or the Company is unable to protect its information technology systems against data corruption, cyber-based attacks or network security breaches; (xviii) the potential adverse effects on the Company as to changes to improve the funding status of the Bakery and Confectionery Union and Industry Pension Plan, a multi-employer plan which covers certain Company union employees; (xix) adverse effects if restructuring efforts with respect to the Company's Spanish operations are not fully successful; (xx) and the potential effects of current and future macroeconomic conditions and geopolitical events.

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," 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in sugar, corn syrup, edible oils, including soybean and 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 operating expenses at its Canadian plants. 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 has been no material change in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2013.

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 June 28, 2014 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 June 28, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II — OTHER INFORMATION

TOOTSIE ROLL INDUSTRIES, INC.

AND SUBSIDIARIES

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 June 28, 2014:

| 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 |
|------------------|---|--|---|--|
| Mar 30 to Apr 26 | - | \$ - | Not Applicable | Not Applicable |
| Apr 27 to May 24 | 69,007 | 27.84 | Not Applicable | Not Applicable |
| May 25 to Jun 28 | 20,500 | 28.92 | Not Applicable | Not Applicable |
| Total | 89,507 | \$ 28.09 | 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.

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.

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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: August 5, 2014 BY: /S/MELVIN J. GORDON
Melvin J. Gordon
Chairman and Chief
Executive Officer

Date: August 5, 2014 BY: /S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
Vice President Finance and
Chief Financial Officer