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TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
November 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2008

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

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

773-838-3400
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (October 3, 2008)

Class Outstanding

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| | |
|---|------------|
| Common Stock, \$.69 4/9 par value | 35,693,626 |
| Class B Common Stock, \$.69 4/9 par value | 19,371,190 |

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

SEPTEMBER 27, 2008

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

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (in thousands of dollars) (UNAUDITED)

| ASSETS | Sep. 27, 2008 | Sep. 29, 2007 | Dec. 31, 2007____ |
|--|------------------|------------------|----------------------|
| CURRENT ASSETS | | | |
| Cash & cash equivalents | \$ 28,944 | \$ 25,139 | \$ 57,606 |
| Investments | 14,520 | 31,439 | 41,307 |
| Trade accounts receivable, Less allowances of \$3,437, \$3,378 & \$2,287 | 90,250 | 93,239 | 32,371 |
| Other receivables | 3,867 | 2,549 | 2,913 |
| Inventories, at cost | | | |
| Finished goods & work in process | 45,884 | 47,901 | 37,031 |
| Raw material & supplies | 23,923 | 22,460 | 20,371 |
| Prepaid expenses | 1,095 | 3,419 | 6,551 |
| Deferred income taxes | 1,981 | 6,646 | 1,576 |
| Total current assets | 210,464 | 232,792 | 199,726 |
| PROPERTY, PLANT & EQUIPMENT, at cost | | | |
| Land | 19,416 | 19,402 | 19,398 |
| Buildings | 88,286 | 87,273 | 88,225 |
| Machinery & equipment | 285,133 | 267,148 | 270,070 |
| | 392,835 | 373,823 | 377,693 |
| Less-accumulated depreciation | 188,194 | 173,054 | 176,292 |
| Net property, plant and equipment | 204,641 | 200,769 | 201,401 |
| OTHER ASSETS | | | |
| Goodwill | 73,237 | 73,237 | 73,237 |
| Trademarks | 189,024 | 189,024 | 189,024 |
| Investments | 59,368 | 62,762 | 65,993 |
| Split dollar life insurance | 74,944 | 75,048 | 74,944 |
| Investment in joint venture | 9,953 | 9,168 | 8,400 |
| | 406,526 | 409,239 | 411,598 |
| Total assets | \$821,631 | \$842,800 | \$812,725 |

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

(in thousands except per share data) (UNAUDITED)

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| LIABILITIES AND SHAREHOLDERS' EQUITY | Sep. 27, | Sep. 29, | Dec. 31, |
|--|-----------|-----------|-----------|
| CURRENT LIABILITIES | 2008 | 2007 | 2007__ |
| Accounts payable | \$ 17,828 | \$ 18,573 | \$ 11,572 |
| Dividends payable | 4,405 | 4,395 | 4,344 |
| Accrued liabilities | 43,867 | 46,067 | 42,056 |
| Income taxes payable | 4,609 | 7,560 | - |
| Total current liabilities | 70,709 | 76,595 | 57,972 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income taxes | 34,309 | 36,512 | 35,940 |
| Postretirement health care and life insurance benefits | 14,123 | 13,529 | 13,214 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Liability for uncertain tax positions | 21,609 | 18,903 | 20,056 |
| Deferred compensation and other liabilities | 36,034 | 40,444 | 39,813 |
| Total non-current liabilities | 113,575 | 116,888 | 116,523 |
| Total liabilities | 184,284 | 193,483 | 174,495 |
| SHAREHOLDERS' EQUITY | | | |
| Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 35,693, 36,032 & 35,404 respectively, issued | 24,787 | 25,022 | 24,586 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 19,372, 18,909 & 18,892, respectively, issued | 13,453 | 13,131 | 13,120 |
| Capital in excess of par value | 472,066 | 472,605 | 457,491 |
| Retained earnings | 141,904 | 152,936 | 156,752 |
| Accumulated other comprehensive loss | (12,871) | (12,385) | (11,727) |
| Treasury stock (at cost)- 65, 63 & 63 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total shareholders' equity | 637,347 | 649,317 | 638,230 |
| Total liabilities and shareholders' equity | \$821,631 | \$842,800 | \$812,725 |

