

Tootsie Roll Industries, Inc.



Annual Report 2017

Corporate Profile

Tootsie Roll Industries, Inc. has been engaged in the manufacture and sale of confectionery products for over 120 years. Our products are primarily sold under the familiar brand names: Tootsie Roll, Tootsie Roll Pops, Caramel Apple Pops, Child's Play, Charms, Blow Pop,

Blue Razz, Cella's chocolate covered cherries, Dots, Crows, Junior Mints, Junior Caramels, Charleston Chew, Sugar Daddy, Sugar Babies, Andes, Fluffy Stuff cotton candy, Dubble Bubble, Razzles, Cry Baby and Nik-L-Nip.

Corporate Principles

We believe that the differences among companies are attributable to the caliber of their people, and therefore we strive to attract and retain superior people for each job.

We believe that an open family atmosphere at work combined with professional management fosters cooperation and enables each individual to maximize his or her contribution to the Company and realize the corresponding rewards.

We do not jeopardize long-term growth for immediate, short-term results.

We maintain a conservative financial posture in the deployment and management of our assets.

We run a trim operation and continually strive to eliminate waste, minimize cost and implement performance improvements.

We invest in the latest and most productive equipment to deliver the best quality product to our customers at the lowest cost.

We seek to outsource functions where appropriate and to vertically integrate operations where it is financially advantageous to do so.

We view our well known brands as prized assets to be aggressively advertised and promoted to each new generation of consumers.

We conduct business with the highest ethical standards and integrity which are codified in the Company's "Code of Business Conduct and Ethics."



Financial Highlights

	December 31,	
	2017	2016
	(in thousands except per share data)	
Net Product Sales	\$515,674	\$517,373
Net Earnings Attributable to Tootsie Roll Industries, Inc.	80,864	67,510
Working Capital	207,132	235,739
Net Property, Plant and Equipment	178,972	180,905
Shareholders' Equity	733,840	711,364
Average Shares Outstanding*	63,179	64,086
Per Share Items*		
Net Earnings Attributable to Tootsie Roll Industries, Inc.	\$1.28	\$1.05
Cash Dividends Paid	0.36	0.36

*Adjusted for stock dividends.

To Our Shareholders



Ellen R. Gordon, Chairman and Chief Executive Officer

Net product sales in 2017 were \$516 million compared to \$517 million in 2016. The Company had another strong Halloween selling season which has long been our peak selling period. Supported by successful promotional programs, our third quarter was once again our largest of the year from a sales perspective.

Net earnings in 2017 were \$81 million or \$1.28 per share compared to \$68 million or \$1.05 per share in 2016. 2017 earnings benefited from a favorable deferred income tax accounting adjustment of \$20 million or \$.32 per share, which reflects the estimated impact of the enactment of the U.S. Tax Cuts and Jobs Act.

Highlights from 2017 include:

- \$17 million was invested in capital expenditures for plant and equipment.
- Cash dividends were paid for the seventy-fifth consecutive year.
- Our fifty-third consecutive annual 3% stock dividend was distributed.

- 921,233 shares of our common stock were repurchased in the open market for an aggregate price of \$34 million.

As of December 31, 2017 the Company had \$260 million in cash and investments and remains essentially debt free. These financial resources enable us to continue distributing cash dividends to our shareholders, repurchasing our stock on the open market, acquiring leading edge manufacturing technology and reinvesting in our brands, including new products. We are also able to consider and respond to appropriate business acquisition opportunities.

We continue to remain true to the principles enumerated on the facing page, which have guided the Company for many years. In particular we have always taken a long-term perspective, reinvesting in our operations and our brands and maintaining a conservative financial posture. We believe that these principles have served the Company and its shareholders well over the years and we remain committed to them.

While the candy aisle offers consumers many tempting choices, we have found that consumers



consumer preferences and the demands of the trade in today's fluctuating market place. We remain vigilant in keeping our products contemporary even as they retain their iconic character.

Halloween is a major selling season in our primary market, the United States, for a number of product categories including candy. It is a magical time of fun, family and festivities, evoking feelings of excitement and nostalgia. Our sales in the third quarter are centered on this popular holiday and are nearly double those of any other quarter during the year.

respond well to the high quality/high value brands in our portfolio, many of which are pictured on these pages. Additionally, the high percentage of sell-throughs and attractive margins of our items are appealing to the trade. This was evident once again in 2017.

We used carefully targeted promotional initiatives to help move our products into distribution and to subsequently move them off the retail shelf. Our diverse portfolio of highly recognizable brands remains popular across all channels of trade.

Our broad range of offerings includes something for virtually every major consumer demographic. We continue to refine our portfolio in order to meet changing



In 2017, we posted strong Halloween sales in the grocery, mass merchandiser, warehouse club, dollar store and drug store classes of trade.

Our line of packaged goods, including straight goods as well as large bags of Child's Play and other mixed assortments, are offered in a number of merchandising presentations and are especially popular during this season. Other traditional merchandising presentations such as shippers, pallet packs and display ready cases contributed to Halloween sales.

Outside of Halloween, we continued our position of leadership in the theater



box category. This category is not limited to the “big screen” venue and has developed into a major format for everyday candy purchases. Our theater box offerings include Junior Mints, Junior Caramels, Dots, Crows, Charleston Chew Minis, Blow Pop Minis, Tootsie Pop Drops and Sugar Babies... the perfect cast for sensational snacking!

Several new products were introduced in 2017. Consumers who snack on the go can now



choose Tootsie Roll Mini Bites and Tootsie Fruit Chew Mini Bites, tasty morsels of these two popular chewy treats, packed in convenient, re-sealable pouches. Also a new seasonal addition to the Tootsie Roll line, Tootsie Roll Eggs, features our namesake confection molded into an egg shape and encased in a crunchy pastel shell.

Our Andes line was enhanced by the addition of Andes Snap Bar. Here the famous three layered, crème de menthe flavored confection is presented in a six inch bar with four segments consumers can “snap” off for sharing! With a slim profile and the strong brand equity of the Andes name, this item raises the “bar” on snacking!



The markets for the majority of the Company’s key ingredients were generally stable during the year although there was some upward cost pressure. We use competitive bidding, selective hedging and forward purchasing as well as leveraging our high volume of purchases to manage costs to the greatest extent possible as we remain mindful of the competitive value positioning of our products in the market place.

It is our goal to be the low cost producer in the categories in which we compete. As such we invest capital and resources in projects that maximize efficiency across our operations as well as in projects that support evolving customer/consumer preferences and distribution patterns, promote growing product lines and improve quality. As technology advances, we are constantly on the lookout for new cost saving process enhancements as they become feasible and financially justified.

Investment in leading edge equipment and technology, including information technology, is one of our key corporate principles. We believe it has contributed in the Company's success and profitability over many years.

Of special note in 2017, was a unique honor extended to our flagship brand, Tootsie Roll. By way of background, in December of 1950 one of the fiercest battles in Marine Corps history took place at the Chosin Reservoir during the Korean War. There, in temperatures reaching 35 degrees below zero, 18,000 US and allied soldiers were surrounded by 120,000 Chinese troops.

In these most severe conditions the brave Marines fought their way to safety, carrying with them their dead and wounded. Throughout this arduous battle, with their C-rations frozen solid, the men survived on Tootsie Rolls, which had been inadvertently airdropped onto the battlefield instead of much needed mortar ammunition.

A national monument commemorating this epic battle was dedicated at the National Museum of the Marine Corps near Quantico, Virginia this past May. One of its bronze panels depicts a soldier with a Tootsie Roll.

We salute those brave Marines, many of whom we have personally met, for their valor during this historic battle.

Having been described as "elegant in its simplicity," for more than 40 years the Tootsie Pop "How Many Licks?" television ad has raised the provocative and intriguing question of "How many licks does it take to get to the Tootsie Roll center of a Tootsie Pop?" In 2017 we continued to extend this memorable message to social media, bringing new users into the Tootsie Roll and Tootsie Pops franchises with a digital media campaign targeting moms with kids. After the consumption of over 50 billion Tootsie Pops over many years by several generations of Tootsie Pop consumers, the riddle remains unanswered. As the commercial concludes, "the world may never know!"

Also during 2017, several of our products were again featured on special interest television programs. These shows are quite popular with viewing audiences, generating extensive recurring exposure and interest in the featured brands.

We wish to express our appreciation to our many loyal employees, customers, suppliers, sales brokers and distributors throughout the world for their support during the past year. We also thank our fellow shareholders for their support. We remain committed to the pursuit of excellence in every aspect of our business in order to ensure the Company's success both in the near term and far into the future.

Ellen R Gordon

Ellen R. Gordon
Chairman of the Board and
Chief Executive Officer



Tootsie Roll panel



*Monument to commemorate the
Battle of the Jangjin (Chosin) Reservoir*

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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)

Virginia
(State or other jurisdiction of
incorporation or organization)

22-1318955
(IRS Employer Identification No.)

7401 South Cicero Avenue, Chicago, Illinois 60629

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number: (773) 838-3400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock — Par Value \$.69-4/9 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class B Common Stock — Par Value \$.69-4/9 Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 15, 2018, there were outstanding 37,701,872 shares of Common Stock par value \$.69-4/9 per share, and 24,891,136 shares of Class B Common Stock par value \$.69-4/9 per share.

As of June 30, 2017, the aggregate market value of the Common Stock (based upon the closing price of the stock on the New York Stock Exchange on such date) held by non-affiliates was approximately \$604,596,000. Class B Common Stock is not traded on any exchange, is restricted as to transfer or other disposition, but is convertible into Common Stock on a share-for-share basis. Upon such conversion, the resulting shares of Common Stock are freely transferable and publicly traded. Assuming all 24,891,136 shares of outstanding Class B Common Stock were converted into Common Stock, the aggregate market value of Common Stock held by non-affiliates on June 30, 2017 (based upon the closing price of the stock on the New York Stock Exchange on such date) would have been approximately \$753,775,000. Determination of stock ownership by non-affiliates was made solely for the purpose of this requirement, and the Registrant is not bound by these determinations for any other purpose.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Definitive Proxy Statement for the Company's Annual Meeting of Shareholders (the "2018 Proxy Statement") scheduled to be held on May 7, 2018 are incorporated by reference in Part III of this report.

TABLE OF CONTENTS

ITEM 1.	Business	3
ITEM 1A.	Risk Factors	5
ITEM 1B.	Unresolved Staff Comments	8
ITEM 2.	Properties	9
ITEM 3.	Legal Proceedings	9
ITEM 4.	Mine Safety Disclosures	9
ITEM 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
ITEM 6.	Selected Financial Data	12
ITEM 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	25
ITEM 8.	Financial Statements and Supplementary Data	25
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	49
ITEM 9A.	Controls and Procedures	49
ITEM 9B.	Other Information	49
ITEM 10.	Directors, Executive Officers and Corporate Governance	50
ITEM 11.	Executive Compensation	50
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	50
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	51
ITEM 14.	Principal Accounting Fees and Services	51
ITEM 15.	Exhibits, Financial Statement Schedules	51
ITEM 16.	Form 10-K Summary	51

Forward-Looking Information

From time to time, in the Company's statements and written reports, including this report, the Company discusses its expectations regarding future performance by making certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as "anticipate," "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. These forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and actual results may differ materially from those expressed or implied herein. Consequently, the Company wishes to caution readers not to place undue reliance on any forward-looking statements. Factors, among others, which could cause the Company's future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein include general factors, such as economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company in markets where it competes and those factors described in Item 1A "Risk Factors" and elsewhere in this Form 10-K and in other Company filings with the Securities and Exchange Commission. The Company does not undertake to update any of these forward-looking statements.

PART I

ITEM 1. Business.

Tootsie Roll Industries, Inc. and its consolidated subsidiaries (the "Company") have been engaged in the manufacture and sale of confectionery products for over 100 years. This is the only industry segment in which the Company operates and is its only line of business. The majority of the Company's products are sold under the registered trademarks TOOTSIE ROLL, TOOTSIE POPS, CHILD'S PLAY, CARAMEL APPLE POPS, CHARMS, BLOW-POP, CHARMS MINI POPS, CELLA'S, DOTS, JUNIOR MINTS, CHARLESTON CHEW, SUGAR DADDY, SUGAR BABIES, ANDES, FLUFFY STUFF, DUBBLE BUBBLE, RAZZLES, CRY BABY, NIK-L-NIP, and TUTSI POP (Mexico).

The Company's products are marketed in a variety of packages designed to be suitable for display and sale in different types of retail outlets. They are sold through approximately 30 candy and grocery brokers and by the Company itself to approximately 4,000 customers throughout the United States. These customers include wholesale distributors of candy and groceries, supermarkets, variety stores, dollar stores, chain grocers, drug chains, discount chains, cooperative grocery associations, mass merchandisers, warehouse and membership club stores, vending machine operators, the U.S. military and fund-raising charitable organizations.

The Company's principal markets are in the United States, Canada and Mexico. The majority of production from the Company's Canadian plants is sold in the United States. The majority of production from the Company's Mexican plant is sold in Mexico.

The domestic confectionery business is highly competitive. The Company competes primarily with other manufacturers of confectionery products sold to the above mentioned customers. Although accurate statistics are not available, the Company believes it is among the ten largest domestic manufacturers in this field. In the markets in which the Company competes, the main forms of competition comprise brand recognition, as well as competition for retail shelf space and a fair price for the Company's products at various retail price points.

The Company did not have a material backlog of firm orders at the end of the calendar years 2017 or 2016.

The Company experienced higher costs for ingredients in 2017 compared to 2016. The Company had increased price realization on its unit selling prices in 2016, and has made progress toward restoring margins to their historical levels before the increases in commodity and other input costs in past years.

The Company has historically hedged certain of its future sugar and corn syrup needs with derivatives at such times that it believes that the forward markets are favorable. The Company's decision to hedge its major ingredient requirements is dependent on the Company's evaluation of forward commodity markets and their comparison to vendor quotations, if available, and/or historical costs. The Company has historically hedged some of these major ingredients with derivatives, primarily commodity futures and option contracts, before the commencement of the next calendar year to better ascertain the need for product pricing changes or product weight decline (indirect price change) adjustments to its product sales portfolio and better manage ingredient costs. The Company will generally purchase forward derivative contracts (i.e., "long" position) in selected future months that correspond to the Company's estimated procurement and usage needs of the respective commodity in the respective forward periods.

From time to time, the Company also changes the size and weight of certain of its products in response to significant changes in ingredient and other input costs.

The Company does not hold any material patents, licenses, franchises or concessions. The Company's major trademarks are registered in the United States, Canada, Mexico and in many other countries. Continued trademark protection is of material importance to the Company's business as a whole.

Although the Company does research and develops new products and product line extensions for existing brands, it also improves the quality of existing products, improves and modernizes production processes, and develops and implements new technologies to enhance the quality and reduce the costs of products. The Company does not expend material amounts of money on research or development activities.

The manufacture and sale of consumer food products is highly regulated. In the United States, the Company's activities are subject to regulation by various government agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Department of Commerce and the Environmental Protection Agency, as well as various state and local agencies. Similar agencies also regulate the businesses outside of the United States. The Company maintains quality assurance and other programs to help ensure that all products the Company manufactures and distributes are safe and of high quality and comply with all applicable laws and regulations.

The Company's compliance with federal, state and local regulations which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of the Company nor does the Company anticipate any such material effects from presently enacted or adopted regulations.

The Company employs approximately 2,000 persons.

The Company has found that its sales normally maintain a consistent level throughout the year except for a substantial increase in the third quarter which reflects pre-Halloween and back-to-school sales. In anticipation of this high sales period, the Company generally begins building inventories in the second quarter of each year. The Company historically offers extended credit terms for sales made under seasonal sales programs, including Halloween. Each year, after accounts receivables related to third quarter sales have been collected, the Company invests such funds in various marketable securities.

Sales revenues from Wal-Mart Stores, Inc. aggregated approximately 24.0%, 23.3%, and 23.7% of net product sales during the years ended December 31, 2017, 2016 and 2015, respectively. Some of the aforementioned sales to Wal-Mart are sold to McLane Company, a large national grocery wholesaler, which services and delivers certain of the Company's products to Wal-Mart and other retailers in the U.S.A. Net product sales revenues from McLane, which includes these Wal-Mart sales as well as sales and deliveries to other Company customers, were 16.9% in 2017 and 16.3% in 2016 and 16.7% in 2015. Although no customer other than McLane Company, Inc. and Wal-Mart Stores, Inc. accounted for more than 10% of net product sales, the loss of one or more significant customers could have a material adverse effect on the Company's business.

For a summary of sales and long-lived assets of the Company by geographic area see Note 9 of the "Notes to Consolidated Financial Statements" which is incorporated herein by reference.

Information regarding the Company's Form 10-K, Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, upon written request to Tootsie Roll Industries, Inc., 7401 South Cicero Avenue, Chicago, Illinois 60629, Attention: Barry Bowen, Treasurer and Assistant Secretary. The Company does not make all such reports available on its website at www.tootsie.com because it believes that they are readily available from the Securities Exchange Commission at www.sec.gov, and because the Company provides them free of charge upon request. Interested parties, including shareholders, may communicate to the Board of Directors or any individual director in writing, by regular mail, addressed to the Board of Directors or an individual director, in care of Tootsie Roll Industries, Inc., 7401 South Cicero Avenue, Chicago, Illinois 60629, Attention: Ellen R. Gordon, Chairman and Chief Executive Officer. If an interested party wishes to communicate directly with the Company's non-employee directors, it should be noted on the cover of the communication.

