

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

August 07, 2015

[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 June 30, 2015

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 (June 30, 2015).

Class	Outstanding
Common Stock, \$.69 4/9 par value	38,029,047
Class B Common Stock, \$.69 4/9 par value	23,564,199

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

June 30, 2015

INDEX

	Page No.
<u>Part I— Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Statements of Financial Position</u>	3-4
<u>Condensed Consolidated Statements of Earnings and Retained Earnings</u>	5
<u>Condensed Consolidated Statements of Comprehensive Earnings</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8-15
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16-21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<u>Part II—Other Information</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 6. Exhibits</u>	22
<u>Signatures</u>	23
<u>Certifications</u>	25-27

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.

2

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (UNAUDITED)

	June 30, 2015	December 31, 2014	June 28, 2014
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	\$ 87,005	\$ 100,108	\$ 57,091
Restricted cash	1,272	-	-
Investments	51,210	39,450	38,995
Trade accounts receivable, less allowances of \$2,019, \$1,968 & \$1,806	27,909	43,253	25,698
Other receivables	3,673	3,577	2,240
Inventories:			
Finished goods & work-in-process	70,598	44,549	73,747
Raw material & supplies	31,357	25,830	29,651
Prepaid expenses	6,310	6,060	7,200
Deferred income taxes	7,130	1,794	3,186
Total current assets	286,464	264,621	237,808
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	22,262	22,360	22,536
Buildings	113,181	113,279	111,418
Machinery & equipment	349,588	350,929	341,672
Construction in progress	8,639	1,641	9,148
	493,670	488,209	484,774
Less-accumulated depreciation	306,629	298,128	289,248
Net property, plant and equipment	187,041	190,081	195,526
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	158,111	163,579	162,275
Split dollar officer life insurance	30,813	33,632	40,296
Prepaid expenses	4,930	6,927	8,753
Restricted cash	-	1,589	1,791
Deferred income taxes	1,616	1,696	4,030
Total other assets	443,731	455,684	465,406
Total assets	\$917,236	\$ 910,386	\$ 898,740

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

Table of Contents

(in thousands except per share data) (UNAUDITED)

	June 30, 2015	December 31, 2014	June 28, 2014
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 15,494	\$ 11,641	\$ 14,040
Bank loans	153	124	151
Dividends payable	5,544	4,814	4,856
Accrued liabilities	46,891	46,482	44,598
Postretirement health care and life insurance benefits	328	328	111
Income taxes payable	550	1,070	-
Liability for uncertain tax positions	1,001	-	-
Deferred compensation	14,347	-	-
Total current liabilities	84,308	64,459	63,756
NONCURRENT LIABILITIES:			
Deferred income taxes	52,154	47,356	54,503
Bank loans	467	694	930
Postretirement health care and life insurance benefits	12,319	11,983	9,338
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	6,639	8,584	9,977
Deferred compensation and other liabilities	67,558	78,674	74,028
Total noncurrent liabilities	146,637	154,791	156,276
TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:			
Common stock, \$.69-4/9 par value- 120,000 shares authorized; 38,029, 37,285 & 37,777, respectively, issued	26,409	25,892	26,234
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 23,564, 22,887 & 22,910, respectively, issued	16,364	15,894	15,909
Capital in excess of par value	643,429	599,186	613,467
Retained earnings	17,454	64,927	29,870
Accumulated other comprehensive loss	(15,809)	(13,098)	(5,252)
Treasury stock (at cost)- 80, 78 & 78 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	685,855	690,809	678,236
Noncontrolling interests	436	327	472
Total equity	686,291	691,136	678,708
Total liabilities and shareholders' equity	\$ 917,236	\$ 910,386	\$ 898,740