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

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

| | 13 WEEKS ENDED | |
|---|------------------|------------------|
| | Sep. 27, 2008 | & Sep. 29, 2007 |
| Net product sales | \$184,687 | \$182,917 |
| Rental and royalty revenues | 1,015 | 1,231 |
| Total revenues | 185,702 | 184,148 |
| Product cost of goods sold | 125,394 | 122,159 |
| Rental and royalty costs | 247 | 354 |
| Total costs | 125,641 | 122,513 |
| Product gross margin | 59,293 | 60,758 |
| Rental and royalty gross margins | 768 | 877 |
| Total gross margin | 60,061 | 61,635 |
| Selling, marketing and administrative expenses | 29,669 | 28,181 |
| Earnings from operations | 30,392 | 33,454 |
| Other income (expense), net | (986) | 1,704 |
| Earnings before income taxes | 29,406 | 35,158 |
| Provision for income taxes | 9,691 | 11,726 |
| Net earnings | 19,715 | 23,432 |
| Other comprehensive income (loss), before tax | | |
| Foreign currency translation adjustments | (1,527) | (197) |
| Unrealized gains (losses) on securities | (1,320) | 210 |
| Unrealized gains (losses) on derivatives | (29) | 212 |
| Other comprehensive income (loss), before tax | (2,876) | 225 |
| Income tax benefit (expense) related to items of other comprehensive income | 790 | (157) |
| Other comprehensive income (loss), net of tax | (2,086) | 68 |
| Comprehensive earnings | \$ 17,629 | \$ 23,500 |
| Retained earnings at beginning of period | \$126,589 | \$133,894 |
| Net earnings | 19,715 | 23,432 |
| Cash dividends | (4,400) | (4,390) |
| Retained earnings at end of period | \$141,904 | \$152,936 |
| Net earnings per share | \$0.36 | \$0.41 |
| Dividends per share * | \$0.08 | \$0.08 |
| Average number of shares outstanding | 55,000 | 56,526 |

*Does not include 3% stock dividend to shareholders of record on 3/10/08 and 3/09/07.

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

| TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES | | |
|---|----------------|-----------------|
| CONDENSED CONSOLIDATED STATEMENTS OF | | |
| EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS | | |
| (in thousands except per share amounts) (UNAUDITED) | | |
| | 39 WEEKS ENDED | |
| | Sep. 27, 2008 | & Sep. 29, 2007 |
| Net product sales | \$376,619 | \$377,732 |
| Rental and royalty revenues | 3,130 | 4,021 |
| Total revenues | 379,749 | 381,753 |
| Product cost of goods sold | 254,764 | 249,173 |
| Rental and royalty costs | 763 | 1,223 |
| Total costs | 255,527 | 250,396 |
| Product gross margin | 121,855 | 128,559 |
| Rental and royalty gross margins | 2,367 | 2,798 |
| Total gross margin | 124,222 | 131,357 |
| Selling, marketing and administrative expenses | 72,907 | 73,403 |
| Earnings from operations | 51,315 | 57,954 |
| Other income (expense), net | (1,573) | 6,138 |
| Earnings before income taxes | 49,742 | 64,092 |
| Provision for income taxes | 16,328 | 20,623 |
| Net earnings | 33,414 | 43,469 |
| Other comprehensive income (loss), before tax | | |
| Foreign currency translation adjustments | 2,036 | (197) |
| Unrealized gains (losses) on securities | (3,680) | 222 |
| Unrealized gains (losses) on derivatives | (311) | 330 |
| Other comprehensive income (loss), before tax | (1,955) | 355 |
| Income tax benefit (expense) related to items of other comprehensive income | 810 | (204) |
| Other comprehensive income (loss), net of tax | (1,145) | 151 |
| Comprehensive earnings | \$ 32,269 | \$ 43,620 |
| Retained earnings at beginning of period | \$156,752 | \$169,233 |
| Net earnings | 33,414 | 43,469 |
| Cash dividends | (13,097) | (13,081) |
| Stock dividends - 3% | (35,165) | (46,685) |

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| | | |
|--------------------------------------|-----------|-----------|
| Retained earnings at end of period | \$141,904 | \$152,936 |
| Net earnings per share | \$0.61 | \$0.77 |
| Dividends per share * | \$0.24 | \$0.24 |
| Average number of shares outstanding | 55,217 | 56,723 |

*Does not include 3% stock dividend to shareholders of record on 3/10/08 and 3/09/07.