ITEM 1A. Risk Factors.

Significant factors that could impact the Company's financial condition or results of operations include, without limitation, the following:

- Risk related to freight and delivery of products to customers – The Company has experienced increasing freight and delivery costs which are driven by a shortage of delivery trucks and truck drivers. The Company expects this trend of higher over-the-road truck freight and delivery expenses to continue in 2018, and uncertainties exist as to how this imbalance of supply and demand will be resolved. The Company may not be able to offset these cost increases or pass such cost increases onto customers in the form of price increases, or the Company may not be able to make timely delivery of products to its customers, all of which could have an adverse impact on the Company's results of operations and financial condition.
- Risk of changes in the price and availability of raw materials - The principal ingredients used by the Company are subject to price volatility. Although the Company engages in commodity hedging transactions and annual supply agreements as well as leveraging the high volume of its annual purchases, the Company may experience price increases in these ingredients that it may not be able to offset, which could have an adverse impact on the Company's results of operations and financial condition. In addition, although the Company has historically been able to procure sufficient supplies of its ingredients, market conditions could change such that adequate supplies might not be available or only become available at substantially higher costs. Adverse weather patterns, including the effects of climate change, could also significantly affect the cost and availability of these ingredients.
- Risk of changes in product performance and competition - The Company competes with other well-established manufacturers of confectionery products. A failure of new or existing products to be favorably received, a failure to retain preferred shelf space at retail or a failure to sufficiently counter aggressive promotional and price competition could have an adverse impact on the Company's results of operations and financial condition.
- Risk of discounting and other competitive actions - Discounting and pricing pressure by the Company's retail customers and other competitive actions could make it more difficult for the Company to maintain its operating margins. Actions taken by major customers and competitors may make shelf space less available for confectionery products or some of the Company's products.
- Risk of pricing actions – Inherent risks in the marketplace, including uncertainties about trade and consumer acceptance of pricing actions or product weight changes, could make it more difficult for the Company to maintain its sales and operating margins.
- Risk related to seasonality - The Company's sales are highest during the Halloween season. Adverse circumstances surrounding Halloween, such as widespread weather events at that time of year or general changes in consumer interest in Halloween, could significantly affect the Company's sales.
- Risk of dependence on large customers - The Company's largest customer, Wal-Mart Stores, Inc., accounted for approximately 24.0% of net product sales in 2017, and other large national chains are also material to the

Company's sales. The loss of Wal-Mart Stores, Inc. or one or more other large customers, or a material decrease in purchases by one or more large customers, could result in decreased sales and adversely impact the Company's results of operations and financial condition.

- Risk of changes in consumer preferences and tastes - Failure to adequately anticipate and react to changing demographics, consumer trends, consumer health concerns and product preferences, including product ingredients, could have an adverse impact on the Company's results of operations and financial condition.
- Risk of economic conditions on consumer purchases - The Company's sales are impacted by consumer spending levels and impulse purchases which are affected by general macroeconomic conditions, consumer confidence, employment levels, disposable income, availability of consumer credit and interest rates on that credit, consumer debt levels, energy costs and other factors. Volatility in food and energy costs, rising unemployment and/or underemployment, declines in personal spending, and recessionary economic conditions could adversely impact the Company's revenues, profitability and financial condition.
- Risks related to environmental matters - The Company's operations are not particularly impactful on the environment, but, increased government environmental regulation or legislation could adversely impact the Company's profitability.
- Risks relating to participation in the multi-employer pension plan for certain Company union employees - As outlined in the Notes to the Consolidated Financial Statements and discussed in the Management's Discussion and Analysis, the Company participates in a multi-employer pension plan (Plan) which is currently in "critical and declining status", as defined by applicable law. A designation of "critical and declining status" implies that the Plan is expected to become insolvent by the year 2030. Under terms of a rehabilitation plan, the Company is to be assessed 5% annual compounded surcharges on its contributions to the Plan until such time as the Plan emerges from critical status. Should the Company withdraw from the Plan, it would be subject to a significant withdrawal liability which is discussed in Note 7 of the Company's Notes to Consolidated Financial Statements and Management's Discussion and Analysis. The Company is currently unable to determine the ultimate outcome of this 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.
- Risk of new governmental laws and regulations - Governmental laws and regulations, including those that affect food advertising and marketing to children, use of certain ingredients in products, new labeling requirements, income and other taxes and tariffs, including the effects of possible changes to international trade agreements that could affect products manufactured in Canada and sold in the U.S.A. and imported raw materials, new taxes targeted toward confectionery products and the environment, both in and outside the U.S.A., are subject to change over time, which could adversely impact the Company's results of operations and ability to compete in domestic or foreign marketplaces.
- Risk of labor stoppages - To the extent the Company experiences any significant labor stoppages, such disputes or strikes could negatively affect shipments from suppliers or shipments of finished product. The Company's union labor agreement at its Chicago plant is currently in negotiations and the Company is operating under an extension of its prior labor agreement. The Company anticipates that a new five year agreement will be completed in the first or second quarter of 2018. This timeline is generally consistent with prior contract negotiations.
- Risk of impairment of goodwill or indefinite-lived intangible assets - In accordance with authoritative guidance, goodwill and indefinite-lived intangible assets are not amortized but are subject to an impairment evaluation annually or more frequently upon the occurrence of a triggering event. Other long-lived assets are likewise tested for impairment upon the occurrence of a triggering event. Such evaluations are based on assumptions and variables including sales growth, profit margins and discount rates. Adverse changes in any of these variables could affect the carrying value of these intangible assets and the Company's reported profitability.
- Risk of the cost of energy increasing - Higher energy costs would likely result in higher plant overhead, distribution, freight and other operating costs. The Company may not be able to offset these cost increases or pass

such cost increases onto customers in the form of price increases, which could have an adverse impact on the Company's results of operations and financial condition.

- Risk of a product recall - Issues related to the quality and safety of the Company's products could result in a voluntary or involuntary large-scale product recall. Costs associated with a product recall and related litigation or fines, and marketing costs relating to the re-launch of such products or brands, could negatively affect operating results. In addition, negative publicity associated with this type of event, including a product recall relating to product contamination or product tampering, whether valid or not, could negatively impact future demand for the Company's products.
- Risk of operational interruptions relating to computer software or hardware failures - The Company is reliant on computer systems to operate its business. Software failure or corruption, including cyber-based attacks or network security breaches, or catastrophic hardware failures or other disasters could disrupt communications, supply chain planning and activities relating to sales demand forecasts, materials procurement, production and inventory planning, customer shipments, and financial and accounting, all of which could negatively impact sales and profits.
- Risk of releasing sensitive information – Although the Company does not maintain a large amount of sensitive data, a system breach, whether inadvertent or perpetrated by hackers, could result in identity theft which could expose the Company to financial costs and adversely affect profitability.
- Risk of production interruptions - The majority of the Company's products are manufactured in a single production facility on specialized equipment. In the event of a disaster, such as a fire or earthquake, at a specific plant location, it would be difficult to transfer production to other facilities or a new location in a timely manner, which could result in loss of market share for the affected products. In addition, from time to time, the Company upgrades or replaces this specialized equipment. In many cases these are integrated and complex installations. A failure or delay in implementing such an installation could impact the availability of one or more of the Company's products which would have an adverse impact on sales and profits.
- Risk related to international operations - To the extent there is political or social unrest, civil war, terrorism or significant economic instability in the countries in which the Company operates, the results of the Company's business in such countries could be adversely impacted. Currency exchange rate fluctuations between the U.S. dollar and foreign currencies could also have an adverse impact on the Company's results of operations and financial condition. The Company's principal markets are the U.S.A., Canada, and Mexico.
- Risk related to investments in marketable securities - The Company invests its surplus cash in a diversified portfolio of highly rated marketable securities, including corporate and tax exempt municipal bonds, with maturities of generally up to three years, and variable rate demand notes with weekly resets of interest rates and "puts" to redeem the investment each week. Nonetheless, such investments could become impaired in the event of certain adverse economic and/or geopolitical events which, if severe, would adversely affect the Company's financial condition.
- Disruption to the Company's supply chain could impair the Company's ability to produce or deliver its finished products, resulting in a negative impact on operating results - Disruption to the manufacturing operations or supply chain, some of which are discussed above, could result from, but are not limited to natural disasters, pandemic outbreak of disease, weather, fire or explosion, earthquakes, terrorism or other acts of violence, unavailability of ingredients or packaging materials, labor strikes or other labor activities, operational and/or financial instability of key suppliers, and other vendors or service providers. Although precautions are taken to mitigate the impact of possible disruptions, if the Company is unable, or if it is not financially feasible to effectively mitigate the likelihood or potential impact of such disruptive events, the Company's results of operations and financial condition could be negatively impacted.
- Risk related to acquisitions – From time to time, the Company has purchased other confectionery companies or brands. These acquisitions generally come at a high multiple of earnings and are justified based on various

assumptions related to sales growth, and operating margins. Were the Company to make another acquisition and be unable to achieve the assumed sales and operating margins, it could have an adverse impact on future sales and profits. In addition it could become necessary to record an impairment which would have a further adverse impact on reported profits.

- Risk of further losses in Spain – The Company has restructured its Spanish subsidiaries and is exploring a variety of programs to increase sales and profitability. However, the outcome of these efforts thus far have not been successful and additional losses and impairments are likely to be reported from these business units. See also Management’s Discussion and Analysis.
- Risk of “slack fill” litigation - The Company, as well as other confectionary and food companies, have experienced an increasing number of plaintiff claims that certain products are sold in boxes that are not completely full, and therefore such “slack filled” products are misleading, and even deceptive, to the consumer. Although the Company believes that these claims are without merit, the Company could be exposed to significant legal fees to defend its position, and in the event that it is not successful, could be subject to fines and costs of settlement, including class action settlements.
- The Company is a controlled company due to the common stock holdings of the Gordon family - The Gordon family’s share ownership represents a majority of the combined voting power of all classes of the Company’s common stock as of December 31, 2017. As a result, the Gordon family has the power to elect the Company’s directors and approve actions requiring the approval of the shareholders of the Company.

The factors identified above are believed to be significant factors, but not necessarily all of the significant factors, that could impact the Company’s business. Unpredictable or unknown factors could also have material effects on the Company.

Additional significant factors that may affect the Company’s operations, performance and business results include the risks and uncertainties listed from time to time in filings with the Securities and Exchange Commission and the risk factors or uncertainties listed herein or listed in any document incorporated by reference herein.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

The Company owns its principal manufacturing, warehousing and distribution and offices facilities which are located in Chicago, Illinois in a building consisting of approximately 2,354,000 square feet. In addition, the Company leases manufacturing and warehousing facilities at a second location in Chicago which comprises 137,000 square feet. The lease is renewable by the Company every five years through June, 2041; the Company expects to renew this lease prior to termination. The Company also periodically leases additional warehousing space at this second location as needed on a month-to-month basis.

The Company's other principal manufacturing, warehousing and distribution facilities, all of which are owned, are:

<u>Location</u>	<u>Square Feet (a)</u>
Covington, Tennessee	685,000
Cambridge, Massachusetts	142,000
Delavan, Wisconsin	162,000
Concord, Ontario, Canada	280,500 (b)
Hazleton, Pennsylvania	240,000 (c)
Mexico City, Mexico	90,000
Barcelona, Spain	93,000 (d)

- (a) Square footage is approximate and includes production, warehousing and office space.
(b) Two facilities; a third owned facility, comprising 225,000 square feet of warehousing space, and which is excluded from the reported totals above, is leased to a third party.
(c) Warehousing only.
(d) Excludes 9,500 square feet of unused office space in a separate facility.

The Company owns substantially all of the production machinery and equipment located in its plants. The Company also holds four commercial real estate properties for investment which were acquired with the proceeds from a sale of surplus real estate in 2005.

ITEM 3. Legal Proceedings.

There are no material pending legal proceedings known to the Company to which the Company or any of its subsidiaries is a party or of which any of their property is the subject, and no penalties have been imposed by the Internal Revenue Service on the Company.

ADDITIONAL ITEM. Executive Officers of the Registrant.

See the information on Executive Officers set forth in the table in Part III, Item 10.

ITEM 4. Mine Safety Disclosures.

None.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company’s common stock is traded on the New York Stock Exchange. The Company’s Class B common stock is subject to restrictions on transferability. The Class B common stock is convertible at the option of the holder into shares of common stock on a share-for-share basis. As of March 1, 2018, there were approximately 2,600 and 1,000 registered holders of record of common and Class B common stock, respectively. In addition, the Company estimates that as of March 1, 2018 there were 12,500 and 4,300 beneficial holders of common and Class B common stock, respectively.

The following table sets forth information about the shares of its common stock the Company purchased on the open market during the fiscal quarter ended December 31, 2017:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs</u>
Oct 1 to Oct 31	—	\$ —	Not Applicable	Not Applicable
Nov 1 to Nov 30	54,631	36.36	Not Applicable	Not Applicable
Dec 1 to Dec 31	58,028	36.45	Not Applicable	Not Applicable
Total	112,659	\$ 36.40		

While the Company does not have a formal or publicly announced Company common stock purchase program, the Company repurchases its common stock on the open market from time to time as authorized by the Board of Directors.

Quarterly Stock Prices and Dividends

The high and low quarterly prices for the Company’s common stock, as reported on the New York Stock Exchange and quarterly dividends in 2017 and 2016 were:

	<u>2017</u>				<u>2016</u>			
	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>	<u>4th Quarter</u>	<u>3rd Quarter</u>	<u>2nd Quarter</u>	<u>1st Quarter</u>
High	\$ 38.45	\$ 38.00	\$ 38.90	\$ 40.55	\$ 41.55	\$ 38.44	\$ 39.54	\$ 34.98
Low	34.75	34.95	34.45	37.00	34.35	36.48	34.08	30.41
Dividends per share	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09

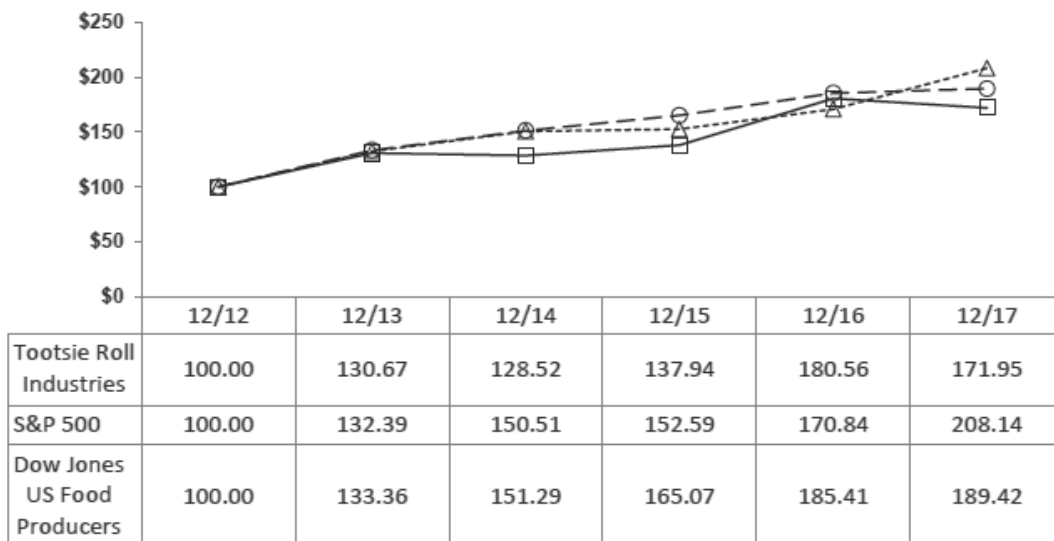
NOTE: In addition to the above cash dividends, a 3% stock dividend was issued on April 17, 2017 and April 8, 2016.

Performance Graph

The following performance graph compares the cumulative total shareholder return on the Company’s common stock for a five-year period (December 31, 2012 to December 31, 2017) with the cumulative total return of Standard & Poor’s 500 Stock Index (“S&P 500”) and the Dow Jones Industry Food Index (“Peer Group,” which includes the Company), assuming (i) \$100 invested on December 31 of the first year of the chart in each of the Company’s common stock, S&P 500 and the Dow Jones Industry Food Index and (ii) the reinvestment of cash and stock dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Tootsie Roll Industries, the S&P 500 Index and the Dow Jones US Food Producers Index



—■— Tootsie Roll Industries ---▲--- S&P 500 —○— Dow Jones US Food Producers

*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Copyright© 2018 Standard & Poor’s, a division of S&P Global. All rights reserved.
Copyright© 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

ITEM 6. Selected Financial Data.

