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TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
August 09, 2006

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 July 1, 2006

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 or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 (July 1, 2006)

| Class | Outstanding |
|-------|-------------|
|-------|-------------|

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| | |
|---|------------|
| Common Stock, \$.69 4/9 par value | 35,870,157 |
| Class B Common Stock, \$.69 4/9 par value | 18,414,283 |

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

JULY 1, 2006

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of dollars) (UNAUDITED)

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| ASSETS | July 1, 2006 | July 2, 2005 | Dec. 31, 2005 |
|--|-----------------|-----------------|------------------|
| CURRENT ASSETS | | | |
| Cash & cash equivalents | \$ 11,511 | \$ 31,780 | \$ 69,006 |
| Restricted cash | - | - | 22,330 |
| Investments | 39,452 | 39,015 | 54,892 |
| Trade accounts receivable, Less allowances of \$2,160, \$2,582 & \$2,255 | 21,969 | 29,293 | 30,856 |
| Other receivables | 1,160 | 2,273 | 2,768 |
| Inventories | | | |
| Finished goods & work in process | 73,993 | 66,797 | 34,311 |
| Raw material & supplies | 24,778 | 24,103 | 20,721 |
| Prepaid expenses | 3,758 | 3,729 | 5,840 |
| Deferred income taxes | 6,654 | 1,352 | 5,872 |
| Total current assets | 183,275 | 198,342 | 246,596 |
| PROPERTY, PLANT & EQUIPMENT, at cost | | | |
| Land | 19,401 | 14,992 | 14,857 |
| Buildings | 84,241 | 61,778 | 63,544 |
| Machinery & equipment | 254,614 | 253,204 | 250,841 |
| | 358,256 | 329,974 | 329,242 |
| Less-accumulated depreciation | 156,220 | 149,607 | 150,482 |
| Net property, plant and equipment | 202,036 | 180,367 | 178,760 |
| OTHER ASSETS | | | |
| Goodwill | 74,194 | 74,793 | 74,194 |
| Trademarks | 189,024 | 193,342 | 189,024 |
| Investments | 45,425 | 78,465 | 44,851 |
| Split dollar life insurance | 72,857 | 69,563 | 69,772 |
| Investment in joint venture | 11,188 | 10,945 | 10,499 |
| | 392,688 | 427,108 | 388,340 |
| Total assets | \$777,999 | \$805,817 | \$813,696 |

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

(in thousands except per share data)

(UNAUDITED)

| LIABILITIES AND SHAREHOLDERS' EQUITY | July 1, 2006 | July 2, 2005 | Dec. 31, 2005 |
|--------------------------------------|-----------------|-----------------|------------------|
| CURRENT LIABILITIES | | | |
| Bank loan | \$ - | \$ 26,400 | \$ 32,001 |
| Accounts payable | 19,702 | 16,874 | 17,482 |
| Dividends payable | 4,347 | 3,751 | 4,263 |
| Accrued liabilities | 41,021 | 42,460 | 44,969 |
| Income taxes payable | 7,936 | 12,089 | 14,941 |
| Total current liabilities | 73,006 | 101,574 | 113,656 |

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NON-CURRENT LIABILITIES

| | | | |
|--|---------|---------|---------|
| Bank loan | - | 49,000 | - |
| Deferred income taxes | 38,756 | 25,691 | 32,088 |
| Postretirement health care and life insurance benefits | 11,025 | 10,409 | 10,783 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Deferred compensation and other liabilities | 32,565 | 30,206 | 32,264 |
| Total non-current liabilities | 89,846 | 122,806 | 82,635 |
| Total liabilities | 162,852 | 224,380 | 196,291 |

SHAREHOLDERS' EQUITY

| | | | |
|--|-----------|-----------|-----------|
| Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 35,870, 35,561 & 35,255, respectively, issued | 24,910 | 24,695 | 24,483 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 18,414, 18,019 & 18,000, respectively, issued | 12,788 | 12,513 | 12,500 |
| Capital in excess of par value | 453,074 | 435,675 | 426,125 |
| Retained earnings | 137,182 | 121,251 | 164,236 |
| Accumulated other comprehensive loss | (10,815) | (10,705) | (7,947) |
| Treasury stock (at cost)- 61, 60 & 60 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total shareholders' equity | 615,147 | 581,437 | 617,405 |
| Total liabilities and shareholders' equity | \$777,999 | \$805,817 | \$813,696 |