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

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars) (UNAUDITED)
39 WEEKS ENDED

Sep. 27, 2008 & Sep. 29, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|-----------|-----------|
| Net earnings | \$ 33,414 | \$ 43,469 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 12,362 | 11,997 |
| Amortization of marketable securities | 306 | 420 |
| Purchase of trading securities | (1,862) | (1,901) |
| Sales of trading securities | 1,730 | 1,256 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (57,796) | (58,236) |
| Other receivables | (1,265) | 1,714 |
| Inventories | (12,354) | (6,470) |
| Prepaid expenses and other assets | 5,465 | 1,371 |
| Accounts payable and accrued liabilities | 8,030 | 7,783 |
| Income taxes payable and deferred | 4,957 | 17,788 |
| Postretirement health care and life insurance benefits | 909 | 947 |
| Deferred compensation and other liabilities | (624) | 72 |
| Other | 306 | 96 |
| Net cash provided by (used in) operating activities | (6,422) | 20,306 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|----------|----------|
| Capital expenditures | (15,540) | (9,935) |
| Purchase of available for sale securities | (30,326) | (34,685) |
| Sale and maturity of available for sale securities | 56,718 | 18,615 |
| Net cash provided by (used in) investing activities | 10,852 | (26,005) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|--|----------|----------|
| Dividends paid in cash | (13,157) | (13,153) |
| Shares repurchased and retired | (19,935) | (11,738) |
| Net cash used in financing activities | (33,092) | (24,891) |
| Decrease in cash and cash equivalents | (28,662) | (30,590) |
| Cash and cash equivalents at the beginning of year | 57,606 | 55,729 |

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| | | |
|---|-----------|-----------|
| Cash and cash equivalents at the end of quarter | \$ 28,944 | \$ 25,139 |
| Supplemental cash flow information | | |
| Income taxes paid, net of refunds | \$ 10,001 | \$ 2,685 |
| Interest paid | \$ 191 | \$ 441 |
| Stock dividend issued | \$ 35,043 | \$ 46,520 |

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 27, 2008

(in thousands except per share amounts) (UNAUDITED)

- Note 1 - Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- Note 2 - Average shares outstanding for the 39 week period ended September 27, 2008 reflect stock repurchases and subsequent retirements of 839 shares for \$19,934 and a 3% stock dividend distributed on April 10, 2008. Average shares outstanding for the 39 week period ended September 29, 2007 reflect stock repurchases and subsequent retirements of 419 shares for \$11,738 and a 3% stock dividend distributed on April 12, 2007.
- Note 3 - Results of operations for the period ended September 27, 2008 are not necessarily indicative of results to be expected for the year to end December 31, 2008 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to Halloween sales.
- Note 4 - 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 2004 through 2006. With few exceptions, the Company is no longer subject to examinations by tax authorities for years 2003 and prior.

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Note 5 - New Accounting Pronouncements

In September 2006, the FASB issued statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company has adopted the provisions of SFAS 157 as of January 1, 2008, for financial instruments measured at fair value on recurring and nonrecurring basis. Although the adoption of SFAS 157 did not materially impact its financial condition, results of operations, or cash flows, the Company is now required to provide additional disclosures as part of its financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, inputs defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs defined as inputs other than quoted prices included within Level 1 that

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are observable for the asset or liability, either directly or indirectly; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In February 2008, the FASB issued FASB Staff Position SFAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2). FSP FAS 157-2 delays the effective date SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The non-financial assets and non-financial liabilities for which the Company has not applied the fair value provisions of SFAS 157 include long lived assets, goodwill and other intangible assets. The effective date for application of SFAS 157 to non-financial assets and non-financial liabilities will be fiscal and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS 157 for non-financial assets and non-financial liabilities on our financial statements.

In October 2008, the FASB issued FASB Staff Position SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active. The Company has considered this guidance when determining the fair value of its financial assets as of September 27, 2008.

As of September 27, 2008, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials, investments in trading securities and available for sale securities, including auction rate securities (ARS), and investments associated with a foreign benefit plan, which were deemed immaterial for further discussion. The Company's available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

As of September 27, 2008, the Company's long-term investments include

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\$9,943 of Jefferson County Alabama Sewer Revenue Refunding Warrants which is an ARS that is classified as an available for sale security. Due to recent events in the credit markets, as well as events related to Jefferson County and its bond insurance carrier, Financial Guaranty Insurance Company (FGIC), the auction for this ARS failed during the first nine months of 2008. As such, the Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs as of September 27, 2008. This valuation model considered, among other items, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including our assumption about the market expectation of the next successful auction.