Five Year Summary of Earnings and Financial Highlights

(Thousands of dollars except per share, percentage and ratio figures)

	2017	2016	2015	2014	2013
Sales and Earnings Data					
Net product sales	\$ 515,674	\$ 517,373	\$ 536,692	\$ 539,895	\$ 539,627
Product gross margin	189,750	197,083	196,602	198,962	188,667
Interest expense	144	105	76	99	92
Provision for income taxes	3,907	30,593	26,451	28,434	23,634
Net earnings attributable to Tootsie Roll Industries, Inc.	80,864	67,510	66,089	63,298	60,849
% of net product sales	15.7 %	13.0 %	12.3 %	11.7 %	11.3 %
% of shareholders' equity	11.0 %	9.5 %	9.5 %	9.2 %	8.9 %
Per Common Share Data (1)					
Net earnings attributable to Tootsie Roll Industries, Inc.	\$ 1.28	\$ 1.05	\$ 1.02	\$ 0.96	\$ 0.91
Cash dividends declared	0.36	0.36	0.35	0.32	0.32
Stock dividends	3 %	3 %	3 %	3 %	3 %
Additional Financial Data (1)					
Working capital	\$ 207,132	\$ 235,739	\$ 221,744	\$ 200,162	\$ 179,990
Net cash provided by operating activities	42,973	98,550	91,073	88,769	109,823
Net cash provided by (used in) investing activities	(9,343)	(51,884)	(8,523)	(30,459)	(47,963)
Net cash used in financing activities	(56,881)	(51,387)	(53,912)	(44,664)	(37,425)
Property, plant & equipment additions	16,673	16,090	15,534	10,704	15,752
Net property, plant & equipment	178,972	180,905	184,586	190,081	196,916
Total assets	930,946	920,101	908,983	910,386	888,409
Long-term debt	7,500	7,500	7,500	7,500	7,500
Total Tootsie Roll Industries, Inc. shareholders' equity	733,840	711,364	698,183	690,809	680,305
Average shares outstanding	63,179	64,086	65,103	66,020	66,857

(1) Per common share data and average shares outstanding adjusted for annual 3% stock dividends.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Thousands of dollars except per share, percentage and ratio figures)

The following discussion should be read in conjunction with the other sections of this report, including the consolidated financial statements and related notes contained in Item 8 of this Form 10-K.

FINANCIAL REVIEW

This financial review discusses the Company's financial condition, results of operations, liquidity and capital resources, significant accounting policies and estimates, new accounting pronouncements, market risks and other matters. It should be read in conjunction with the Consolidated Financial Statements and related Notes that follow this discussion.

FINANCIAL CONDITION

The Company's overall financial position remains strong as a result of net earnings increasing from \$67,318 in 2016 to 80,654 in 2017, and aggregate cash, cash equivalents, and investments, including long-term investments, of \$328,430 at December 31, 2017. Cash flows from 2017 operating activities totaled \$42,973 and are discussed in the section entitled Liquidity and Capital Resources. During 2017, the Company paid cash dividends of \$22,621, purchased and retired \$34,133 of its outstanding shares, and made capital expenditures of \$16,673.

The Company's net working capital was \$207,132 at December 31, 2017 compared to \$235,739 at December 31, 2016 which generally reflects lower aggregate cash, cash equivalents and short-term investments. As of December 31, 2017, the Company's total cash, cash equivalents and investments, including all long-term investments in marketable securities, was \$328,430 compared to \$351,323 at December 31, 2016, a decrease of \$22,893, which generally reflects increases in prepaid expenses and current income taxes receivable as well as payments of deferred compensation in 2017. The aforementioned includes \$60,520 and \$67,995 in trading securities as of December 31, 2017 and 2016, respectively. The Company invests in trading securities to provide an economic hedge for its deferred compensation liabilities, as further discussed herein and in Note 7 of the Company's Notes to Consolidated Financial Statements.

Shareholders' equity increased from \$711,364 at December 31, 2016 to \$733,840 as of December 31, 2017, principally reflecting 2017 net earnings of \$80,864, less cash dividends of \$22,621, share repurchases of \$34,133, and an increase in accumulated other comprehensive loss, primarily foreign translation, of \$1,545 during 2017.

The Company has a relatively straight-forward financial structure and has historically maintained a conservative financial position. Except for an immaterial amount of operating leases, the Company has no special financing arrangements or "off-balance sheet" special purpose entities. Cash flows from operations plus maturities of short-term investments are expected to be adequate to meet the Company's overall financing needs, including capital expenditures, in 2018. Periodically, the Company considers possible acquisitions, and if the Company were to pursue and complete such an acquisition, that could result in bank borrowings or other financing.

RESULTS OF OPERATIONS

2017 vs. 2016

Twelve months 2017 consolidated net sales were \$515,674 compared to \$517,373 in twelve months 2016, a decrease of \$1,699 or 0.3%. Twelve months 2017 consolidated sales were adversely affected by currency translation of \$2,047 due to a stronger U.S. dollar in 2017 compared to 2016, principally relating to the Company's Mexican subsidiary. Fourth quarter 2017 net sales were \$125,179 compared to \$124,279 in fourth quarter 2016, an increase of \$900 or 0.7%. Unfavorable foreign exchange, primarily Mexico, also contributed to lower sales in fourth quarter 2017 compared to the prior year corresponding period. The Company's unit selling prices and price realization in 2017 was consistent with 2016. The

Company's sales results in the United States continue to reflect the challenges of many of the Company's retail customers including their profit margin pressures and other competitive factors.

Product cost of goods sold were \$325,924 in 2017 compared to \$320,290 in 2016, an increase of \$5,634 or 1.8%. Product cost of goods sold includes \$1,953 and \$1,137 in certain deferred compensation expenses in 2017 and 2016, respectively. These deferred compensation 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, product cost of goods sold increased from \$319,153 in 2016 to \$323,971 in 2017, an increase of \$4,818 or 1.5%. As a percent of net product sales, these adjusted costs increased from 61.7% in 2016 to 62.8% in 2017, an unfavorable increase of 1.1% as a percent of net product sales. Higher costs for ingredients, packaging materials, and manufacturing plant overhead, including increases in wages, salaries and benefits, contributed to higher product cost of goods sold and adversely affected gross profit margins in 2017 compared to 2016. Continuing improvements in manufacturing plant efficiencies driven by capital investments and ongoing cost containment programs mitigated some of these higher costs and expenses. The Company is continuing its focus on capital expenditures that will result in operational efficiencies and cost reductions, as well as product improvements.

Selling, marketing and administrative expenses were \$120,977 in 2017 compared to \$107,377 in 2016, an increase of \$13,600 or 12.7%. Selling, marketing and administrative expenses include \$8,024 and \$3,138 in certain deferred compensation expenses in 2017 and 2016, respectively. These deferred compensation 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, these expenses increased from \$104,239 in 2016 to \$112,953 in 2017, an increase of \$8,714 or 8.4%. As a percent of net product sales, these adjusted expenses increased from 20.1% of net product sales in 2016 to 21.9% of net product sales in 2017, a 1.7% unfavorable increase as a percentage of sales.

Selling, marketing and administrative expenses include freight, delivery and warehousing expenses. These expenses increased from \$40,629 in 2016 to \$43,973 in 2017, an increase of \$3,344 or 8.2%. As a percent of net product sales, these adjusted expenses increased from 7.9% in 2016 to 8.5% in 2017, an unfavorable increase of 0.6% as a percent of net product sales. Increasing demand for over-the-road truck freight and delivery, and an imbalance in supply and demand for freight carriers, has resulted in higher prices for these services, particularly in fourth quarter 2017. There is a shortage of over-the-road trucks and truck drivers, and the Company expects these related cost pressures to continue in 2018. Increases in marketing and sales expenses relating to new product development and packaging changes to comply with product labeling requirements also contributed to higher selling, marketing and administrative expenses in 2017 compared to 2016, and these expenses also were much higher in fourth quarter 2017.

The Company has foreign operating businesses in Mexico, Canada and Spain, and exports products to many foreign markets. Such foreign sales were \$43,452 and comprised 8% of the Company's consolidated net product sales in 2017. In fourth quarter 2017, the Company recorded a pre-tax impairment charge of \$2,371 relating to its Spanish subsidiaries. The Company currently has a 97% ownership of two Spanish companies (93% ownership at December 31, 2016). During 2017 and 2016, these Spanish subsidiaries incurred operating losses of \$3,212 and \$1,689, respectively, and the Company provided approximately \$2,734 and \$886, respectively, of additional cash to finance these losses. Company management expects the competitive and business challenges in Spain to continue and expects operating losses in 2018 and likely beyond; and these future losses will require additional cash financing.

The Company believes that the carrying values of its goodwill and trademarks have indefinite lives as they are expected to generate cash flows indefinitely. In accordance with current accounting guidance, these indefinite-lived intangible assets are assessed at least annually for impairment as of December 31 or whenever events or circumstances indicate that the carrying values may not be recoverable from future cash flows. No impairments were recorded in 2017, 2016 or 2015. Current accounting guidance provides entities an option of performing a qualitative assessment (a "step-zero" test) before performing a quantitative analysis. If the entity determines, on the basis of certain qualitative factors, that it is more-likely-than-not that the intangibles (goodwill and certain trademarks) are not impaired, the entity would not need to proceed to the two step impairment testing process (quantitative analysis) as prescribed in the guidance. During fourth quarter 2017, the Company performed a "step zero" test of its goodwill and certain trademarks, and concluded that there was no impairment based on this guidance. For the fair value assessment of certain trademarks where the "step-zero" analysis was not considered appropriate, impairment testing was performed in fourth quarter 2017 using discounted cash flows and

estimated royalty rates. For these trademarks, holding all other assumptions constant at the test date, a 100 basis point increase in the discount rate or a 100 basis point decrease in the royalty rate would reduce the fair value of such trademarks by approximately 16% and 10%, respectively. Individually, a 100 basis point increase in the discount rate or a 100 basis point decrease in the royalty rate would not result in a potential impairment of these trademarks as of December 31, 2017.

Earnings from operations were \$71,416 in 2017 compared to \$92,414 in 2016, a decrease of \$20,998. Earnings from operations include \$9,977 and \$4,275 in certain deferred compensation expense in 2017 and 2016, respectively, which are discussed above. Adjusting for these deferred compensation expenses, earnings from operations decreased from \$96,689 in 2016 to \$81,393 in 2017, a decrease of \$15,296 or 15.8%. Twelve months results were adversely affected by lower gross profit margins, including the effects of higher costs and expenses for ingredients, packaging materials, and manufacturing plant overhead as discussed above. In addition, earnings from operations were also adversely affected by higher selling, marketing and administrative expenses, primarily freight and delivery, marketing and sales expenses relating to new product development and packaging changes to comply with product labeling requirements, and declines in foreign results and an impairment of foreign subsidiaries, all of which are discussed above. Many of these increased costs and expenses accelerated in fourth quarter 2017.

Management believes the comparisons presented in the preceding paragraphs, after adjusting for changes in deferred compensation, are more reflective of the underlying operations of the Company.

Other income, net was \$13,145 in 2017 compared to \$5,498 in 2016, an increase of \$7,647. Other income, net principally reflects \$9,977 and \$4,275 of aggregate net gains and investment income on trading securities in 2017 and 2016, respectively. These trading securities provide an economic hedge of the Company's deferred compensation liabilities; and the related net gains and investment income were offset by a like amount of expense in aggregate product cost of goods sold and selling, marketing, and administrative expenses in the respective years as discussed above. Other income, net includes investment income on available for sale securities, including variable rate demand notes, of \$2,851 and \$2,130 in 2017 and 2016, respectively. Other income, net also includes foreign exchange gains/(losses) of \$259 and \$(955) in 2017 and 2016, respectively.

In connection with enactment of the U.S. Tax Cuts and Jobs Act (Tax Reform Act) in December 2017, the Company recorded a favorable accounting adjustment of \$20,318, or \$0.32 per share, during the fourth quarter of 2017. This reflects the estimated benefit from the revaluation of net deferred income tax liabilities based on the new lower U.S. corporate income tax rate effective January 1, 2018. U.S. tax reform also includes a one-time toll charge resulting from the mandatory deemed repatriation of undistributed foreign earnings and profits. The Company determined that there were no net undistributed foreign earnings and profits subject to this toll charge. Based on SEC guidance in Staff Accounting Bulletin No. 118, the Company considers its accounting for the effects of U.S. tax reform to be provisional as of December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued by the Internal Revenue Service and state authorities.

The consolidated effective tax rate was 4.6% and 31.2% in 2017 and 2016, respectively. The principal drivers of the lower 2017 effective tax rate are the effects of U.S. tax reform and a worthless stock deduction relating to the Company's Spanish subsidiaries, which favorably reduced the Company's effective 2017 tax rate by 24.2% and 3.8%, respectively. A reconciliation of the differences between the U.S. statutory rate and these effective tax rates is provided in Note 4 of the Company's Notes to Consolidated Financial Statements. At December 31, 2017 and 2016, the Company's deferred tax assets include \$3,740 and \$6,346 of income tax benefits relating to its Canadian subsidiary tax loss carry-forwards which the Company expects to realize before their expiration dates (2029 through 2031). The Company utilized \$2,606 and \$1,776 of these tax carry-forward benefits in 2017 and 2016, respectively. The Company has concluded that it is more-likely-than-not that it would realize these deferred tax assets relating to its Canadian tax loss carry-forwards because it is expected that sufficient levels of taxable income will be generated during the carry-forward periods. The Company has provided a full valuation allowance on its Spanish subsidiaries' tax loss carry-forward benefits of \$3,038 and \$2,106 as of December 31, 2017 and 2016, respectively, because the Company has concluded that it is not more-likely-than-not that these losses will be utilized before their expiration dates. The Spanish subsidiaries have a history of net operating losses and it is not known when and if they will generate taxable income in the future.

U.S. tax reform changes the United States approach to the taxation of foreign earnings to a territorial system by providing a one hundred percent dividends received deduction for certain qualified dividends received from foreign subsidiaries. These provisions of the U.S. tax reform significantly impact the accounting for the undistributed earnings of foreign subsidiaries, and as a result the Company intends to distribute approximately \$10,000 of the earnings held in excess cash by its foreign subsidiaries in 2018. The costs associated with a future distribution, including foreign withholding taxes, are not material to the Company's financial statements. After carefully considering these facts, the Company has determined that it will not be asserting permanent reinvestment of its foreign subsidiaries earnings as of December 31, 2017.

Net earnings attributable to Tootsie Roll Industries, Inc. were \$80,864 in 2017 compared to \$67,510 in 2016, and earnings per share were \$1.28 and \$1.05 in 2017 and 2016, respectively, an increase of \$0.23 per share or 21.9%. The increase in earnings per share in 2017 principally resulted from U.S. tax reform (\$20,318 or \$.32 per share), however, many of the above discussed increases in input costs and operating expenses and the impairment of the Company's Spanish subsidiaries adversely affected 2017 net earnings when compared to 2016. In addition, 2017 earning per share benefited from the reduction in average shares outstanding resulting from purchases of the Company's common stock in the open market by the Company. Average shares outstanding decreased from 64,086 in 2016 to 63,179 in 2017.

Fourth quarter 2017 net earnings were \$31,985 compared to \$17,841 in fourth quarter 2016, and net earnings per share were \$0.51 and \$0.28 in fourth quarter 2017 and 2016, respectively, an increase of \$0.23 or 82.1%. This increase was driven by the favorable accounting adjustment relating to U.S. tax reform of \$20,318, or \$0.32 per share. Higher input costs and expenses as discussed above also adversely affected fourth quarter results, and many of the input cost increases, primarily freight and delivery, accelerated in fourth quarter 2017 compared to fourth quarter 2016.

Beginning in 2012, the Company received periodic notices from the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, that the Plan's actuary certified the Plan to be in "critical status", the "Red Zone", as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC); and that a plan of rehabilitation was adopted by the trustees of the Plan in fourth quarter 2012. During 2015, the Company received notices that the Plan's status was changed to "critical and declining status", as defined by the PPA and PBGC, for the plan year beginning January 1, 2015, and that the Plan was projected to have an accumulated funding deficiency for the 2017 through 2024 plan years. A designation of "critical and declining status" implies that the Plan is expected to become insolvent in the next 20 years. In second quarter 2016, the Company received new notices that the Plan's trustees adopted an updated Rehabilitation Plan effective January 1, 2016, and that the Plan remains in "critical and declining status" and is projected to become insolvent the year 2030. These new notices also advise that the Plan trustees were considering the reduction or elimination of certain retirement benefits and may seek assistance from the PBGC. Plans in "critical and declining status" may elect to suspend (temporarily or permanently) some benefits payable to all categories of participants, including retired participants, except retirees that are disabled or over the age of 80. Suspensions must be equally distributed and cannot drop below 110% of what would otherwise be guaranteed by the PBGC.

Based on these updated notices, the Plan's funded percentage (plan investment assets as a percentage of plan liabilities), as defined, were 57.0%, 62.8%, and 65.1% as of the most recent valuation dates available, January 1, 2016, 2015, and 2014, respectively (these valuation dates are as of the beginning of each Plan year). These funded percentages are based on actuarial values, as defined, and do not reflect the actual market value of Plan investments as of these dates. If the market value of investments had been used as of January 1, 2016 the funded percentage would be 53.0% (not 57.0%). The Plan's market value of its investments declined by 3.7% and its unfunded vested benefits increased by 6.4% during 2016. As of the January 1, 2016 valuation date (most recent valuation available), only 20% of Plan participants were current active employees, 51% were retired or separated from service and receiving benefits, and 29% were retired or separated from service and entitled to future benefits. The number of current active employee Plan participants as of January 1, 2016 fell 2% from the previous year and 4% over the past two years. When compared to the Plan valuation date of January 1, 2011 (five years earlier), current active employees participants have declined 31%, whereas participants who were retired or separated from service and receiving benefits increased 6% and participants who were retired or separated from service and entitled to future benefits increased 8%. The bankruptcy of a major participating employer in the Plan contributed to the above discussed Plan results. The Company understands that the Plan is currently exploring additional restructuring measures which include incentives to participating employers in exchange for providing additional future cash contributions as well as suspension of certain retirement benefits.