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

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	
	June 30, 2015	June 28, 2014	June 30, 2015	June 28, 2014
Net product sales	\$ 107,528	\$ 104,061	\$ 213,005	\$ 210,873
Rental and royalty revenue	908	869	1,752	1,839
Total revenue	108,436	104,930	214,757	212,712
Product cost of goods sold	68,733	66,182	135,878	133,047
Rental and royalty cost	230	223	458	481
Total costs	68,963	66,405	136,336	133,528
Product gross margin	38,795	37,879	77,127	77,826
Rental and royalty gross margin	678	646	1,294	1,358
Total gross margin	39,473	38,525	78,421	79,184
Selling, marketing and administrative expenses	25,839	28,296	51,823	53,927
Earnings from operations	13,634	10,229	26,598	25,257
Other income, net	1,321	3,033	1,794	4,699
Earnings before income taxes	14,955	13,262	28,392	29,956
Provision for income taxes	3,735	4,305	8,069	11,642
Net earnings	11,220	8,957	20,323	18,314
Less: Net (earnings) loss attributable to noncontrolling interests	(161)	69	(110)	293
Net earnings attributable to Tootsie Roll Industries, Inc.	\$ 11,059	\$ 9,026	\$ 20,213	\$ 18,607
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 0.18	\$ 0.14	\$ 0.33	\$ 0.30
Dividends per share *	\$ 0.09	\$ 0.08	\$ 0.16	\$ 0.16
Average number of shares outstanding	61,611	62,455	61,717	62,538
Retained earnings at beginning of period	\$ 11,922	\$ 25,694	\$ 64,927	\$ 73,109
Net earnings attributable to Tootsie Roll Industries, Inc.	11,059	9,026	20,213	18,607
Cash dividends	(5,527)	(4,850)	(10,327)	(9,565)
Stock dividends	-	-	(57,359)	(52,281)

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

Retained earnings at end of period	\$ 17,454	\$ 29,870	\$ 17,454	\$ 29,870
------------------------------------	-----------	-----------	-----------	-----------

*Does not include 3% stock dividend to shareholders of record on 4/10/15 and 4/4/14.

(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	
	June 30, 2015	June 28, 2014	June 30, 2015	June 28, 2014
Net earnings	\$ 11,220	\$ 8,957	\$ 20,323	\$ 18,314
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(552)	138	(1,711)	(1,180)
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	(363)	(451)	(726)	(902)
Unrealized gains (losses) on postretirement and pension benefits	(363)	(451)	(726)	(902)
Investments:				
Unrealized gains (losses) for the period on investments	(371)	185	-	(31)
Less: reclassification adjustment for (gains) losses to net earnings	-	-	-	-
Unrealized gains (losses) on investments	(371)	185	-	(31)
Derivatives:				
Unrealized gains (losses) for the period on derivatives	522	1,388	(2,515)	555
Less: reclassification adjustment for (gains) losses to net earnings	999	73	1,674	510
Unrealized gains (losses) on derivatives	1,521	1,461	(841)	1,065
Total other comprehensive income (loss), before tax	235	1,333	(3,278)	(1,048)
Income tax benefit (expense) related to items of other comprehensive income	(286)	(432)	567	434
Total comprehensive earnings	11,169	9,858	17,612	17,700
Comprehensive earnings attributable to noncontrolling interests	(161)	69	(110)	293
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	\$ 11,008	\$ 9,927	\$ 17,502	\$ 17,993

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

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (UNAUDITED)

	Year to Date Ended	
	June 30, 2015	June 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 20,323	\$ 18,314
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	10,178	10,189
Loss on step acquisition	-	529
Amortization of marketable security premiums	1,531	1,689
Changes in operating assets and liabilities:		
Accounts receivable	15,112	16,520
Other receivables	(65)	3,710
Inventories	(31,950)	(39,770)
Prepaid expenses and other assets	4,543	1,063
Accounts payable and accrued liabilities	3,306	348
Income taxes payable and deferred	(1,395)	(1,119)
Postretirement health care and life insurance benefits	(390)	(421)
Deferred compensation and other liabilities	1,260	1,764
Net cash from operating activities	22,453	12,816
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash acquired in step acquisition	-	161
Restricted cash	235	193
Capital expenditures	(6,805)	(5,895)
Net sales (purchases) of trading securities	(2,362)	(2,627)
Purchase of available for sale securities	(17,204)	(27,331)
Sale and maturity of available for sale securities	13,531	11,566
Net cash used in investing activities	(12,605)	(23,933)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shares purchased and retired	(11,991)	(10,381)
Dividends paid in cash	(9,736)	(9,567)
Repayment of bank loans	(158)	(228)
Net cash used in financing activities	(21,885)	(20,176)
Effect of exchange rate changes on cash	(1,066)	101
Decrease in cash and cash equivalents	(13,103)	(31,192)
Cash and cash equivalents at beginning of year	100,108	88,283
Cash and cash equivalents at end of quarter	\$ 87,005	\$ 57,091
Supplemental cash flow information:		