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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)

| | 13 WEEKS ENDED | |
|--|----------------|----------------|
| | July 1, 2006 | & July 2, 2005 |
| Net sales | \$ 94,944 | \$103,627 |
| Cost of goods sold | 56,894 | 61,886 |
| Gross margin | 38,050 | 41,741 |
| Selling, marketing and administrative expenses | 22,378 | 22,820 |
| Earnings from operations | 15,672 | 18,921 |
| Other income, net | 2,542 | 1,184 |
| Earnings before income taxes | 18,214 | 20,105 |
| Provision for income taxes | 5,356 | 6,374 |

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| | | |
|---|-----------|-----------|
| Net earnings | 12,858 | 13,731 |
| Other comprehensive income, before tax: | | |
| Foreign currency translation adjustments | (374) | 525 |
| Unrealized gains (losses) on securities | (900) | 415 |
| Unrealized (losses) on derivatives | (2,035) | (252) |
| Other comprehensive income (loss), before tax | (3,309) | 688 |
| Income tax benefit (expense) related to items of other comprehensive income | 1,085 | (60) |
| Other comprehensive income (loss), net of tax | (2,224) | 628 |
| Comprehensive earnings | \$ 10,634 | \$ 14,359 |
| Retained earnings at beginning of period | \$128,666 | \$111,266 |
| Net earnings | 12,858 | 13,731 |
| Cash dividends | (4,342) | (3,746) |
| Retained earnings at end of period | \$137,182 | \$121,251 |
| Net earnings per share | \$0.24 | \$0.25 |
| Dividends per share * | \$0.08 | \$0.07 |
| Average number of shares outstanding | 54,338 | 55,114 |

*Does not include 3% stock dividend to shareholders of record on 3/10/06 and 3/11/05.

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

| TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES | | |
|--|----------------|----------------|
| CONDENSED CONSOLIDATED STATEMENTS OF | | |
| EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS | | |
| (in thousands except per share amounts) (UNAUDITED) | | |
| | 26 WEEKS ENDED | |
| | July 1, 2006 | & July 2, 2005 |
| Net sales | \$198,766 | \$201,552 |
| Cost of goods sold | 121,316 | 120,362 |
| Gross margin | 77,450 | 81,190 |
| Selling, marketing and administrative expenses | 45,427 | 45,110 |
| Earnings from operations | 32,023 | 36,080 |

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| | | |
|--|-----------|-----------|
| Other income, net | 4,389 | 2,391 |
| Earnings before income taxes | 36,412 | 38,471 |
| Provision for income taxes | 11,192 | 12,234 |
| Net earnings | 25,220 | 26,237 |
| Other comprehensive income, before tax: | | |
| Foreign currency translation adjustments | (698) | 611 |
| Unrealized (losses) on securities | (740) | (206) |
| Unrealized (losses) on derivatives | (2,704) | (405) |
| Other comprehensive income, before tax | (4,142) | - |
| Income tax benefit related to items of other comprehensive income | 1,274 | 226 |
| Other comprehensive income, net of tax | (2,868) | 226 |
| Comprehensive earnings | \$ 22,352 | \$ 26,463 |
| Retained earnings at beginning of period | \$164,236 | \$149,055 |
| Net earnings | 25,220 | 26,237 |
| Cash dividends | (8,580) | (7,401) |
| Stock dividends - 3% | (43,694) | (46,640) |
| Retained earnings at end of period | \$137,182 | \$121,251 |
| Net earnings per share | \$0.46 | \$0.48 |
| Dividends per share * | \$0.16 | \$0.14 |
| Average number of shares outstanding | 54,511 | 55,218 |

*Does not include 3% stock dividend to shareholders of record on 3/10/06 and 3/11/05.

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

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

26 WEEKS ENDED
July 1, 2006 & July 2, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|---|-----------|-----------|
| Net earnings | \$ 25,220 | \$ 26,237 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 7,414 | 7,156 |
| Amortization of marketable securities | 555 | 967 |

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| | | |
|--|-----------|-----------|
| Purchase of trading securities | (1,643) | (1,424) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 8,723 | (736) |
| Other receivables | (95) | (282) |
| Inventories | (43,953) | (31,975) |
| Prepaid expenses and other assets | (1,730) | (2,958) |
| Accounts payable and accrued liabilities | (1,570) | (4,779) |
| Income taxes payable and deferred | (921) | 3,567 |
| Postretirement health care and life insurance benefits | 242 | 334 |
| Deferred compensation and other liabilities | 767 | 1,060 |
| Other | (42) | 227 |
| Net cash used in operating activities | (7,033) | (2,606) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Working capital adjustment from acquisition | - | 6,755 |
| Capital expenditures | (30,983) | (8,550) |
| Decrease in restricted cash | 22,330 | - |
| Purchase of available for sale securities | (6,826) | (13,386) |
| Sale and maturity of available for sale securities | 21,544 | 24,292 |
| Net cash provided by investing activities | 6,065 | 9,111 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from bank loan | - | 6,400 |
| Repayment of bank loan | (32,001) | (23,000) |
| Dividends paid in cash | (8,628) | (7,639) |
| Shares repurchased and retired | (15,898) | (7,475) |
| Net cash used in financing activities | (56,527) | (31,714) |
| Decrease in cash and cash equivalents | (57,495) | (25,209) |
| Cash and cash equivalents at the beginning of year | 69,006 | 56,989 |
| Cash and cash equivalents at the end of quarter | \$ 11,511 | \$ 31,780 |
| Supplemental cash flow information: | | |
| Income taxes paid | \$ 10,118 | \$ 9,202 |
| Interest paid | \$ 593 | \$ 1,092 |
| Stock dividend issued | \$ 43,563 | \$ 46,311 |