The Company has been advised that its withdrawal liability would have been \$82,200, \$72,700, and \$61,000 if it had withdrawn from the Plan during 2017, 2016 and 2015, respectively. The increase from 2016 to 2017 principally reflects a decrease in the PBGC interest rates, a decrease in the assets and increase in the Plan's unfunded vested benefits during 2016 and the Company comprising a larger share of the Plan's contribution base. Based on the above, including the Plan's projected insolvency in the year 2030, management believes that the Company's withdrawal liability will likely increase further in future years. Based on the Company's actuarial study and certain provisions in ERISA and the law relating to withdrawal liability payments, management believes that the Company's liability would likely be limited to twenty annual payments of \$3,059 which have a present value in the range of \$35,900 to \$46,900 depending on the interest rate used to discount these payments. The aforementioned is based on a range of valuation interest rates which management understands is provided under the statute. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amounts, could be payable to the Plan.

The Company and the union are currently in labor contract negotiations and are continuing to operate under extensions of the recently expired contract which requires the Company's continued participation in this Plan. The amended rehabilitation plan, which continues, requires that employer contributions include 5% compounded annual surcharge increases each year for an unspecified period of time beginning 2012 as well as certain plan benefit reductions. The Company's pension expense for this Plan for 2017, 2016 and 2015 was \$2,617, \$2,541 and \$2,574, respectively. The aforementioned expense includes surcharges of \$656, \$542 and \$447 in 2017, 2016 and 2015, respectively, as required under the plan of rehabilitation as amended.

The Company is currently unable to determine the ultimate outcome of the above discussed multi-employer union pension 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 Note 7 in the Company's Consolidated Financial Statements on Form 10-K for the year ended December 31, 2017.

2016 vs. 2015

Twelve months 2016 consolidated net sales were \$517,373 compared to \$536,692 in twelve months 2015, a decrease of \$19,319 or 3.6%. Twelve months 2016 consolidated sales were adversely affected by currency translation of \$3,473 due to a stronger U.S. dollar in 2016 compared to 2015, principally relating to Mexico and Canada. The timing of sales between fourth quarter 2016 and first quarter 2017 also had some adverse effect on twelve months 2016 sales when compared to the twelve months in the prior year. The Company had higher sales price realization in 2016 compared to 2015 in order to recover increased costs for ingredients and certain other inputs. Fourth quarter 2016 net sales were \$124,279 compared to \$139,881 in fourth quarter 2015, a decrease of \$15,602 or 11.2%. Fourth quarter 2016 net sales were adversely affected by the timing of certain customer sales at both the beginning and end of the quarter when compared to the prior year fourth quarter in 2015. Unfavorable foreign exchange also contributed to lower sales in fourth quarter 2016 compared to the prior year corresponding period.

Product cost of goods sold were \$320,290 in 2016 compared to \$340,090 in 2015, a decrease of \$19,800 or 5.8%. Product cost of goods sold includes \$1,137 and \$497 in certain deferred compensation expenses in 2016 and 2015, respectively. These deferred compensation 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, product cost of goods sold decreased from \$339,593 in 2015 to \$319,153 in 2016, a decrease of \$20,440 or 6.0%. As a percent of net product sales, these adjusted costs decreased from 63.3% in 2015 to 61.7% in 2016, a favorable decrease of 1.6% as a percent of net product sales. Higher price realization on sales, continuing improvements in manufacturing plant efficiencies driven by capital investments, and ongoing cost containment programs contributed to this improvement in lower costs of goods sold and the resulting improvement in gross profit margins in twelve months 2016 compared to 2015. Higher costs for ingredients and additional manufacturing costs relating to changes in and uncertainties relating to product labeling requirements adversely affected gross profit margins in 2016. These higher manufacturing costs in 2016 include the effects of lower production volumes runs for many products

in order to reduce and minimize finished goods inventory levels and additional costs to meet new product labeling requirements. This inventory reduction was in response to uncertainties surrounding changes in state and national labeling regulations and requirements during 2016. The Company is continuing its focus on cost reductions and savings, including savings resulting from capital investments, in order to achieve manufacturing efficiencies and productivity improvements. The Company has made progress on restoring margins to their historical levels before the increases in commodity and other input costs in past years.

Selling, marketing and administrative expenses were \$107,377 in 2016 compared to \$108,051 in 2015, a decrease of \$674 or 0.6%. Selling, marketing and administrative expenses include \$3,138 and \$953 in certain deferred compensation expenses in 2016 and 2015, respectively. These deferred compensation 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, these expenses decreased from \$107,098 in 2015 to \$104,239 in 2016, a decrease of \$2,859 or 2.7%. As a percent of net product sales, these adjusted expenses increased slightly from 20.0% of net product sales in 2015 to 20.1% of net product sales in 2016, a 0.1% unfavorable increase as a percentage of sales. Selling, marketing and administrative expenses include \$40,629 and \$42,619 of freight, delivery and warehousing expenses in 2016 and 2015, respectively, were 7.9% of net product sales in both 2016 and 2015. Internal expense reduction initiatives mitigated some of the higher costs of freight, delivery and warehousing in 2016 compared to 2015.

The Company has foreign operating businesses in Mexico, Canada and Spain, and exports products to many foreign markets. The strength of the U.S. dollar and related devaluations of most these related foreign currencies, primarily Mexico and Canada, have adversely affected these foreign and export operations in 2016 compared to 2015. The operating income of these foreign and export operations decreased by \$3,269 in 2016 compared to 2015. The Company currently has a 93% ownership of two Spanish companies (93% and 83% ownership at December 31, 2016 and 2015, respectively) which had operating losses for each of the years 2008 through 2016. Company management has restructured the Spanish operations and made other changes to its business plan but these companies continue to have operating losses.

Earnings from operations were \$92,414 in 2016 compared to \$91,082 in 2015, an increase of \$1,332. Earnings from operations include \$4,275 and \$1,450 in certain deferred compensation expense in 2016 and 2015, respectively, which are discussed above. Adjusting for these deferred compensation expenses, earnings from operations increased from \$92,532 in 2015 to \$96,689 in 2016, an increase of \$4,157 or 4.5%. Although ingredient costs and results from foreign operations adversely affected adjusted 2016 earnings from operations, higher price realization on sales and the cost and expense reductions, as discussed above, allowed the Company to achieve these higher adjusted operating earnings in 2016 despite the decline in 2016 net sales compared to 2015.

Management believes the comparisons presented in the preceding paragraphs, after adjusting for changes in deferred compensation, are more reflective of the underlying operations of the Company.

Other income, net was \$5,498 in 2016 compared to \$1,496 in 2015, an increase of \$4,002. Other income, net principally reflects \$4,275 and \$1,450 of aggregate net gains and investment income on trading securities in 2016 and 2015, respectively. Other income, net includes investment income on available for sale securities, including variable rate demand notes, of \$2,130 and \$1,421 in 2016 and 2015, respectively. Other income, net also includes foreign exchange losses of \$955 and \$1,427 in 2016 and 2015, respectively.

The consolidated effective tax rate was 31.2% and 28.6% in 2016 and 2015, respectively. The lower effective tax rate for 2015 principally reflects benefits from favorable prior year income tax settlements, including a \$1,066 release of an uncertain income tax liability resulting from a decision by a foreign court in second quarter 2015. The Company utilized \$1,776 and \$2,758 of its Canadian subsidiary's tax carry-forward benefits in 2016 and 2015, respectively. The Company has provided a full valuation allowance on its Spanish subsidiaries' tax loss carry-forward benefits of \$2,106 and \$1,834 as of December 31, 2016 and 2015, respectively, because the Company has concluded that it is not more-likely-than-not that these losses will be utilized before their expiration dates. The Company did not provide for U.S. federal or foreign withholding taxes on approximately \$22,081 and \$20,174 of foreign subsidiaries' undistributed earnings as of December 31, 2016 and December 31, 2015, respectively, because such earnings were considered to be permanently

reinvested. The Company estimates that the federal income tax liability on such undistributed earnings would approximate 30% of these amounts.

Net earnings attributable to Tootsie Roll Industries, Inc. were \$67,510 in 2016 compared to \$66,089 in 2015, and earnings per share were \$1.05 and \$1.02 in 2016 and 2015, respectively, an increase of \$0.03 per share or 2.9%. As discussed above, net earnings principally benefited from higher price realization on domestic sales and cost and expense reductions, although higher ingredient costs, lower foreign operating income, and the adverse effects of lower sales mitigated some of these benefits. In addition, a lower effective income tax rate in prior year 2015 adversely affects the comparison to 2016 net earnings. Earnings per share in 2016 benefited from the reduction in average shares outstanding resulting from purchases of the Company's common stock in the open market by the Company. Average shares outstanding decreased from 65,103 in 2015 to 64,086 in 2016. Fourth quarter 2016 net earnings were \$17,841 compared to \$19,705 in fourth quarter 2015, and net earnings per share were \$.28 and \$.30 in fourth quarter 2016 and 2015, respectively, a decrease of \$.02 or 6%.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities were \$42,973, \$98,550 and \$91,073 in 2017, 2016 and 2015, respectively. The \$55,577 decrease in cash flows from operating activities from 2016 to 2017 primarily reflects increases in income taxes receivable and prepaid expenses and other assets; and a decrease in income taxes payable and payments of deferred compensation during 2017. Cash flows in 2016 benefited from decreases in accounts receivable and inventories, net of a decrease in income taxes payable.

The Company manages and controls a VEBA trust, to fund the estimated future costs of certain union employee health, welfare and other benefits. A contribution of \$20,024 was made to this trust during fourth quarter 2017; no contribution was made to the trust during 2016. The Company uses these funds to pay the actual cost of such benefits over each union contract period. At December 31, 2017 and 2016, the VEBA trust held \$19,713 and \$3,027, respectively, of aggregate cash and cash equivalents. This asset value is included in prepaid expenses and long-term other assets in the Company's Consolidated Statement of Financial Position. These assets are categorized as Level 1 within the fair value hierarchy.

Cash flows from investing activities reflect capital expenditures of \$16,673, \$16,090, and \$15,534 in 2017, 2016 and 2015, respectively. The changes in amounts each year principally reflects the timing of expenditures relating to plant manufacturing projects. Company management has recently committed approximately \$15,000 to a manufacturing plant rehabilitation upgrade and expansion of one of its manufacturing plants in the U.S.A. Management's projected cash outlays for this project are approximately \$6,000 in each of 2018 and 2019 and \$3,000 in 2020. In addition, Company management has committed approximately \$13,000 to new packaging lines in 2018 which will result in additional capital spending in 2018 in excess of historical levels. All capital expenditures are to be funded from the Company's cash flow from operations and internal sources including available for sale securities.

Other than the bank loans and the related restricted cash of the Company's Spanish subsidiaries, which are discussed in Note 1 of the Company's Notes to Consolidated Financial Statements, the Company had no bank borrowings or repayments in 2015, 2016, or 2017, and had no outstanding bank borrowings as of December 31, 2016 or 2017. Nonetheless, the Company would consider bank borrowing or other financing in the event that a business acquisition is completed.

Financing activities include Company common stock purchases and retirements of \$34,133, \$29,093, and \$33,004 in 2017, 2016 and 2015, respectively. Cash dividends of \$22,621, \$22,266, and \$20,775 were paid in 2017, 2016 and 2015, respectively.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Preparation of the Company's financial statements involves judgments and estimates due to uncertainties affecting the application of accounting policies, and the likelihood that different amounts would be reported under different conditions or using different assumptions. The Company bases its estimates on historical experience and other assumptions, as discussed herein, that it believes are reasonable. If actual amounts are ultimately different from previous estimates, the

revisions are included in the Company's results of operations for the period in which the actual amounts become known. The Company's significant accounting policies are discussed in Note 1 of the Company's Notes to Consolidated Financial Statements.

Following is a summary and discussion of the more significant accounting policies and estimates which management believes to have a significant impact on the Company's operating results, financial position, cash flows and footnote disclosure.

Revenue recognition

Revenue, net of applicable provisions for discounts, returns, allowances and certain advertising and promotional costs, is recognized when products are delivered to customers based on an accepted customer purchase order. These include quantity, sales price and other relevant terms of sale, and collectability is reasonably assured. The accounting for promotional costs is discussed under "Customer incentive programs, advertising and marketing" below. Accounts receivable are unsecured.

Provisions for bad debts are recorded as selling, marketing and administrative expenses. Write-offs of bad debts did not exceed 0.1% of net product sales in each of 2017, 2016 and 2015, and accordingly, have not been significant to the Company's financial position or results of operations.

Customer freight and delivery, and finished goods warehousing and handling expenses are included in selling, marketing and administrative expenses.

The Company is continuing its review and evaluation of revenue recognition under new guidance (ASC 606, "Revenue with Contracts from Customers") which is effective at the beginning of the first quarter 2018. The Company will adopt this new guidance via the modified retrospective approach with the initial adoption impacting opening retained earnings effective January 1, 2018. Company management does not believe that the adoption of this new guidance will have a material effect on its consolidated statements of earnings, but management is expecting to reduce certain accrued liabilities (and increase retained earnings) relating to variable consideration, as defined by the new guidance on its consolidated statement financial position (balance sheet) of January 1, 2018.

Intangible assets

The Company's intangible assets consist primarily of goodwill and acquired trademarks. In accordance with accounting guidance, goodwill and other indefinite-lived assets, trademarks, are not amortized, but are instead subjected to annual testing for impairment unless certain triggering events or circumstances are noted. The Company performs its annual impairment review and assessment as of December 31. All trademarks have been assessed by management to have indefinite lives because they are expected to generate cash flows indefinitely. The Company reviews and assesses certain trademarks (non-amortizable intangible assets) for impairment by comparing the fair value of each trademark with its carrying value. Current accounting guidance provides entities an option of performing a qualitative assessment (a "step-zero" test) before performing a quantitative analysis. If the entity determines, on the basis of certain qualitative factors, that it is more-likely-than-not that the intangibles (goodwill and certain trademarks) are not impaired, the entity would not need to proceed to the two step impairment testing process (quantitative analysis) as prescribed in the guidance. During fourth quarter 2017, the Company performed a "step zero" test of its goodwill and certain trademarks, and concluded that there was no impairment based on this guidance.

The Company determines the fair value of certain trademarks using discounted cash flows and estimates of royalty rates. If the carrying value exceeds fair value, such trademarks are considered impaired and is reduced to fair value. The Company utilizes third-party professional valuation firms to assist in the determination of valuation of such trademarks. Impairments have not generally been material to the Company's historical operating results.

Cash flow projections require the Company to make assumptions and estimates regarding the Company's future plans, including sales projections and profit margins, market based discount rates, competitive factors, and economic conditions; and the Company's actual results and conditions may differ over time. A change in the assumptions relating to the impairment analysis including but not limited to a reduction in projected cash flows, the use of a different discount rate to discount future cash flows or a different royalty rate applied to such trademarks, could cause impairment in the future.

Customer incentive programs, advertising and marketing

Advertising and marketing costs are recorded in the period to which such costs relate. The Company does not defer the recognition of any amounts on its consolidated balance sheet with respect to such costs. Customer incentives and other promotional costs, including consumer coupon (price reduction) incentives, are recorded at the time of the Company's sale based upon incentive program terms and historical utilization statistics, which are generally consistent from year to year. The liabilities associated with these programs are reviewed quarterly and adjusted if utilization rates differ from management's original estimates. Such adjustments have not historically been material to the Company's operating results.

Split dollar officer life insurance

The Company provides split dollar life insurance benefits to certain executive officers and records an asset principally equal to the cumulative premiums paid. The Company will fully recover these premiums in future years under the terms of the plan. The Company retains a collateral assignment of the cash surrender values and policy death benefits payable to insure recovery of these premiums.

Valuation of long-lived assets

Long-lived assets, primarily property, plant and equipment, are reviewed for impairment as events or changes in business circumstances occur indicating that the carrying value of the asset may not be recoverable. The estimated cash flows produced by assets or asset groups, are compared to the asset carrying value to determine whether impairment exists. Such estimates involve considerable management judgment and are based upon assumptions about expected future operating performance. As a result, actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic and competitive conditions. Such impairments have not historically been material to the Company's operating results.

Income taxes

Deferred income taxes are recognized for future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. The Company records valuation allowances in situations where the realization of deferred tax assets, including those relating to net operating tax losses, is not more-likely-than-not; and the Company adjusts and releases such valuation allowances when realization becomes more-likely-than-not as defined by accounting guidance. The Company periodically reviews assumptions and estimates of the Company's probable tax obligations and effects on its liability for uncertain tax positions, using informed judgment which may include the use of third-party consultants, advisors and legal counsel, as well as historical experience.

Valuation of investments

Investments primarily comprise corporate and municipal (tax-free) bonds, including variable rate demand notes (generally long term bonds where interest rates are reset weekly, and provide a weekly "put" which allows the holder to also sell each week with no loss in principal), which are reviewed for impairment at each reporting period by comparing the carrying value or amortized cost to the fair market value. In the event that an investment security's fair value is below carrying value or amortized cost, the Company will record an other-than-temporary impairment or a temporary impairment based on accounting guidance. The Company's investment policy, which guides investment decisions, is focused on high quality

investments which mitigates the risk of impairment. The Company may utilize third-party professional valuation firms as necessary to assist in the determination of the value of investments that utilize Level 3 inputs (as defined by guidance) should any of its investments be downgraded to such level.