As of September 27, 2008, the Company has concluded that the market decline in fair value of its Jefferson County ARS is temporary because the Company continues to receive all contractual interest payments on its ARS on a timely basis, there has been no default on this ARS, and this ARS is insured by FGIC. The Company also has the intent and ability to hold this ARS until recovery. We expect to continue to receive all contractual cash flows. Therefore, the Company has recorded an unrealized loss of \$3,607 (original cost and par value was \$13,550) to accumulated other comprehensive income as of September 27, 2008.

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The Company has also classified this ARS as non-current and has included it in long-term Investments on the unaudited Condensed Consolidated Balance Sheet at September 27, 2008 because the Company believes that the current condition of the auction rate securities market, as well as the financial conditions of Jefferson County and FGIC, may take more than twelve months to improve.

Any future fluctuation in fair value related to this ARS that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income. If the Company determines that any future valuation adjustment is other than temporary, it would record an impairment charge to earnings as appropriate.

The Company's assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at September 27, 2008, were as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|-----------------------------|-----------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (in thousands) | | | | |
| Description | 9/27/2008 | | | |
| Auction Rate Security (ARS) | \$ 9,943 | \$ - | \$ - | \$ 9,943 |
| Available-for-sale Security | 34,136 | | 34,136 | - |

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| | | | | |
|-------------------------------------|-----------|-----------|-----------|----------|
| Excluding ARS | | | | |
| Commodity Derivatives | 40 | 40 | - | - |
| Trading Securities | 29,809 | 29,809 | - | - |
| Total assets measured at fair value | \$ 73,928 | \$ 29,849 | \$ 34,136 | \$ 9,943 |

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

Based on market conditions, the Company changed its valuation methodology for ARS to a discounted cash flow analysis during first quarter 2008. Accordingly, these securities changed from Level 2 to Level 3 within SFAS 157's hierarchy since the Company's initial adoption of SFAS 157 at January 1, 2008.

The following table presents the Company's financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 at September 27, 2008:

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction Rate Security

| | |
|--|----------|
| (in thousands) | |
| Balance at 1/1/2008 | \$ - |
| Transfers to Level 3 | 27,250 |
| Included in other comprehensive income | (3,607) |
| Purchases and (sales) net | (13,700) |
| Balance at 9/27/2008 | \$ 9,943 |

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment to FASB Statement No. 115" (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 became effective beginning with our first quarter of 2008. The Company has chosen not to elect the fair value option for our existing financial instruments.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which requires enhanced disclosures for derivative and hedging activities. SFAS 161 will become effective beginning with our first quarter of 2009. Early adoption is permitted. The Company is currently evaluating the impact of this standard on our Consolidated Financial Statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (dollars in thousands except per share amounts)

The following is management's discussion of the Company's operating results and analysis of factors that have affected the accompanying Condensed Consolidated Statements of Earnings.

NET PRODUCT SALES:

| | | |
|---------------|-----------|---------------------|
| | | Net change in |
| | | Third Quarter, 2008 |
| | | vs. |
| | | Third Quarter, 2007 |
| Third Quarter | | 1.0 % |
| 2008 | 2007 | |
| \$184,687 | \$182,917 | |
| | | Nine Months, 2008 |
| | | vs. |
| | | Nine Months, 2007 |
| Nine Months | | (0.3) % |
| 2008 | 2007 | |
| \$376,619 | \$377,732 | |

Third quarter 2008 net product sales were \$184,687 compared to \$182,917 in

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third quarter 2007, an increase of \$1,770 or 1.0%. Nine months 2008 net product sales of \$376,619 decreased \$1,113 or 0.3% from nine months 2007 net product sales of \$377,732. The sales decline in the nine months 2008 reflects the overall challenging economic conditions and competitive factors during the period.