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

Income taxes paid, net	\$ 9,421	\$ 10,496
Interest paid	\$ 12	\$ 31
Stock dividend issued	\$ 57,220	\$ 52,165

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

7

Table of Contents

TOOTSIE ROLL INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(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 2014 Annual Report on Form 10-K.

Results of operations for the period ended June 30, 2015 are not necessarily indicative of results to be expected for the year to end December 31, 2015 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.

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, 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 condensed 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. We do not expect the adoption of this guidance to have a significant impact on our condensed consolidated financial statements.

Note 2 — Average Shares Outstanding

The average number of shares outstanding for year to date ended June 30, 2015 reflect stock purchases of 378 shares for \$11,991 and a 3% stock dividend distributed on April 10, 2015. 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.

Table of Contents

Note 3 — Income Taxes

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2011 through 2013. With few exceptions, including an audit examination of the Companies amended U.S. income tax returns for 2009 and 2010, the Company is no longer subject to examination by tax authorities for the year 2010 and prior. The consolidated effective tax rates were 25.0% and 32.5% in second quarter 2015 and 2014, respectively, and 28.4% and 38.9% in first half 2015 and 2014, respectively. The lower effective tax rates in second quarter and first half 2015 principally reflect 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 second quarter 2015, and 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.

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 30, 2015, December 31, 2014 and June 28, 2014, 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 and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

Table of Contents

The following table presents information about the Company's financial assets and liabilities measured at fair value as of June 30, 2015, December 31, 2014 and June 28, 2014 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Estimated Fair Value June 30, 2015			
	Total	Input Levels Used		
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 87,005	\$ 87,005	\$ -	\$ -
Available for sale securities	133,491	2,454	131,037	-
Foreign currency forward contracts	(2,494)	-	(2,494)	-
Commodity futures contracts	(1,022)	(1,022)	-	-
Trading securities	75,830	75,830	-	-
Total assets measured at fair value	\$ 292,810	\$ 164,267	\$ 128,543	\$ -

	Estimated Fair Value December 31, 2014			
	Total	Input Levels Used		
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 100,108	\$ 100,108	\$ -	\$ -
Available for sale securities	131,347	2,446	128,901	-
Foreign currency forward contracts	(1,939)	-	(1,939)	-
Commodity futures contracts, net	(737)	(737)	-	-
Trading securities	71,682	71,682	-	-
Total assets measured at fair value	\$ 300,461	\$ 173,499	\$ 126,962	\$ -

	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	\$ -

The fair value of the Company's industrial revenue development bonds at June 30, 2015, December 31, 2014 and June 28, 2014 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

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

Table of Contents

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.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at June 30, 2015, December 31, 2014 and June 28, 2014:

	June 30, 2015		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 19,283	\$ -	\$ (2,494)
Commodity futures contracts	12,799	86	(1,108)
Total derivatives designated as hedging instruments		86	(3,602)
Derivatives not designated as hedging instruments:			
Commodity futures contracts	-	-	-
Total derivatives not designated as hedging instruments		-	-
Total derivatives		\$ 86	\$ (3,602)

	December 31, 2014		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 27,603	\$ -	\$ (1,939)
Commodity futures contracts	5,422	23	(760)
Total derivatives designated as hedging instruments		23	(2,699)
Derivatives not designated as hedging instruments:			
Commodity futures contracts		-	-
Total derivatives not designated as hedging instruments		-	-
Total derivatives		\$ 23	\$ (2,699)

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)
-------------------	--	--------	----------

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 June 30, 2015 and June 28, 2014 are as follows:

For Quarter Ended June 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	\$ 326	\$ (508)	\$ -
Commodity futures contracts	196	(491)	-
Total	\$ 522	\$ (999)	\$ -

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	-
Total	\$ 1,388	\$ (73)	\$ -

For Year to Date Ended June 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	\$ (1,577)	\$ (1,021)	\$ -
Commodity futures contracts	(938)	(653)	-
Total	\$ (2,515)	\$ (1,674)	\$ -

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)	-
Total	\$ 555	\$ (510)	\$ -

During the quarters and years to date ended June 30, 2015 and June 28, 2014, the Company recognized losses of \$0 and \$6, and \$0 and \$20 respectively, related to mark-to-market accounting for certain commodity option and future contracts.