Other matters

In the opinion of management, other than contracts for foreign currency forwards and raw materials, including currency and commodity hedges and outstanding purchase orders for packaging, ingredients, supplies, and operational services, all entered into in the ordinary course of business, the Company does not have any significant contractual obligations or future commitments. The Company's outstanding contractual commitments as of December 31, 2017, all of which are generally normal and recurring in nature, are summarized in the chart which follows below.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Company's Notes to Consolidated Financial Statements.

MARKET RISKS

The Company is exposed to market risks related to commodity prices, interest rates, investments in marketable securities, equity price and foreign exchange.

The Company's ability to forecast the direction and scope of changes to its major input costs is impacted by significant potential volatility in crude oil and energy, sugar, corn, edible oils, cocoa and cocoa powder, and dairy products markets. The prices of these commodities are influenced by changes in global demand, changes in weather and crop yields, including the possible effects of climate change, changes in import tariffs and governments' farm policies, including mandates for ethanol and bio-fuels, environmental matters, fluctuations in the U.S. dollar relative to dollar-denominated commodities in world markets, and in some cases, geo-political risks. The Company believes that its competitors face the same or similar challenges.

In order to address the impact of changes in input and other costs, the Company periodically reviews each item in its product portfolio to ascertain if price realization adjustments or other actions should be taken. These reviews include an evaluation of the risk factors relating to market place acceptance of such changes and their potential effect on future sales volumes. In addition, the estimated cost of packaging modifications associated with weight changes is evaluated. The Company also maintains ongoing cost reduction and productivity improvement programs under which cost savings initiatives are encouraged and progress monitored. The Company is not able to accurately predict the outcome of these cost savings initiatives and their effects on its future results.

Changes in U.S.A. tax policy, including a "border tax" and possible new tariffs on foreign imports which are under discussion, could have an adverse impact on such products made in Canada and sold in the U.S.A. as well as certain other ingredients and materials which are imported.

Commodity future and foreign currency forward contracts

Commodity price risks relate to ingredients, primarily sugar, cocoa and cocoa powder, chocolate, corn syrup, dextrose, edible oils, milk, whey and gum base ingredients. The Company believes its competitors face similar risks, and the industry has historically adjusted prices, and/or product weights, to compensate for adverse fluctuations in commodity costs. The Company, as well as competitors in the confectionery industry, has historically taken actions, including higher price realization to mitigate rising input costs for ingredients, packaging, labor and fringe benefits, energy, and freight and delivery. Although management seeks to substantially recover cost increases over the long-term, there is risk that higher price realization cannot be fully passed on to customers and, to the extent they are passed on, they could adversely affect customer and consumer acceptance and resulting sales volume.

The Company utilizes commodity futures contracts, as well as annual supply agreements, to hedge and plan for anticipated purchases of certain ingredients, including sugar, in order to mitigate commodity cost fluctuation. The Company also may purchase forward foreign exchange contracts to hedge its costs of manufacturing certain products in Canada for sale and distribution in the United States (U.S.A.), and periodically does so for purchases of equipment or raw materials from foreign suppliers. Such commodity futures and currency forward contracts are cash flow hedges and are effective as hedges as defined by accounting guidance. The unrealized gains and losses on such contracts are deferred as a component of accumulated other comprehensive loss (or gain) and are recognized as a component of product cost of goods sold when the related inventory is sold.

The potential change in fair value of commodity and foreign currency derivative instruments held by the Company at December 31, 2017, assuming a 10% change in the underlying contract price, was \$1,476. The analysis only includes commodity and foreign currency derivative instruments and, therefore, does not consider the offsetting effect of changes in the price of the underlying commodity or foreign currency. This amount is not significant compared with the net earnings and shareholders' equity of the Company.

Interest rates

Interest rate risks primarily relate to the Company's investments in marketable securities with maturities dates of generally up to three years.

The majority of the Company's investments, which are classified as available for sale, have historically been held until their maturity, which limits the Company's exposure to interest rate fluctuations. The Company also invests in variable rate demand notes which have interest rates which are reset weekly and can be "put back" and sold each week through a remarketing agent, generally a large financial broker, which also substantially eliminates the Company's exposure to interest rate fluctuations on the principal invested. The accompanying chart summarizes the maturities of the Company's investments in debt securities at December 31, 2017.

Less than 1 year	\$ 62,656
1 – 2 years	54,155
2 – 3 years	54,702
Over 3 years	83
Total	<u>\$ 171,596</u>

The Company's outstanding debt at December 31, 2017 and 2016 was \$7,500 in an industrial revenue bond in which interest rates reset each week based on the current market rate. Therefore, the Company does not believe that it has significant interest rate risk with respect to its interest bearing debt.

Investment in marketable securities

As stated above, the Company invests primarily in marketable securities including variable rate demand notes (VRDNs). The VRDNs have weekly "puts" which are collateralized by bank letters of credit or other assets, and interest rates are reset weekly. Except for VRDN's the Company's marketable securities are held to maturity with maturities generally not exceeding three years. The Company utilizes professional money managers and maintains investment policy guidelines which emphasize high quality and liquidity in order to minimize the potential loss exposures that could result in the event of a default or other adverse event. The Company continues to monitor these investments and markets, as well as its investment policies, however, the financial markets could experience unanticipated or unprecedented events as it did in 2008 and 2009, and future outcomes may be less predictable than in the past.

Equity price

Equity price risk relates to the Company's investments in mutual funds which are principally used to fund and hedge the Company's deferred compensation liabilities. These investments in mutual funds are classified as trading securities. Any change in the fair value of these trading securities is completely offset by a corresponding change in the respective hedged

deferred compensation liability, and therefore the Company does not believe that it has significant equity price risk with respect to these investments.

Foreign currency

Foreign currency risk principally relates to the Company's foreign operations in Canada, Mexico and Spain, as well as periodic purchase commitments of machinery and equipment from foreign sources.

Certain of the Company's Canadian manufacturing costs, including local payroll and plant operations, and a portion of its packaging and ingredients are sourced in Canadian dollars. The Company may purchase Canadian forward contracts to receive Canadian dollars at a specified date in the future and uses its Canadian dollar collections on Canadian sales as a partial hedge of its overall Canadian manufacturing obligations sourced in Canadian dollars. The Company also periodically purchases and holds Canadian dollars to facilitate the risk management of these currency changes.

From time to time, the Company may use foreign exchange forward contracts and derivative instruments to mitigate its exposure to foreign exchange risks, as well as those related to firm commitments to purchase equipment from foreign vendors. See Note 10 of the Company's Notes to Consolidated Financial Statements for outstanding foreign exchange forward contracts as of December 31, 2017.

Open Contractual Commitments as of December 31, 2017:

Payable in	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Commodity hedges	\$ 13,840	\$ 11,468	\$ 2,372	\$ —	\$ —
Foreign currency hedges	919	919	—	—	—
Purchase obligations	8,553	8,553	—	—	—
Interest bearing debt	7,500	—	—	—	7,500
Operating leases	5,481	1,025	1,770	1,083	1,603
Total	\$ 36,293	\$ 21,965	\$ 4,142	\$ 1,083	\$ 9,103

Note: Commodity hedges and foreign currency hedges reflect the amounts at which the Company will settle the related contracts. The above amounts exclude deferred income tax liabilities of \$41,457, liabilities for uncertain tax positions of \$4,817, postretirement health care benefits of \$13,497 and deferred compensation of \$66,588 because the timing of payments relating to these items cannot be reasonably determined.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included under the caption “Market Risk” in Item 7 above.

See also Note 1 of the Notes to Consolidated Financial Statements.

ITEM 8. Financial Statements and Supplementary Data.

Management’s Report on Internal Control Over Financial Reporting

The management of Tootsie Roll Industries, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 (SEC) Rule 13a-15(f). Company management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017 as required by SEC Rule 13a-15(c). In making this assessment, the Company used the criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on the Company’s evaluation under the COSO criteria, Company management concluded that its internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Tootsie Roll Industries, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1) and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Tootsie Roll Industries, Inc. and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it classifies deferred taxes in the Statement of Financial Position effective January 1, 2017.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP
Chicago, Illinois
March 1, 2018

We have served as the Company's auditor since 1968.

CONSOLIDATED STATEMENTS OF
Earnings and Retained Earnings

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

(in thousands except per share data)

	For the year ended December 31,		
	2017	2016	2015
Net product sales	\$ 515,674	\$ 517,373	\$ 536,692
Rental and royalty revenue	3,615	3,727	3,420
Total revenue	<u>519,289</u>	<u>521,100</u>	<u>540,112</u>
Product cost of goods sold	325,924	320,290	340,090
Rental and royalty cost	972	1,019	889
Total costs	<u>326,896</u>	<u>321,309</u>	<u>340,979</u>
Product gross margin	189,750	197,083	196,602
Rental and royalty gross margin	2,643	2,708	2,531
Total gross margin	<u>192,393</u>	<u>199,791</u>	<u>199,133</u>
Selling, marketing and administrative expenses	120,977	107,377	108,051
Earnings from operations	<u>71,416</u>	<u>92,414</u>	<u>91,082</u>
Other income, net	13,145	5,498	1,496
Earnings before income taxes	<u>84,561</u>	<u>97,912</u>	<u>92,578</u>
Provision for income taxes	3,907	30,593	26,451
Net earnings	<u>80,654</u>	<u>67,319</u>	<u>66,127</u>
Less: Net earnings (loss) attributable to noncontrolling interests	(210)	(191)	38
Net earnings attributable to Tootsie Roll Industries, Inc.	<u>\$ 80,864</u>	<u>\$ 67,510</u>	<u>\$ 66,089</u>
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 1.28	\$ 1.05	\$ 1.02
Average number of shares outstanding	<u>63,179</u>	<u>64,086</u>	<u>65,103</u>
Retained earnings at beginning of period	\$ 43,833	\$ 52,349	\$ 64,927
Net earnings attributable to Tootsie Roll Industries, Inc.	80,864	67,510	66,089
Cash dividends	(22,548)	(22,209)	(21,308)
Stock dividends	(44,924)	(53,817)	(57,359)
Retained earnings at end of period	<u>\$ 57,225</u>	<u>\$ 43,833</u>	<u>\$ 52,349</u>

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

CONSOLIDATED STATEMENTS OF
Comprehensive Earnings
 TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

(in thousands)

	For the year ended December 31,		
	2017	2016	2015
Net earnings	\$ 80,654	\$ 67,319	\$ 66,127
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	1,198	(3,816)	(4,145)
Pension and postretirement reclassification adjustment:			
Unrealized gains (losses) for the period on postretirement and pension benefits	(1,009)	(688)	1,446
Less: reclassification adjustment for (gains) losses to net earnings	(1,462)	(1,642)	(1,451)
Unrealized gains (losses) on postretirement and pension benefits	(2,471)	(2,330)	(5)
Investments:			
Unrealized gains (losses) for the period on investments	(300)	(151)	(428)
Less: reclassification adjustment for (gains) losses to net earnings	—	5	—
Unrealized gains (losses) on investments	(300)	(146)	(428)
Derivatives:			
Unrealized gains (losses) for the period on derivatives	(1,410)	2,832	(3,814)
Less: reclassification adjustment for (gains) losses to net earnings	(107)	1,150	4,133
Unrealized gains (losses) on derivatives	(1,517)	3,982	319
Total other comprehensive income (loss), before tax	(3,090)	(2,310)	(4,259)
Income tax benefit (expense) related to items of other comprehensive income	1,545	(572)	(7)
Total comprehensive earnings	79,109	64,437	61,861
Comprehensive earnings (loss) attributable to noncontrolling interests	(210)	(191)	38
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	<u>\$ 79,319</u>	<u>\$ 64,628</u>	<u>\$ 61,823</u>

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

CONSOLIDATED STATEMENTS OF
Financial Position
 TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

(in thousands)

Assets

	December 31,	
	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 96,314	\$ 119,145
Restricted cash	406	382
Investments	41,606	67,513
Accounts receivable trade, less allowances of \$1,921 and \$1,884	47,354	42,964
Other receivables	5,425	3,299
Inventories:		
Finished goods and work-in-process	31,922	34,631
Raw materials and supplies	22,905	22,900
Income taxes receivable	12,974	1,444
Prepaid expenses	12,014	5,702
Deferred income taxes	—	1,320
Total current assets	<u>270,920</u>	<u>299,300</u>
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	21,962	22,081
Buildings	118,491	116,398
Machinery and equipment	381,665	369,802
Construction in progress	4,866	3,546
	<u>526,984</u>	<u>511,827</u>
Less—Accumulated depreciation	<u>348,012</u>	<u>330,922</u>
Net property, plant and equipment	<u>178,972</u>	<u>180,905</u>
OTHER ASSETS:		
Goodwill	73,237	73,237
Trademarks	175,024	175,024
Investments	190,510	164,665
Split dollar officer life insurance	26,042	26,042
Prepaid expenses and other	15,817	602
Deferred income taxes	424	326
Total other assets	<u>481,054</u>	<u>439,896</u>
Total assets	<u>\$ 930,946</u>	<u>\$ 920,101</u>

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

(in thousands except per share data)

Liabilities and Shareholders' Equity

	December 31,	
	2017	2016
CURRENT LIABILITIES:		
Accounts payable	\$ 11,928	\$ 10,320
Bank loans	440	336
Dividends payable	5,660	5,573
Accrued liabilities	45,157	46,300
Postretirement health care benefits	603	513
Deferred income taxes	—	519
Total current liabilities	<u>63,788</u>	<u>63,561</u>
NONCURRENT LIABILITIES:		
Deferred income taxes	41,457	46,060
Bank loans	—	230
Postretirement health care benefits	12,894	11,615
Industrial development bonds	7,500	7,500
Liability for uncertain tax positions	4,817	5,185
Deferred compensation and other liabilities	66,686	74,412
Total noncurrent liabilities	<u>133,354</u>	<u>145,002</u>
TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:		
Common stock, \$.69-4/9 par value— 120,000 shares authorized— 37,960 and 37,701, respectively, issued	26,361	26,181
Class B common stock, \$.69-4/9 par value— 40,000 shares authorized— 24,891 and 24,221, respectively, issued	17,285	16,820
Capital in excess of par value	656,752	646,768
Retained earnings	57,225	43,833
Accumulated other comprehensive loss	(21,791)	(20,246)
Treasury stock (at cost)— 85 shares and 83 shares, respectively	<u>(1,992)</u>	<u>(1,992)</u>
Total Tootsie Roll Industries, Inc. shareholders' equity	733,840	711,364
Noncontrolling interests	<u>(36)</u>	<u>174</u>
Total equity	<u>733,804</u>	<u>711,538</u>
Total liabilities and shareholders' equity	<u>\$ 930,946</u>	<u>\$ 920,101</u>

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

CONSOLIDATED STATEMENTS OF
Cash Flows
 TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

(in thousands)

	For the year ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 80,654	\$ 67,319	\$ 66,127
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	18,991	19,627	20,388
Deferred income taxes	(2,337)	199	255
Impairment of majority-owned Spanish subsidiaries	2,371	—	—
Amortization of marketable security premiums	2,386	2,830	3,105
Changes in operating assets and liabilities:			
Accounts receivable	(4,012)	6,869	(8,929)
Other receivables	(3,146)	473	1,119
Inventories	1,558	4,183	7,530
Prepaid expenses and other assets	(22,052)	2,999	11,593
Accounts payable and accrued liabilities	(557)	(2,061)	3,839
Income taxes payable	(11,899)	(5,797)	(115)
Postretirement health care benefits	(1,192)	(1,216)	(903)
Deferred compensation and other liabilities	(17,792)	3,125	(12,936)
Net cash provided by operating activities	<u>42,973</u>	<u>98,550</u>	<u>91,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in restricted cash	(23)	—	1,149
Capital expenditures	(16,673)	(16,090)	(15,534)
Purchases of trading securities	(5,089)	(4,569)	(4,095)
Sales of trading securities	22,396	1,433	16,644
Purchase of available for sale securities	(89,364)	(81,835)	(61,951)
Sale and maturity of available for sale securities	79,410	49,177	55,264
Net cash used in investing activities	<u>(9,343)</u>	<u>(51,884)</u>	<u>(8,523)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Shares purchased and retired	(34,133)	(29,093)	(33,004)
Dividends paid in cash	(22,621)	(22,266)	(20,775)
Proceeds from bank loans	2,162	2,760	—
Repayment of bank loans	(2,289)	(2,788)	(133)
Net cash used in financing activities	<u>(56,881)</u>	<u>(51,387)</u>	<u>(53,912)</u>
Effect of exchange rate changes on cash	<u>420</u>	<u>(2,279)</u>	<u>(2,601)</u>
Increase (decrease) in cash and cash equivalents	<u>(22,831)</u>	<u>(7,000)</u>	<u>26,037</u>
Cash and cash equivalents at beginning of year	119,145	126,145	100,108
Cash and cash equivalents at end of year	<u>\$ 96,314</u>	<u>\$ 119,145</u>	<u>\$ 126,145</u>
Supplemental cash flow information:			
Income taxes paid	\$ 18,854	\$ 36,365	\$ 24,940
Interest paid	\$ 68	\$ 34	\$ 17
Stock dividend issued	\$ 69,739	\$ 61,671	\$ 57,220

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

Notes to Consolidated Financial Statements (\$ in thousands except per share data)
TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES:

Basis of consolidation:

The consolidated financial statements include the accounts of Tootsie Roll Industries, Inc. and its wholly-owned and majority-owned subsidiaries (the Company), which are primarily engaged in the manufacture and sales of candy products. Non-controlling interests relating to majority-owned subsidiaries are reflected in the consolidated financial statements and all significant intercompany transactions have been eliminated. Certain amounts previously reported have been reclassified to conform to the current year presentation.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition:

Products are sold to customers based on accepted purchase orders which include quantity, sales price and other relevant terms of sale. Revenue, net of applicable provisions for discounts, returns, allowances and certain advertising and promotional costs, including consumer coupons (price reduction), is recognized when products are delivered to customers and collectability is reasonably assured. Shipping and handling costs of \$43,973, \$40,629, and \$42,619 in 2017, 2016 and 2015, respectively, are included in selling, marketing and administrative expenses. Accounts receivable are unsecured.