PRODUCT COST OF GOODS SOLD:

| Third Quarter | | Percentage of Net Product Sales | |
|---------------|-----------|---------------------------------|---------------|
| 2008 | 2007 | 3rd Qtr. 2008 | 3rd Qtr. 2007 |
| \$125,394 | \$122,159 | 67.9% | 66.8% |

| Nine Months | | Percentage of Net Product Sales | |
|-------------|-----------|---------------------------------|------------------|
| 2008 | 2007 | Nine Months 2008 | Nine Months 2007 |
| \$254,764 | \$249,173 | 67.6% | 66.0% |

Product cost of goods sold as a percentage of net product sales increased from 66.8% in the third quarter 2007 to 67.9% in third quarter 2008, and from 66.0% in nine months 2007 to 67.6% in nine months 2008. These increases in product cost of goods sold as a percentage of net product sales are primarily the result of higher input costs relating to major ingredients, packaging materials and less favorable foreign exchange rates on products manufactured in Canada. Increased plant overhead spending against lower sales volumes also contributed to increased product cost of goods sold as a percent of net product sales.

The Company's ability to forecast the direction and scope of changes to its major input costs is currently impacted by significant volatility in crude oil, corn, soybean, sugar and cocoa markets. The prices of these commodities are influenced by increasing global demand; changes in farm policy, including mandates for bio-fuels; and fluctuations in the U.S. dollar relative to dollar-denominated commodities in world markets. The Company believes that its competitors face the same or similar challenges.

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In order to address the impact of rising input and other costs, the Company periodically reviews each item in its product portfolio to ascertain if price increases, weight declines (indirect price increases) or other actions may 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 programs whereby 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.

SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

| Third Quarter | | Percentage of Net Product Sales | |
|---------------|------|---------------------------------|---------------|
| 2008 | 2007 | 3rd Qtr. 2008 | 3rd Qtr. 2007 |

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| | | | |
|-------------|----------|---------------------------------|---------------|
| \$29,669 | \$28,181 | 16.1% | 15.4% |
| Nine Months | | Percentage of Net Product Sales | |
| 2008 | 2007 | 9 Months 2008 | 9 Months 2007 |
| \$72,907 | \$73,403 | 19.4% | 19.4% |

Third quarter 2008 selling, marketing and administrative expenses were \$29,669 compared to \$28,181 in third quarter 2007, an increase of \$1,488 or 5.3%. These same expenses decreased from \$73,403 in nine months 2007 to \$72,907 in nine months 2008, a decrease of \$496 or 0.7%. The increase in expenses for the third quarter primarily reflects higher freight and delivery expense, which was partially offset by a decline in deferred compensation expense which is discussed below. The decrease in expenses for the nine months principally reflects decreases in certain operating expenses relating to lower net product sales for the comparative nine month periods, and the decline in deferred compensation expense; these decreases more than offset increases in freight and delivery expenses in the comparative nine month periods. As a percentage of net product sales, operating expenses increased slightly from 15.4% in third quarter 2007 to 16.1% in third quarter 2008. However, the same expenses as a percentage of net product sales were unchanged at 19.4% for both nine month periods. The adverse affect of higher freight and delivery principally reflects higher fuel costs, during both third quarter and nine months 2008 compared to the corresponding periods in the prior year.

Third quarter 2008 earnings from operations were \$30,392 compared to \$33,454 in third quarter 2007, a decrease of \$3,062 or 9.2%. Nine months 2008 earnings from operations were \$51,315 compared to \$57,954 a decrease of \$6,639 or 11.5%. The decline in operating earnings during both third quarter and nine months 2008 were primarily the result of higher input costs as discussed above.

NET EARNINGS:

| | | |
|---------------|---------------------|---------------------|
| | Third Quarter, 2008 | |
| Third Quarter | vs. | Third Quarter, 2007 |
| 2008 | | (15.9)% |
| \$19,715 | \$23,432 | |
| | | |
| Nine Months | vs. | Nine Months, 2007 |
| 2008 | | (23.1)% |
| \$33,414 | \$43,469 | |

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Third quarter 2008 net earnings were \$19,715 compared to third quarter 2007 net earnings of \$23,432, a \$3,717 or 15.9% decrease. Third quarter 2008 earnings per share were \$0.36, compared to \$0.41 per share in the prior year comparative period, a decrease of \$0.05 or 12.2%.

Nine months 2008 net earnings were \$33,414 compared to nine months 2007 net earnings of \$43,469, a \$10,055 or 23.1% decrease. Nine months net earnings per share were \$0.61 in 2008 compared to \$0.77 per share in 2007, a decrease of \$0.16 per share or 20.8%.