Note 6 — Pension Plans

Beginning in 2012, the Company received notices from the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union (BC&T) Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees. The notices indicated 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

Table of Contents

(PBGC), and that a plan of rehabilitation was adopted by the trustees of the Plan in fourth quarter 2012. The rehabilitation plan, which continues, requires that employer contributions include 5% compounded annual surcharge increases 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. Under the plan of rehabilitation, the Plan is projected to emerge from critical status sometime beyond a 30 year projection period. In the event that a plan does not have the financial resources to ultimately pay benefits at a level specified by law, then it must apply to the PBGC for government financial assistance. The Trustees have advised that neither the PPA nor regulatory guidance currently defines the rehabilitation standards for a plan that is not designed to emerge from critical status within the prescribed 10-year rehabilitation period. Recently enacted legislation (Multiemployer Pension Reform Act of 2014) may also affect the future of this Plan.

The Company was previously 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 was recently advised by the Plan that its withdrawal liability would have been \$56,400 if it had withdrawn from the Plan during 2014. The increase from 2012 to 2014 principally reflects changes in key actuarial assumptions, principally the effects of a lower interest rates proscribed by PBGC which were partially used to determine the present value of vested benefits, and a change to a more conservative mortality table. 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. Pension expense, including surcharges as discussed above, for the BC&T Plan for first half 2015 and 2014 was \$1,349 and \$1,354, respectively. The aforementioned includes surcharge of \$234 and \$179 in first half 2015 and 2014, respectively, related to contribution increases under the plan of rehabilitation.

During second quarter 2015, the Company received new notices that the Plan is in “critical and declining status”, as defined by the PPA and PBGC, for the plan year beginning January 1, 2015, and that the Plan is projected to have an accumulated funding deficiency for the 2017 through 2024 plan years. The recent notices advised that the Plan’s actuarially determined asset values would fund 65.11%, 66.41% and 66.86% of its liabilities as of its January 1, 2014, 2013, and 2012 plan valuation dates, respectively. The aforementioned funding percentages are based on actuarially determined asset valuations which differ from the market values of the Plan’s assets on these dates. Based on the market values of the Plan’s investments, its funded percentages were 60.2% and 55.3% as of January 1, 2014 and 2013, respectively. The notice also indicates that as of the January 1, 2014 valuation date, 20.8% of plan participants were active participants working for a participating employer, 51.4% were retired and receiving benefits, and 27.8% were retired or separated from service and entitled to future benefits.

The Company’s existing labor contract with the local BC&T commits the Company’s participation in this Plan through third quarter 2017. 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 Condensed Consolidated Financial Statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations incorporated into the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 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, 2014	\$ (17,499)	\$ (332)	\$ (1,236)	\$ (470)	\$ 6,439	\$ (13,098)
Other comprehensive earnings (loss) before reclassifications	(1,711)	1	(1,006)	(599)	-	(3,315)
Reclassifications from accumulated other comprehensive loss	-	-	651	417	(464)	604
Other comprehensive earnings (loss) net of tax	(1,711)	1	(355)	(182)	(464)	(2,711)
Balance at June 30, 2015	\$ (19,210)	\$ (331)	\$ (1,591)	\$ (652)	\$ 5,975	\$ (15,809)
	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) net of tax	(699)	(20)	488	193	(576)	(614)
Balance at June 28, 2014	\$ (14,226)	\$ 34	\$ 52	\$ 97	\$ 8,791	\$ (5,252)

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

Amount
Reclassified
from
Accumulated
Other
Comprehensive
Income (Loss)

&