Cash and cash equivalents:

The Company considers temporary cash investments with an original maturity of three months or less to be cash equivalents.

Investments:

Investments consist of various marketable securities with maturities of generally up to three years, and variable rate demand notes with interest rates that are generally reset weekly and the security can be “put” back and sold weekly. The Company classifies debt and equity securities as either available for sale or trading. Available for sale securities are not actively traded by the Company and are carried at fair value. The Company follows current fair value measurement guidance and unrealized gains and losses on these securities are excluded from earnings and are reported as a separate component of shareholders’ equity, net of applicable taxes, until realized or other-than-temporarily impaired. Trading securities related to deferred compensation arrangements are carried at fair value with gains or losses included in other income, net. The Company invests in trading securities to economically hedge changes in its deferred compensation liabilities.

The Company regularly reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. If the decline in fair value is judged to be other-than-temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in other income, net. Further information regarding the fair value of the Company’s investments is included in Note 10 of the Company’s Notes to Consolidated Financial Statements.

Derivative instruments and hedging activities:

Authoritative guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of derivative instruments and related gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements.

From time to time, the Company enters into commodity futures, commodity options contracts and foreign currency forward contracts. Commodity futures and options are intended and are 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 are 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, and periodic equipment purchases from foreign suppliers denominated in a foreign currency. The Company does not engage in trading or other speculative use of derivative instruments. Further information regarding derivative instruments and hedging activities is included in Note 11 of the Company's Notes to Consolidated Financial Statements.

Inventories:

Inventories are stated at cost, not to exceed market. The cost of substantially all of the Company's inventories (\$51,694 and \$53,278 at December 31, 2017 and 2016, respectively) has been determined by the last-in, first-out (LIFO) method. The excess of current cost over LIFO cost of inventories approximates \$18,825 and \$17,574 at December 31, 2017 and 2016, respectively. The cost of certain foreign inventories (\$4,423 and \$4,253 at December 31, 2017 and 2016, respectively) has been determined by the first-in, first-out (FIFO) method. Rebates, discounts and other cash consideration received from vendors related to inventory purchases is reflected as a reduction in the cost of the related inventory item, and is, therefore, reflected in cost of sales when the related inventory item is sold.

Property, plant and equipment:

Depreciation is computed for financial reporting purposes by use of the straight-line method based on useful lives of 20 to 35 years for buildings and 5 to 20 years for machinery and equipment. Depreciation expense was \$18,991, \$19,627 and \$20,388 in 2017, 2016 and 2015, respectively.

Carrying value of long-lived assets:

The Company reviews long-lived assets to determine if there are events or circumstances indicating that the amount of the asset reflected in the Company's balance sheet may not be recoverable. When such indicators are present, the Company compares the carrying value of the long-lived asset, or asset group, to the future undiscounted cash flows of the underlying assets to determine if impairment exists. If applicable, an impairment charge would be recorded to write down the carrying value to its fair value. The determination of fair value involves the use of estimates of future cash flows that involve considerable management judgment and are based upon assumptions about expected future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. In fourth quarter 2017, the Company recorded a charge of \$2,371 relating to the impairment of assets of a foreign subsidiary which is included in selling, marketing and administrative expense. No impairment charges of long-lived assets were recorded by the Company during 2016 and 2015.

Postretirement health care benefits:

The Company provides certain postretirement health care benefits to a group of "grandfathered" corporate office and management employees. The cost of these postretirement benefits is accrued during the employees' working careers. See Note 7 of the Company's Notes to Consolidated Financial Statements for additional information. The Company also provides split dollar life benefits to certain executive officers. The Company records an asset equal to the cumulative insurance premiums paid that will be recovered upon the death of covered employees or earlier under the terms of the plan. No premiums were paid in 2017, 2016 and 2015. Certain split dollar agreements were terminated during 2015 which resulted in the full repayment to the Company of all of the cumulative premiums previously paid on these policies. No split dollar agreements were terminated during 2016 or 2017. During 2015, the Company received \$7,591 of such repayments which was recorded as a reduction in the carrying value of Split Dollar Officer Life Insurance.

Goodwill and indefinite-lived intangible assets:

In accordance with authoritative guidance, goodwill and intangible assets with indefinite lives are not amortized, but rather reviewed and tested for impairment at least annually unless certain interim triggering events or circumstances require more frequent testing. All trademarks have been assessed by management to have indefinite lives because they are expected to generate cash flows indefinitely. Management believes that all assumptions used for the impairment review and testing are consistent with those utilized by market participants performing similar valuations. No impairments of intangibles, including trademarks and goodwill, were recorded in 2017, 2016 or 2015.

Current accounting guidance provides entities an option of performing a qualitative assessment (a "step-zero" test) before performing a quantitative analysis. If the entity determines, on the basis of certain qualitative factors, that it is more-likely-than-not that the intangibles (goodwill and certain trademarks) are not impaired, the entity would not need to proceed to the two step impairment testing process (quantitative analysis) as prescribed in the guidance. During fourth quarter 2017, the Company performed a "step zero" test of its goodwill and certain trademarks, and concluded that there was no impairment based on this guidance. Impairment testing of certain trademarks where the "step-zero" analysis was not considered appropriate was performed in fourth quarter 2017 using discounted cash flows and estimated royalty rates.

Income taxes:

Deferred income taxes are recorded and recognized for future tax effects of temporary differences between financial and income tax reporting. The Company records valuation allowances in situations where the realization of deferred tax assets is not more-likely-than-not.

Further information regarding U.S. tax reform and other income tax matters are included in Note 4 of the Company's Notes to Consolidated Financial Statements.

Foreign currency translation:

The U.S. dollar is used as the functional currency where a substantial portion of the subsidiary's business is indexed to the U.S. dollar or where its manufactured products are principally sold in the U.S. All other foreign subsidiaries use the local currency as their functional currency. Where the U.S. dollar is used as the functional currency, foreign currency remeasurements are recorded as a charge or credit to other income, net in the statement of earnings. Where the foreign local currency is used as the functional currency, translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss).

Restricted cash:

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

VEBA trust:

The Company maintains 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 made a \$20,024 contribution to the VEBA trust in fourth quarter 2017 but no contribution were made to the trust in 2016. The Company will be using the VEBA trust funds to pay the actual cost of such benefits through 2022. At December 31, 2017 and 2016, the VEBA trust held \$19,713 and \$3,027, respectively, of aggregate cash and cash equivalents. This asset value is included in prepaid expenses and long-term other assets in the Company's Consolidated Statement of Financial Position. These assets are categorized as Level 1 within the fair value hierarchy.

Bank loans:

Bank loans comprise borrowings by the Company's majority-owned Spanish subsidiaries which are held by international banks.

Comprehensive earnings:

Comprehensive earnings include net earnings, foreign currency translation adjustments and unrealized gains/losses on commodity and/or foreign currency hedging contracts, available for sale securities and certain postretirement benefit obligations.

Earnings per share:

A dual presentation of basic and diluted earnings per share is not required due to the lack of potentially dilutive securities under the Company's simple capital structure. Therefore, all earnings per share amounts represent basic earnings per share.

The Class B common stock has essentially the same rights as common stock, except that each share of Class B common stock has ten votes per share (compared to one vote per share of common stock), is not traded on any exchange, is restricted as to transfer and is convertible on a share-for-share basis, at any time and at no cost to the holders, into shares of common stock which are traded on the New York Stock Exchange.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates are used when accounting for sales discounts, allowances and incentives, product liabilities, assets recorded at fair value, income taxes, depreciation, amortization, employee benefits, contingencies and intangible asset and liability valuations. Actual results may or may not differ from those estimates.

Recent 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 has substantially completed its evaluation of the new guidance, and based upon this evaluation, the Company does not believe that the adoption of this new guidance will have a material effect on its consolidated statements of earnings, but management is expecting to reduce certain accrued liabilities (and increase retained earnings) relating to variable consideration, as defined by the new guidance on its consolidated statement of financial position (balance sheet). The Company is adopting the new standard effective January 1, 2018 (first quarter 2018), on a "modified retrospective" basis.

In January 2016, the FASB issued ASU 2016-01 which modifies certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company does not expect this standard will have a significant impact on the Company's consolidated financial statements upon adoption.

In February 2016, the FASB issued ASU 2016-02 which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for the Company on January 1, 2019. The Company owns substantially all of its real and personal property and does not expect this standard will have a significant impact on the Company's consolidated financial statements upon adoption.

In April 2016, the FASB issued ASU 2016-10, which contains amendments to the new revenue recognition standard on identifying performance obligations and accounting for licenses of intellectual property. The amendments related to identifying performance obligations clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract. The licensing implementation amendments clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether revenue is recognized over time or at a point in time. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not have any significant licenses of intellectual property and does not expect this standard will have a significant impact on the Company's consolidated financial statements upon adoption.

In August 2016, the FASB issued ASU 2016-15, which includes amendments addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of the amendments to the standard is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect this standard will have a significant impact on the Company's consolidated financial statements upon adoption.

In March 2017, the FASB issued ASU 2017-07, which requires employers who offer defined benefit and postretirement benefit plans to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit costs will be presented in the income statement separately from the service cost and outside of a subtotal of income from operations. In addition, only the service cost component may be eligible for capitalization where applicable. This guidance is effective for annual periods beginning after December 15, 2017. The Company does not expect this standard will have a significant impact on the Company's consolidated financial statements upon adoption.

In August 2017, the FASB issued ASU 2017-12, guidance that amends hedge accounting. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. The new guidance amends presentation and disclosure requirements, and how effectiveness is assessed. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, which allows for the reclassification of certain income tax effects related to the U.S. Tax Cuts and Jobs Act (Tax Reform Act) between "Accumulated other comprehensive income" and "Retained earnings." This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates to be included in "Income from continuing operations", even in situations where the related items were originally recognized in "Other comprehensive income" (rather than in "Earnings from operations"). The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company is currently evaluating the new guidance to determine the impact it may have on the consolidated financial statements.

Recently adopted pronouncements:

In November 2015, the FASB issued ASU 2015-17 which simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. This guidance was adopted on January 1, 2017 on a prospective basis. Prior period balances have not been adjusted.

In January 2017, the FASB issued ASU No. 2017-04 which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment is now the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU No. 2017-04 will be effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption was permitted for any impairment tests performed after January.

1, 2017, and the Company early adopted this ASU effective in the fourth quarter of 2017. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

NOTE 2—ACCRUED LIABILITIES:

Accrued liabilities are comprised of the following:

	December 31,	
	2017	2016
Compensation	\$ 10,107	\$ 9,840
Other employee benefits	7,659	7,012
Taxes, other than income	3,210	3,004
Advertising and promotions	18,834	21,421
Other	5,347	5,023
	<u>\$ 45,157</u>	<u>\$ 46,300</u>

NOTE 3—INDUSTRIAL DEVELOPMENT BONDS:

Industrial development bonds are due in 2027. The average floating interest rate, which is reset weekly, was 1.0% and 0.5% in 2017 and 2016, respectively. See Note 10 of the Company's Notes to Consolidated Financial Statements for fair value disclosures.

NOTE 4—INCOME TAXES:

On December 22, 2017, the President of the United States signed into law the U.S. Tax Cuts and Jobs Act (Tax Reform Act). The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a toll tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company is required to record the effects of a change in tax law in the period of enactment which is 2017. The provision for income tax and effective tax rate include a \$20,318 favorable adjustment related to the remeasurement of its U.S. deferred tax assets and liabilities at the rate expected to be in effect when the temporary differences are realized or settled (remeasured at 21% versus 35%). The other key provision analyzed was the enactment of a one-time toll charge resulting from the mandatory deemed repatriation of undistributed foreign earnings and profits. There was no impact in 2017 from the deemed repatriation provision as the Company determined that there were no net undistributed foreign earnings and profits subject to the toll charge. The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company believes it has obtained and analyzed all reasonably available information necessary to record the effects of the change in tax law and considers its accounting for the effects of the 2017 Tax Reform Act to be provisional as of December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued by the Internal Revenue Service, and actions the Company may take as a result of the Tax Reform Act.

The domestic and foreign components of pretax income are as follows:

	2017	2016	2015
Domestic	\$ 76,042	\$ 87,016	\$ 82,276
Foreign	8,519	10,896	10,302
	<u>\$ 84,561</u>	<u>\$ 97,912</u>	<u>\$ 92,578</u>

The provision for income taxes is comprised of the following:

	2017	2016	2015
Current:			
Federal	\$ 6,019	\$ 28,484	\$ 26,259
Foreign	—	86	(596)
State	369	1,954	785
	<u>6,388</u>	<u>30,524</u>	<u>26,448</u>
Deferred:			
Federal	(7,191)	(2,547)	(1,189)
Foreign	3,425	3,323	2,106
State	1,285	(707)	(914)
	<u>(2,481)</u>	<u>69</u>	<u>3</u>
	<u>\$ 3,907</u>	<u>\$ 30,593</u>	<u>\$ 26,451</u>

Significant components of the Company's net deferred tax liability at year end were as follows:

	December 31,	
	2017	2016
Deferred tax assets:		
Accrued customer promotions	\$ 1,583	\$ 3,194
Deferred compensation	15,403	26,509
Postretirement benefits	3,352	4,732
Other accrued expenses	4,200	6,543
Foreign subsidiary tax loss carry forward	7,270	8,452
Tax credit carry forward	3,435	2,514
	<u>35,243</u>	<u>51,944</u>
Valuation allowance	(3,269)	(2,317)
Total deferred tax assets	<u>\$ 31,974</u>	<u>\$ 49,627</u>
Deferred tax liabilities:		
Depreciation	\$ 18,791	\$ 28,049
Deductible goodwill and trademarks	34,593	45,733
Accrued export company commissions	4,189	6,044
Employee benefit plans	4,662	928
Inventory reserves	2,147	3,529
Prepaid insurance	769	1,015
Other prepaid expenses	1,196	—
Deferred foreign exchange gain	405	436
Unrealized capital gain	977	733
Deferred gain on sale of real estate	5,278	8,093
Total deferred tax liabilities	<u>\$ 73,007</u>	<u>\$ 94,560</u>
Net deferred tax liability	<u>\$ 41,033</u>	<u>\$ 44,933</u>

At December 31, 2017, the Company has benefits related to state tax credit carry-forwards expiring by year as follows: \$104 in 2018, \$853 in 2019, \$674 in 2020 \$609 in 2021, \$220 in 2029, \$222 in 2030, \$234 in 2031 and \$231 in 2032. The Company expects that these state credit carry-forwards will be utilized before their expiration.

At December 31, 2017, the tax benefits of the Company's Canadian subsidiary tax loss carry-forwards expiring by year are as follows: \$3,075 in 2029 and \$665 in 2031. The tax benefits of the Company's Mexican subsidiary tax loss carry forwards expiring by year are as follows: \$492 in 2036. At December 31, 2017, the Company also had \$288 in foreign tax credit carry-forwards. The Company expects that these carry-forwards will be realized before their expiration.

At December 31, 2017, the amounts of the Company's Spanish subsidiary loss carry-forwards expiring by year are as follows: \$301 in 2026, \$64 in 2027, \$192 in 2028, \$109 in 2029, \$331 in 2030, \$441 in 2031, \$332 in 2032, \$134 in 2033,

\$464 in 2034 and \$670 in 2035. A full valuation allowance has been provided for these Spanish loss carry-forwards as the Company expects that the losses will not be utilized before their expiration.

The effective income tax rate differs from the statutory rate as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
U.S. statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net	1.6	1.0	1.1
Exempt municipal bond interest	(0.1)	(0.1)	(0.1)
Foreign tax rates	0.5	(0.4)	(1.3)
Qualified domestic production activities deduction	(0.8)	(2.7)	(2.6)
Tax credits receivable	(1.4)	(0.5)	(1.2)
Adjustment of deferred tax balances	(24.2)	(0.5)	0.2
Reserve for uncertain tax benefits	(0.3)	—	(2.1)
Worthless stock deduction	(3.8)	—	—
Other, net	(1.9)	(0.6)	(0.4)
Effective income tax rate	<u>4.6 %</u>	<u>31.2 %</u>	<u>28.6 %</u>

The 2017 Tax Reform Act changes the United States approach to the taxation of foreign earnings to a territorial system by providing a one hundred percent dividends received deduction for certain qualified dividends received from foreign subsidiaries. This provision of the Act significantly impacts the accounting for the undistributed earnings of foreign subsidiaries and as a result the Company intends to distribute the earnings of its foreign subsidiaries. The costs associated with a future distribution are not material to the Company's financial statements. After carefully considering these facts, the Company has determined that it will not be asserting permanent reinvestment of its foreign subsidiaries earnings as of December 31, 2017.