Other income(expense), net was \$(986) in third quarter 2008 compared to \$1,704 in third quarter 2007. Other income(expense), net in third quarter 2008 includes \$(1,277) of investment losses on trading securities relating to

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deferred compensation plans. However, other income(expense), net in third quarter 2007 includes \$644 of investment gains on trading securities relating to such deferred compensation plans. Other income(expense), net was \$(1,573) in nine months 2008 compared to \$6,138 in nine months 2007. Other income (expense), net in nine months 2008 includes \$(3,167) of investment losses on trading securities relating to deferred compensation plans. However, other income (expense), net in nine months 2007 includes \$2,572 of investment gains on trading securities relating to such deferred compensation plans. These third quarter and nine months 2008 losses resulted in a corresponding decrease in deferred compensation expense included in aggregate cost of products sold and selling, marketing and administrative expenses for third quarter and nine months 2008. However, third quarter and nine months 2007 gains resulted in a corresponding increase in deferred compensation expense included in aggregate cost of products sold and selling, marketing and administrative expenses for the corresponding 2007 periods.

The consolidated effective income tax rate decreased from 33.4% in third quarter 2007 to 33.0% in third quarter 2008 but increased from 32.2% in nine months 2007 to 32.8% in nine months 2008. The decrease in the rate for the third quarter is primarily the result of federal and state tax credits. The increase in the rate for nine months principally reflects higher foreign taxes and resulting higher overall effective rate.

In addition to the factors discussed above, earnings per share benefited from fewer shares outstanding as a result of the Company's share repurchases in 2007 and 2008.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 3.0 to 1 as of the end of third quarter of both 2008 and 2007 and was 3.4 to 1 as of the end of fourth quarter 2007. Net working capital was \$139,755 as of the end of third quarter 2008 as compared to \$156,197 and \$141,754 as of the end of third quarter 2007 and fourth quarter 2007, respectively. The aforementioned net working capital amounts include total cash and cash equivalents and short-term investments which aggregated \$43,464 as of the end of third quarter 2008 compared to \$56,578 and \$98,913, as of the end of third quarter 2007 and fourth quarter 2007, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were \$59,368 (including \$9,943 of Jefferson County auction rate securities discussed in Note 5 to the accompanying Condensed Consolidated Financial Statements) as of the end of third quarter 2008, as compared to \$62,762 and \$65,993 as of the end of third quarter 2007 and fourth quarter 2007, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$102,832, \$119,340 and \$164,906 for third quarter 2008, third quarter 2007 and fourth quarter 2007, respectively. Except for the Jefferson County auction rate securities referenced above, investments in municipal bonds and other debt securities that matured during nine months

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2008 and 2007 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

Net cash used in operating activities was \$(6,422) for nine months 2008, as compared to \$20,306 net cash provided by operating activities in nine months 2007. The aforementioned change in net cash provided by (used in) operating activities principally reflects the \$10,055 decline in net earnings for the comparative periods, and the timing of payments and cash flows relating to

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other receivables, inventories, prepaid expenses, and income taxes payable. Capital expenditures for nine months 2008 and 2007 were \$15,540 and \$9,935, respectively. Capital expenditures for the 2008 year are anticipated to be generally in line with historical annualized spending, and are to be funded from the Company's cash flow from operations and internal sources.

Cash dividends paid in nine months 2008 and 2007 were \$13,157 and \$13,153, respectively.

During nine months 2008, the Company also purchased and retired \$19,935 of its shares of common stock compared to \$11,738 during the same period of the previous year.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company has adopted the provisions of SFAS 157 as of January 1, 2008, for financial instruments. Although the adoption of SFAS 157 did not materially impact its financial condition, results of operations, or cash flow, the Company is now required to provide additional disclosures as part of its financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, inputs defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In February 2008, the FASB issued FASB Staff Position SFAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2). FSP FAS 157-2 delays the effective date SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The non-financial assets and non-financial liabilities for which the Company has not applied the fair value provisions of SFAS 157 include long lived assets, goodwill and other intangible assets. The effective date for application of SFAS 157 to non-financial assets and non-financial liabilities will be fiscal and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS 157 for non-financial assets and non-financial liabilities on our financial statements.

In October 2008, the FASB issued FASB Staff Position SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active. The Company has considered this guidance when determining the fair value of its financial assets as of September 27, 2008.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment to FASB Statement No. 115," (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159

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became effective beginning with our first quarter of 2008. We have chosen not to adopt the provisions of SFAS 159 for our existing financial instruments.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"), which requires enhanced disclosures for derivative and hedging activities. SFAS 161 will become effective beginning with our first quarter of 2009. Early adoption is permitted. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This discussion and certain other sections of this Form 10-Q contain forward-looking statements that are based largely on the Company's current expectations and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as "anticipated," "believe," "expect," "intend," "estimate," "project," and other words of similar meaning in connection with a discussion of future operating or financial performance and are subject to certain factors, risks, trends and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements.