At December 31, 2017 and 2016, the Company had unrecognized tax benefits of \$4,342 and \$4,746, respectively. Included in this balance is \$2,475 and \$2,761, respectively, of unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate. As of December 31, 2017 and 2016, \$475 and \$439, respectively, of interest and penalties were included in the liability for uncertain tax positions.

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrecognized tax benefits at January 1	\$ 4,746	\$ 4,680	\$ 6,993
Increases in tax positions for the current year	394	803	812
Reductions in tax positions for lapse of statute of limitations	(793)	(718)	(865)
Reductions in tax positions relating to settlements with taxing authorities	—	(27)	(772)
Increases (decreases) in prior period unrecognized tax benefits	(5)	8	(1,488)
Unrecognized tax benefits at December 31	<u>\$ 4,342</u>	<u>\$ 4,746</u>	<u>\$ 4,680</u>

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Consolidated Statements of Earnings and Retained Earnings.

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 2014 through 2016. With few exceptions, the Company is no longer subject to examinations by tax authorities for the years 2013 and prior.

NOTE 5—SHARE CAPITAL AND CAPITAL IN EXCESS OF PAR VALUE:

	Common Stock		Class B Common Stock		Treasury Stock		Capital in Excess of Par Value
	Shares	Amount	Shares	Amount	Shares	Amount	
	(000's)		(000's)		(000's)		
Balance at January 1, 2015	37,285	\$ 25,892	22,887	\$ 15,894	78	\$ (1,992)	\$ 599,186
Issuance of 3% stock dividend	1,112	773	687	476	2	—	55,982
Conversion of Class B common shares to common shares	32	22	(32)	(22)	—	—	—
Purchase and retirement of common shares	(1,047)	(727)	—	—	—	—	(32,286)
Balance at December 31, 2015	37,382	25,960	23,542	16,348	80	(1,992)	622,882
Issuance of 3% stock dividend	1,111	772	705	490	3	—	52,410
Conversion of Class B common shares to common shares	26	18	(26)	(18)	—	—	—
Purchase and retirement of common shares	(818)	(569)	—	—	—	—	(28,524)
Balance at December 31, 2016	37,701	26,181	24,221	16,820	83	(1,992)	646,768
Issuance of 3% stock dividend	1,124	781	726	504	2	—	43,477
Conversion of Class B common shares to common shares	56	39	(56)	(39)	—	—	—
Purchase and retirement of common shares	(921)	(640)	—	—	—	—	(33,493)
Balance at December 31, 2017	<u>37,960</u>	<u>\$ 26,361</u>	<u>24,891</u>	<u>\$ 17,285</u>	<u>85</u>	<u>\$ (1,992)</u>	<u>\$ 656,752</u>

Average shares outstanding and all per share amounts included in the financial statements and notes thereto have been adjusted retroactively to reflect annual three percent stock dividends.

While the Company does not have a formal or publicly announced Company common stock purchase program, the Company's board of directors periodically authorizes a dollar amount for such share purchases.

Based upon this policy, shares were purchased and retired as follows:

Year	Total Number of Shares	
	Purchased (000's)	Average Price Paid Per Share
2017	921	\$ 37.01
2016	818	\$ 35.51
2015	1,047	\$ 31.47

NOTE 6—OTHER INCOME, NET:

Other income, net is comprised of the following:

	2017	2016	2015
Interest and dividend income	\$ 2,851	\$ 2,130	\$ 1,421
Gains on trading securities relating to deferred compensation plans	9,977	4,275	1,450
Interest expense	(144)	(105)	(76)
Foreign exchange gains (losses)	259	(955)	(1,427)
Capital gains (losses)	25	7	2
Miscellaneous, net	177	146	126
	<u>\$ 13,145</u>	<u>\$ 5,498</u>	<u>\$ 1,496</u>

NOTE 7—EMPLOYEE BENEFIT PLANS:

Pension plans:

The Company sponsors defined contribution pension plans covering certain non-union employees with over one year of credited service. The Company's policy is to fund pension costs accrued based on compensation levels. Total pension expense for 2017, 2016 and 2015 approximated \$3,087, \$3,126 and \$3,100, respectively. The Company also maintains certain profit sharing and retirement savings-investment plans. Company contributions in 2017, 2016 and 2015 to these plans were \$2,512, \$2,493 and \$2,533 respectively.

The Company also contributes to a multi-employer defined benefit pension plan for certain of its union employees under a collective bargaining agreement which is as follows:

Plan name: Bakery and Confectionery Union and Industry International Pension Fund

Employer Identification Number and plan number: 52-6118572, plan number 001

Funded Status as of the most recent year available: 57.01% funded as of January 1, 2016

The Company's contributions to such plan: \$2,603, \$2,515 and \$2,574 in 2017, 2016 and 2015, respectively

Plan status: Critical and declining as of December 31, 2016

Beginning in 2012, the Company received periodic notices from the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, that the Plan's actuary certified the Plan to be in "critical status", the "Red Zone", as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC); and that a plan of rehabilitation was adopted by the trustees of the Plan in fourth quarter 2012. During second quarter 2015, the Company received new notices that the Plan is now in "critical and declining status", as defined by the PPA and PBGC, for the plan year beginning January 1, 2015. In second quarter 2016, the Company received new notices that the Plan's trustees adopted an updated Rehabilitation Plan effective January 1, 2016, and that the Plan remains in "critical and declining status" and is projected to become insolvent the year 2030. A designation of "critical and declining status" implies that the Plan is expected to become insolvent in the next 20 years.

The Company has been advised that its withdrawal liability would have been \$82,200, \$72,700 and \$61,000 if it had withdrawn from the Plan during 2017, 2016 and 2015, respectively. The increase from 2016 to 2017 principally reflects a decrease in the PBGC interest rates, a decrease in the assets and increase in the Plan's unfunded vested benefits during 2016 and the Company comprising a larger share the Plan's contribution base. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amounts, could be payable to the Plan.

The amended 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. The Company's pension expense for this Plan for 2017 and 2016 was \$2,617 and \$2,541, respectively. The aforementioned expense includes surcharges of \$656 and \$542 in 2017 and 2016, respectively, as required under the plan of rehabilitation as amended.

The Company is currently unable to determine the ultimate outcome of the above discussed matter and therefore is unable to determine the effects on its consolidated financial statements, but the ultimate outcome or the effects of any modifications to the current rehabilitation plan could be material to its consolidated results of operations or cash flows in one or more future periods.

Deferred compensation:

The Company sponsors three deferred compensation plans for selected executives and other employees: (i) the Excess Benefit Plan, which restores retirement benefits lost due to IRS limitations on contributions to tax-qualified plans, (ii) the Supplemental Plan, which allows eligible employees to defer the receipt of eligible compensation until designated future dates and (iii) the Career Achievement Plan, which provides a deferred annual incentive award to selected executives. Participants in these plans earn a return on amounts due them based on several investment options, which mirror returns on underlying investments (primarily mutual funds). The Company economically hedges its obligations under the plans by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At December 31, 2017 and 2016, these investments totaled \$60,520 and \$67,995, respectively. All gains and losses and related investment income from these investments, which are recorded in other income, net, are equally offset by corresponding increases and decreases in the Company's deferred compensation liabilities.

Postretirement health care benefit plans:

The Company maintains a post-retirement health benefits plan for a group of "grandfathered" corporate employees. The plan as amended in 2013, generally limited future annual cost increases in health benefits to 3%, restricted this benefit to current employees and retirees with long-term service with the Company, and eliminated all post-retirement benefits for future employees effective April 1, 2014. Post-retirement benefits liabilities (as amended) were \$13,497 and \$12,128 at December 31, 2017 and 2016, respectively.

Amounts recognized in accumulated other comprehensive loss (pre-tax) at December 31, 2017 are as follows:

Prior service credit	\$ (5,519)
Net actuarial gain	(713)
Net amount recognized in accumulated other comprehensive loss	<u>\$ (6,232)</u>

The estimated actuarial gain and prior service credit to be amortized from accumulated other comprehensive loss into net periodic benefit income during 2018 are \$97 and \$1,226, respectively.

The changes in the accumulated postretirement benefit obligation at December 31, 2017 and 2016 consist of the following:

	December 31,	
	2017	2016
Benefit obligation, beginning of year	\$ 12,128	\$ 11,400
Service cost	323	331
Interest cost	468	462
Actuarial (gain)/loss	897	235
Benefits paid	(319)	(300)
Benefit obligation, end of year	<u>\$ 13,497</u>	<u>\$ 12,128</u>

Net periodic postretirement benefit cost (income) included the following components:

	2017	2016	2015
Service cost—benefits attributed to service during the period	\$ 323	\$ 331	\$ 441
Interest cost on the accumulated postretirement benefit obligation	468	462	465
Net amortization	(1,462)	(1,642)	(1,451)
Net periodic postretirement benefit cost (income)	<u>\$ (671)</u>	<u>\$ (849)</u>	<u>\$ (545)</u>

The Company estimates future benefit payments will be \$603, \$525, \$556, \$598 and \$632 in 2018 through 2022, respectively, and a total of \$3,647 in 2023 through 2027.

NOTE 8—COMMITMENTS:

Rental expense aggregated \$785, \$703 and \$728 in 2017, 2016 and 2015, respectively.

Future operating lease commitments are not significant.

NOTE 9—SEGMENT AND GEOGRAPHIC INFORMATION:

The Company operates as a single reportable segment encompassing the manufacture and sale of confectionery products. Its principal manufacturing operations are located in the United States and Canada, and its principal market is the United States. The Company also manufactures confectionery products in Mexico primarily for sale in Mexico, and exports products to Canada and other countries worldwide.

The following geographic data includes net product sales summarized on the basis of the customer location and long-lived assets based on their physical location:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net product sales:			
United States	\$ 472,222	\$ 475,055	\$ 492,450
Canada, Mexico and Other	43,452	42,318	44,242
	<u>\$ 515,674</u>	<u>\$ 517,373</u>	<u>\$ 536,692</u>
Long-lived assets:			
United States	\$ 145,210	\$ 147,296	\$ 149,144
Canada	30,823	29,806	31,408
Mexico and Other	2,939	3,803	4,034
	<u>\$ 178,972</u>	<u>\$ 180,905</u>	<u>\$ 184,586</u>

Sales revenues from Wal-Mart Stores, Inc. aggregated approximately 24.0%, 23.3%, and 23.7% of net product sales during the years ended December 31, 2017, 2016 and 2015, respectively. Some of the aforementioned sales to Wal-Mart are sold to McLane Company, a large national grocery wholesaler, which services and delivers certain of the Company products to Wal-Mart and other retailers in the U.S.A. Net product sales revenues from McLane, which includes these Wal-Mart sales as well as sales and deliveries to other Company customers, were 16.9% in 2017 and 16.3% in 2016 and 16.7% in 2015.

NOTE 10—FAIR VALUE MEASUREMENTS:

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

As of December 31, 2017 and 2016, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These include derivative hedging instruments related to the foreign currency forward contracts

and purchase of certain raw materials, investments in trading securities and available for sale securities. The Company's available for sale and trading securities principally consist of municipal bonds and variable rate demand notes.

The following tables present information about the Company's financial assets and liabilities measured at fair value as of December 31, 2017 and 2016, and indicate the fair value hierarchy and the valuation techniques utilized by the Company to determine such fair value:

	Estimated Fair Value December 31, 2017			
	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and equivalents	\$ 96,314	\$ 96,314	\$ —	\$ —
Available for sale securities	171,596	1,200	170,396	—
Foreign currency forward contracts	79	—	79	—
Commodity futures contracts, net	32	32	—	—
Trading securities	60,520	60,520	—	—
Total assets measured at fair value	<u>\$ 328,541</u>	<u>\$ 158,066</u>	<u>\$ 170,475</u>	<u>\$ —</u>

	Estimated Fair Value December 31, 2016			
	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and equivalents	\$ 119,145	\$ 119,145	\$ —	\$ —
Available for sale securities	164,183	2,419	161,764	—
Foreign currency forward contracts	(119)	—	(119)	—
Commodity futures contracts, net	1,746	1,746	—	—
Trading securities	67,995	67,995	—	—
Total assets measured at fair value	<u>\$ 352,950</u>	<u>\$ 191,305</u>	<u>\$ 161,645</u>	<u>\$ —</u>

Available for sale securities which utilize Level 2 inputs consist primarily of municipal and corporate bonds, which are valued based on quoted market prices or alternative pricing sources with reasonable levels of price transparency.

A summary of the aggregate fair value, gross unrealized gains, gross unrealized losses, realized losses and amortized cost basis of the Company's investment portfolio by major security type is as follows:

Available for Sale:	December 31, 2017				
	Amortized Cost	Fair Value	Unrealized		Realized Losses
			Gains	Losses	
Municipal bonds	\$ 32,411	\$ 31,484	\$ —	\$ (927)	\$ —
Corporate bonds	134,143	133,684	—	(459)	—
Government securities	1,192	1,208	16	—	—
Certificates of deposit	5,245	5,220	—	(25)	—
	<u>\$ 172,991</u>	<u>\$ 171,596</u>	<u>\$ 16</u>	<u>\$ (1,411)</u>	<u>\$ —</u>

Available for Sale:	December 31, 2016				
	Amortized Cost	Fair Value	Unrealized		Realized Losses
			Gains	Losses	
Municipal bonds	\$ 16,046	\$ 15,206	\$ —	\$ (840)	\$ —
Variable rate demand notes	19,700	19,700	—	—	—
Corporate bonds	122,568	122,298	—	(270)	—
Government securities	2,411	2,426	15	—	—
Certificates of deposit	4,553	4,553	—	—	—
	<u>\$ 165,278</u>	<u>\$ 164,183</u>	<u>\$ 15</u>	<u>\$ (1,110)</u>	<u>\$ —</u>

The fair value of the Company's industrial revenue development bonds at December 31, 2017 and 2016 were valued using Level 2 inputs which approximates the carrying value of \$7,500 for both periods. Interest rates on these bonds reset weekly based on current market conditions.

NOTE 11—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, and periodic equipment purchases from foreign suppliers denominated in a foreign currency. 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 Consolidated Statements 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. Approximately \$84 of this accumulated comprehensive gain is expected to be reclassified to earnings in 2018 and a \$52 accumulated comprehensive loss is expected to be reclassified as a charge to earnings in 2019. Substantially all amounts reported in accumulated other comprehensive loss for foreign currency derivatives are expected to be reclassified to other income, net in 2018.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Consolidated Statements of Financial Position at December 31, 2017 and 2016:

	December 31, 2017		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 919	\$ 79	\$ —
Commodity futures contracts	13,840	284	(252)
Total derivatives		<u>\$ 363</u>	<u>\$ (252)</u>
	December 31, 2016		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 2,357	\$ —	\$ (119)
Commodity futures contracts	10,811	1,932	(186)
Total derivatives		<u>\$ 1,932</u>	<u>\$ (305)</u>

The effects of derivative instruments on the Company's Consolidated Statement of Earnings, Comprehensive Earnings and Retained Earnings for years ended December 31, 2017 and 2016 are as follows:

	For Year Ended December 31, 2017		
	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	\$ 236	\$ 39	\$ —
Commodity futures contracts	(1,646)	68	—
Total	\$ (1,410)	\$ 107	\$ —

	For Year Ended December 31, 2016		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	\$ 511	\$ (1,997)	\$ —
Commodity futures contracts	2,321	847	—
Total	\$ 2,832	\$ (1,150)	\$ —

NOTE 12—ACCUMULATED OTHER COMPREHENSIVE LOSS:

The following table sets forth information with respect to accumulated other comprehensive earnings (loss):

	Foreign Currency		Foreign Currency	Commodity	Postretirement and Pension	Accumulated Other Comprehensive
	Translation	Investments	Derivatives	Derivatives	Benefits	Earnings (Loss)
Balance at December 31, 2015	\$ (21,644)	\$ (605)	\$ (1,675)	\$ 173	\$ 6,387	\$ (17,364)
Other comprehensive earnings (loss) before reclassifications	(3,816)	(95)	325	1,481	(466)	(2,571)
Reclassifications from accumulated other comprehensive loss	—	3	1,274	(540)	(1,048)	(311)
Other comprehensive earnings (loss) net of tax	(3,816)	(92)	1,599	941	(1,514)	(2,882)
Balance at December 31, 2016	\$ (25,460)	\$ (697)	\$ (76)	\$ 1,114	\$ 4,873	\$ (20,246)
Other comprehensive earnings (loss) before reclassifications	1,198	(192)	152	(1,050)	(651)	(543)
Reclassifications from accumulated other comprehensive loss	—	—	(25)	(44)	(933)	(1,002)
Other comprehensive earnings (loss) net of tax	1,198	(192)	127	(1,094)	(1,584)	(1,545)
Balance at December 31, 2017	\$ (24,262)	\$ (889)	\$ 51	\$ 20	\$ 3,289	\$ (21,791)

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

Details about Accumulated Other Comprehensive Income Components	Year to Date Ended		Location of (Gain) Loss Recognized in Earnings
	December 31, 2017	December 31, 2016	
Investments	\$ -	\$ 5	Other income, net
Foreign currency derivatives	(39)	1,997	Other income, net
Commodity derivatives	(68)	(847)	Product cost of goods sold
Postretirement and pension benefits	(746)	(838)	Selling, marketing and administrative expenses
Postretirement and pension benefits	(716)	(804)	Product cost of goods sold
Total before tax	(1,569)	(487)	
Tax expense (benefit)	567	176	
Net of tax	\$ (1,002)	\$ (311)	

NOTE 13—GOODWILL AND INTANGIBLE ASSETS:

All of the Company's intangible indefinite-lived assets are trademarks.

The changes in the carrying amount of trademarks for 2017 and 2016 were as follows:

	2017	2016
Original cost	\$ 193,767	\$ 193,767
Accumulated impairment losses as of January 1	(18,743)	(18,743)
Balance at January 1	\$ 175,024	\$ 175,024
Current year impairment losses	—	—
Balance at December 31	\$ 175,024	\$ 175,024
Accumulated impairment losses as of December 31	\$ (18,743)	\$ (18,743)

The fair value of indefinite-lived intangible assets was primarily assessed using the present value of estimated future cash flows and relief-from-royalty method.

The Company has no accumulated impairment losses of goodwill.

NOTE 14—QUARTERLY FINANCIAL DATA (UNAUDITED):

	(Thousands of dollars except per share data)				
	First	Second	Third	Fourth	Year
2017					
Net product sales	\$ 103,425	\$ 104,897	\$ 182,173	\$ 125,179	\$ 515,674
Product gross margin	38,009	39,638	67,325	44,778	189,750
Net earnings attributable to Tootsie Roll Industries, Inc.	10,051	11,895	26,933	31,985	80,864
Net earnings attributable to Tootsie Roll Industries, Inc. per share	0.16	0.19	0.43	0.51	1.28
2016					
Net product sales	\$ 103,362	\$ 104,259	\$ 185,473	\$ 124,279	\$ 517,373
Product gross margin	37,538	39,250	70,725	49,570	197,083
Net earnings attributable to Tootsie Roll Industries, Inc.	9,896	11,136	28,637	17,841	67,510
Net earnings attributable to Tootsie Roll Industries, Inc. per share	0.15	0.17	0.45	0.28	1.05

Net earnings per share is based upon average outstanding shares as adjusted for 3% stock dividends issued during the second quarter of each year as discussed above. The sum of the quarterly per share amounts may not equal annual amounts due to rounding. In connection with enactment of the U.S. Tax Cuts and Jobs Act (Tax Reform Act) in December 2017, the Company recorded a favorable accounting adjustment of \$20,318, or \$0.32 per share, during the fourth quarter of 2017. This reflects the estimated benefit from the revaluation of net deferred income tax liabilities based on the new lower U.S. corporate income tax rate effective January 1, 2018.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls And Procedures.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

- (a) See "Management's Report on Internal Control Over Financial Reporting," included in Item 8 "Financial Statements and Supplementary Data," which is incorporated herein by reference.
- (b) See "Report of Independent Registered Public Accounting Firm" included in Item 8 "Financial Statements and Supplementary Data" for the attestation report of the Company's independent registered public accounting firm, which is incorporated herein by reference.
- (c) There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information.

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

See the information with respect to the Directors of the Company which is set forth in the section entitled “Election of Directors” of the 2018 Proxy Statement, which section of the 2018 Proxy Statement is incorporated herein by reference. See the information in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” of the Company’s 2018 Proxy Statement, which section is incorporated herein by reference.

The following table sets forth the information with respect to the executive officers of the Company:

<u>Name</u>	<u>Position (1)</u>	<u>Age</u>
Ellen R. Gordon*	Chairman of the Board and Chief Executive Officer	86
G. Howard Ember Jr.	Vice President/Finance	65
Stephen P. Green	Vice President/Manufacturing	59
Thomas E. Corr	Vice President/Marketing and Sales	69
John P. Majors	Vice President/Distribution	56
Barry P. Bowen	Treasurer	62

* A member of the Board of Directors of the Company.

(1) All of the above named officers have served in the positions set forth in the table as their principal occupations for more than the past five years except for Mrs. Gordon who was appointed to her current position on January 20, 2015. Mrs. Gordon also serves as Vice President of HDI Investment Corp., a family investment company.

Code of Ethics

The Company has a Code of Business Conduct and Ethics, which applies to all of the Company’s directors and employees, and which meets the Securities Exchange Commission criteria for a “code of ethics.” The Code of Business Conduct and Ethics is available on the Company’s website, located at www.tootsie.com, and the information in such is available in print to any shareholder who requests a copy.

ITEM 11. Executive Compensation.

See the information set forth in the sections entitled “Executive Compensation” and “Director Compensation” of the Company’s 2018 Proxy Statement, which are incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

For information with respect to the beneficial ownership of the Company’s common stock and Class B common stock by the beneficial owners of more than 5% of said shares and by the management of the Company, see the sections entitled “Ownership of Common Stock and Class B Common Stock by Certain Beneficial Owners” and “Ownership of Common Stock and Class B Common Stock by Management” of the 2018 Proxy Statement. These sections of the 2018 Proxy Statement are incorporated herein by reference. The Company does not have any compensation plans under which equity securities of the Company are authorized for issuance.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

See the section entitled “Related Person Transactions” of the 2018 Proxy Statement, which is incorporated herein by reference.

The Company’s board of directors has determined that its non-management directors, Mr. Seibert and Ms. Wardynski and Ms. Lewis-Brent, are independent under the New York Stock Exchange listing standards because they have no direct or indirect relationship with the Company other than through their service on the Board of Directors.

ITEM 14. Principal Accounting Fees and Services.

See the section entitled “Independent Auditor Fees and Services” of the 2018 Proxy Statement, which is incorporated herein by reference.

ITEM 15. Exhibits, Financial Statement Schedules.

(a) Financial Statements.

(1) The following financial statements are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings and Retained Earnings for each of the three years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Earnings for each of the three years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Financial Position at December 31, 2017 and 2016

Consolidated Statements of Cash Flows for each of the three years ended in the period December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules.

The financial statement schedule included in this Form 10-K is Schedule II - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 2017, 2016 and 2015 (see Schedule II immediately following ITEM 16 of this Form 10-K).

(3) Exhibits required by Item 601 of Regulation S-K:

See Index to Exhibits which appears following Financial Schedule II.

ITEM 16. Form 10-K Summary.

None.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS (in thousands)

DECEMBER 31, 2017, 2016 AND 2015

Description	Balance at beginning of year	Additions (reductions) charged (credited) to expense	Deductions(1)	Balance at End of Year
2017:				
Reserve for bad debts	\$ 1,225	\$ 27	\$ 55	\$ 1,197
Reserve for cash discounts	659	9,268	9,203	724
Deferred tax asset valuation	2,317	952	—	3,269
	\$ 4,201	\$ 10,247	\$ 9,258	\$ 5,190
2016:				
Reserve for bad debts	\$ 1,410	\$ (166)	\$ 19	\$ 1,225
Reserve for cash discounts	815	9,247	9,403	659
Deferred tax asset valuation	2,077	240	—	2,317
	\$ 4,302	\$ 9,321	\$ 9,422	\$ 4,201
2015:				
Reserve for bad debts	\$ 1,300	\$ 267	\$ 157	\$ 1,410
Reserve for cash discounts	668	9,678	9,531	815
Deferred tax asset valuation	2,478	(401)	—	2,077
	\$ 4,446	\$ 9,544	\$ 9,688	\$ 4,302

(1) Deductions against reserve for bad debts consist of accounts receivable written off net of recoveries and exchange rate movements. Deductions against reserve for cash discounts consist of allowances to customers.

INDEX TO EXHIBITS

- 3.1 Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.
- 3.2 Amendment to Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
- 3.3 Amended and Restated By-Laws. Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 4.1 Specimen Class B Common Stock Certificate. Incorporated by reference to Exhibit 1.1 of the Company's Registration Statement on Form 8-A dated February 29, 1988.
- 10.1* Excess Benefit Plan. Incorporated by reference to Exhibit 10.8.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.2* Amended and Restated Career Achievement Plan of the Company. Incorporated by reference to Exhibit 10.8.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.3* Amendment to the Amended and Restated Career Achievement Plan of the Company. Incorporated by reference to Exhibit 10.8.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.4* Restatement of Split Dollar Agreement (Special Trust) between the Company and the trustee of the Gordon Family 1993 Special Trust dated January 31, 1997. Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 10.5* Form of Change In Control Agreement dated August, 1997 between the Company and certain executive officers. Incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.6* Amendment to Split Dollar Agreement (Special Trust) dated April 2, 1998 between the Company and the trustee of the Gordon Family 1993 Special Trust, together with related Collateral Assignments. Incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10.7* Form of Amendment to Change in Control Agreement between the Company and certain executive officers. Incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.
- 10.8* Post 2004 Supplemental Savings Plan of the Company. Incorporated by reference to Exhibit 10.29 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.
- 10.9* Post 2004 Excess Benefit Plan of the Company. Incorporated by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.
- 10.10* Amended and Restated Career Achievement Plan of the Company. Incorporated by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.
- 10.11* Exhibit 10.1- Tootsie Roll Industries, Inc. Management Incentive Plan. Incorporated by reference to Appendix A to the Company's definitive Proxy Statement filed with the Commission on March 24, 2006.
- 10.12* Amendment 2015-1, to the Tootsie Roll Industries, Inc. Post 2004 Excess Benefit Plan. Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

- 10.13* Amendment 2015-1, to the Tootsie Roll Industries, Inc. Career Achievement Plan. Incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
- 21 List of Subsidiaries of the Company.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial statements and notes from Tootsie Roll Industries, Inc.'s Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Earnings and Retained Earnings; (ii) Consolidated Statements of Comprehensive Earnings; (iii) Consolidated Statements of Financial Position; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements.

*Management compensation plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Tootsie Roll Industries, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOOTSIE ROLL INDUSTRIES, INC.

By: Ellen R. Gordon
Ellen R. Gordon, Chairman of the Board of Directors
and Chief Executive Officer

Date: March 1, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Ellen R. Gordon</u> Ellen R. Gordon	Chairman of the Board of Directors and Chief Executive Officer (principal executive officer)	March 1, 2018
<u>Paula M. Wardynski</u> Paula M. Wardynski	Director	March 1, 2018
<u>Lana Jane Lewis-Brent</u> Lana Jane Lewis-Brent	Director	March 1, 2018
<u>Barre A. Seibert</u> Barre A. Seibert	Director	March 1, 2018
<u>G. Howard Ember, Jr.</u> G. Howard Ember, Jr.	Vice President, Finance (principal financial officer and principal accounting officer)	March 1, 2018

LIST OF SUBSIDIARIES OF THE COMPANY

<u>NAME</u>	<u>JURISDICTION OF INCORPORATION</u>
Andes Candies, LLC	Illinois
Andes Manufacturing LLC	Illinois
Andes Services LLC	Illinois
C. G. P., Inc.	Delaware
Cambridge Brands, Inc.	Delaware
Cambridge Brands Manufacturing, Inc.	Delaware
Cambridge Brands Services, Inc.	Delaware
Candy Realty, Inc.	New Jersey
Cella's Confections, Inc.	Virginia
CGCLP, Inc.	Delaware
Charms LLC	Illinois
Concord (GP) Inc.	Ontario
Concord Canada Holdings ULC	Nova Scotia
Concord Confections Holdings USA, Inc.	Delaware
Concord Partners LP	Ontario
Concord Wax, Inc.	Delaware
Dr. Torrents, S.L.	Spain
Fleer Española, S.L.	Spain
General Magnetics, Inc.	New Jersey
Henry Eisen Advertising Agency, Inc.	New Jersey
Impel Movie Line, Inc.	Delaware
JT Company, Inc.	Delaware
OTEC Industries, Inc.	Delaware
Rizzle Inversiones 2014, S.L.	Spain
Sweets Company of New York, Inc.	New York
Tootsie Roll Industries, LLC	Illinois
Tootsie Roll of Canada, ULC	Alberta
The Tootsie Roll Company, Inc.	Illinois
Tootsie Roll Management, Inc.	Illinois
Tootsie Roll Mfg., LLC	Illinois
Tootsie Rolls - Latin America, Inc.	Delaware
Tootsie Roll Worldwide, Ltd.	Illinois
The Sweets Mix Company, Inc.	Illinois
TRI de Latinoamerica S.A. de C.V.	Mexico
TRI Captive Insurance Company, Inc.	Nevada
TRI Finance, Inc.	Delaware
TRI International, Inc.	Illinois
TRI-Mass, Inc.	Massachusetts
TRI Sales Co.	Delaware
TRI Sales Services LLC	Washington
Tutsi S. A. de C. V.	Mexico
World Trade & Marketing Ltd.	British West Indies

CERTIFICATIONS

I, Ellen R. Gordon, Chairman and Chief Executive Officer of Tootsie Roll Industries, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

By: /s/ Ellen R. Gordon
Ellen R. Gordon

Chairman and Chief Executive Officer

CERTIFICATIONS

I, G. Howard Ember, Jr., Vice President/Finance and Chief Financial Officer of Tootsie Roll Industries, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

By: /s/ G. Howard Ember, Jr.
G. Howard Ember, Jr.
Vice President/Finance and Chief Financial Officer

Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Each of the undersigned officers of Tootsie Roll Industries, Inc. certifies that (i) the Annual Report on Form 10-K of Tootsie Roll Industries, Inc. for the year ended December 31, 2017 (the Form 10-K) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Tootsie Roll Industries, Inc.

Dated: March 1, 2018

/s/ Ellen R. Gordon

Ellen R. Gordon

Chairman and Chief Executive Officer

Dated: March 1, 2018

/s/ G. Howard Ember, Jr.

G. Howard Ember, Jr.

Vice President/Finance and Chief Financial Officer

Intentionally
Left Blank

Board of Directors

Ellen R. Gordon	Chairman of the Board and Chief Executive Officer
Lana Jane Lewis-Brent ⁽¹⁾⁽²⁾	President, Paul Brent Designer, Inc., an art publishing, design and licensing company
Barre A. Seibert ⁽¹⁾⁽²⁾	Retired First Vice President, Washington Mutual Bank
Paula M. Wardynski ⁽¹⁾⁽²⁾	Senior Vice President—Finance, Twenty-First Century Fox

⁽¹⁾Audit Committee

⁽²⁾Compensation Committee

Officers

Ellen R. Gordon	Chairman of the Board and Chief Executive Officer
G. Howard Ember, Jr.	Vice President, Finance & Chief Financial Officer
Stephen P. Green	Vice President, Manufacturing
Thomas E. Corr	Vice President, Marketing & Sales
John P. Majors	Vice President, Physical Distribution
Barry P. Bowen	Treasurer & Assistant Secretary
Richard F. Berezewski	Controller

Offices, Plants

Executive Offices	7401 S. Cicero Ave. Chicago, Illinois 60629 www.tootsie.com
Plants/Warehouses	Illinois Tennessee Massachusetts Pennsylvania Wisconsin Ontario, Canada Mexico City, Mexico Barcelona, Spain
Foreign Sales Offices	Mexico City, Mexico Ontario, Canada Barcelona, Spain

Other Information

Stock Exchange	New York Stock Exchange, Inc. (Since 1922)
Stock Identification	Ticker Symbol: TR CUSIP No. 890516 10-7
Stock Transfer Agent and Stock Registrar	American Stock Transfer and Trust Company Operations Center 6201 15th Avenue Brooklyn, NY 11219 1-800-710-0932 www.amstock.com
Independent Registered Public Accounting Firm	PricewaterhouseCoopers LLP One North Wacker Chicago, IL 60606
General Counsel	Aronberg Goldgehn Davis & Garmisa 330 North Wabash Avenue Chicago, IL 60611
Annual Meeting	May 7, 2018 Mutual Building, Room 1200 909 East Main Street Richmond, VA 23219



Printed on recycled paper.



www.Tootsie.com



First It's Candy...
Razzles
...Then It's Gum

CHARMS
Candy Carnival

Footies
FRUIT FLAVORED CHEWY CANDY

Caramel Apple Pops

CHARMS
MiniPops

SUGAR DADDY
Delicious Milk Caramel Pops

Tootsie
POP DROPS
Chevy Tootsie Roll Center

CHARMS
POPS

ASSORTED
CHARMS

CHILD'S PLAY
Fantastic Tootsie Roll Favorites

DOTS

AMERICA'S ORIGINAL
DUBBLE BUBBLE
BUBBLE GUM

CANDY BLOX

SUGAR BABIES
EXTRA SOUR BUBBLE GUM

Tootsie Roll

CHARMS
BLOW POP
Real Gum On The Pop

CHARMS
SWEET POPS

CHARMS®

|| Tootsie Roll ||
POPS

Wacko Wax

Junior Mints

Junior Caramels

Delicious Candy Coated Milk Caramels
SUGAR BABIES

Andes

Crows

Nik-Nip
MINT CHALKS

CHARMS
Fluffy Stuff
Cotton Candy

Tootsie
FRUIT CHEWS

Cello's
QUALITY SINCE 1863

CHARLESTON CHEW