Such factors, risks, trends and uncertainties, which in some instances are beyond the Company's control, include without limitation, the following: (i) significant competitive activity, including advertising, promotional and price competition, and changes in consumer demand for the Company's products; (ii) fluctuations in the cost and availability of various ingredients and packaging materials; (iii) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance and seasonal events such as Halloween; (iv) the effect of acquisitions on the Company's results of operations and financial condition; (v) the effect of changes in foreign currencies on the Company's foreign subsidiaries operating results, and the effect of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (vi) the Company's reliance on third-party vendors for various goods and services; (vii) the Company's ability to successfully implement new production processes and lines; (viii) the effect of changes in assumptions, including discount rates, sales growth and profit margins, and the capability to pass along higher ingredient and other input costs through price increases, relating to the Company's impairment testing and analysis of its goodwill and trademarks; (ix) changes in the confectionery marketplace including actions taken by major retailers and customers; (x) customer and consumer response to marketing programs and price and product weight adjustments, and new products; (xi) dependence on significant customers, including volume and timing or purchases and availability of shelf space; (xii) increases in input costs, including ingredients, packaging materials, energy and fuel costs related to freight and delivery, that cannot be passed on to customers through increased prices due to competitive reasons; (xiii) any significant labor stoppages, strikes or production interruptions; (xiv) changes in governmental laws and regulations including taxes and tariffs; (xv) changes in the auction rate securities markets and issuing municipalities and their insurers. In addition, the Company's results may be affected by 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

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in Part 1, Item 1A "Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K and in other Company filings, including quarterly reports on Form 10-Q, with the Securities and Exchange Commission.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in sugar, corn syrup, edible oils, including soybean oil, cocoa, milk and whey, dextrose, gum base ingredients, packaging and fuel costs. The Company is exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and operating expenses at its Canadian plants. The Company invests in securities with maturities of up to three years, the majority of which are held to maturity, which limits the Company's exposure to interest rate fluctuations.

Except for the Jefferson County auction rate security discussed above, there has been no material change in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2007.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, the chief executive officer and chief financial officer of the Company have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 27, 2008 and, based on their evaluation, the chief executive officer and chief financial officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 27, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

TOOTSIE ROLL INDUSTRIES, INC.
AND SUBSIDIARIES

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | Approximate Dollar Shares Purchased as Part of Publicly Announced Plans Or Programs | Value of Shares that May Yet Be Purchased Under the Plans or Programs_____ |
|------------------|---|--|---|---|
| JUN 29 TO SEP 27 | NONE | NONE | NOT APPLICABLE | NOT APPLICABLE |

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

Item 6. EXHIBITS

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

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

SIGNATURES

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

TOOTSIE ROLL INDUSTRIES, INC.

Date: Nov. 5, 2008

BY:/S/MELVIN J. GORDON
Melvin J. Gordon
Chairman of the Board

Date: Nov. 5, 2008

BY:/S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
Vice President Finance

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Exhibit 31.1

CERTIFICATION

I, Melvin J. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 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):

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- 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: Nov. 5, 2008

By: /S/MELVIN J. GORDON
Melvin J. Gordon
Chairman and Chief Executive Officer

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Exhibit 31.2

CERTIFICATION

I, G. Howard Ember, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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

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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 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: Nov. 5, 2008

By: /S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
Vice President Finance and
Chief Financial Officer

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Exhibit 32

Certificate Pursuant to Section 1350 of Chapter 63
Of Title 18 of the United States Code

Each of the undersigned officers of Tootsie Roll Industries, Inc. Certifies that (i) the Quarterly Report on Form 10-Q of Tootsie Roll Industries, Inc. for the quarterly period ended September 27, 2008 (the Form 10-Q) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Tootsie Roll Industries, Inc. and its subsidiaries.

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Dated: Nov. 5, 2008

/S/MELVIN J. GORDON
Melvin J. Gordon
Chairman and Chief
Executive Officer

Dated: Nov. 5, 2008

/S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
V.P. Finance and
Chief Financial Officer

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