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JULY 1, 2006 (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

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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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2005 Annual Report on Form 10-K.

Note 2 - Average shares outstanding for the period ended July 1, 2006 reflects stock repurchases and subsequent retirements of 557 shares for \$15,898 and a 3% stock dividend distributed on April 13, 2006. Average shares outstanding for the period ended July 1, 2005 reflects stock repurchases and subsequent retirements of 252 shares for \$7,475 and a 3% stock dividend distributed on April 14, 2005.

Note 3 - Results of operations for the period ended July 1, 2006 are not necessarily indicative of results to be expected for the year to end December 31, 2006 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 bank loan, a demand note issued in December 2005, was fully repaid in May 2006.

Note 5 - In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact of FIN 48 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

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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 Statement of Earnings.

NET SALES:

Net change in
Second Quarter, 2006

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| Second Quarter | | vs. |
|----------------|-----------|----------------------|
| 2006 | 2005 | Second Quarter, 2005 |
| \$ 94,944 | \$103,627 | (8.4)% |

| First Half | | First Half, 2006 |
|------------|-----------|------------------|
| 2006 | 2005 | vs. |
| \$198,766 | \$201,552 | First Half, 2005 |
| | | (1.4)% |

Second quarter 2006 net sales were \$94,944 compared to \$103,627 in second quarter 2005, a decrease of \$8,683 or 8.4%. First half 2006 net sales of \$198,766 decreased \$2,786 or 1.4% from first half 2005 net sales of \$201,552. The decrease in second quarter and first half 2006 sales was caused by a number of factors. These include transitional changes in package size, weight and price changes, inventory adjustments made by certain national account customers, the timing of shipments in the comparative periods, and a late Easter which adversely impacted the Company's spring-summer promotion by shortening the sales promotion period in the comparative second quarter periods. In addition, the conclusion of a contract to manufacture product under a private label for a third party resulted in a sales decline of approximately \$2,900 in both the second quarter and first half 2006 periods. As previously disclosed in our Form 10-K for the year ended December 31, 2005, such contract manufacturing sales aggregated 2% of annual net sales in 2005.

COST OF SALES:

| Second Quarter | | Cost of Sales as a | |
|----------------|----------|-------------------------|---------------|
| 2006 | 2005 | Percentage of Net Sales | |
| \$56,894 | \$61,886 | 2nd Qtr. 2006 | 2nd Qtr. 2005 |
| | | 59.9% | 59.7% |

| First Half | | Cost of Sales as a | |
|------------|-----------|-------------------------|---------------|
| 2006 | 2005 | Percentage of Net Sales | |
| \$121,316 | \$120,362 | 1st Half 2006 | 1st Half 2005 |
| | | 61.0% | 59.7% |

Cost of sales as a percentage of net sales increased from 59.7% in the second quarter 2005 to 59.9% in second quarter 2006, and from 59.7% in first half 2005 to 61.0% in first half 2006. These increases in cost of sales as a percentage of net sales are principally the result of higher input costs relating to major ingredients, energy, including natural gas, and higher plant repair and maintenance expenses. In addition, higher costs for labor and fringe benefits, as well as generally higher plant overhead costs, also contributed to the increase in cost of sales as a percentage of sales for the second quarter and first half 2006 periods.

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SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

| Second Quarter | | Percentage of Net Sales | |
|----------------|----------|-------------------------|---------------|
| 2006 | 2005 | 2nd Qtr. 2006 | 2nd Qtr. 2005 |
| \$22,378 | \$22,820 | 23.6% | 22.0% |
| First Half | | Percentage of Net Sales | |

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| 2006 | 2005 | 1st Half 2006 | 1st Half 2005 |
|----------|----------|---------------|---------------|
| \$45,427 | \$45,110 | 22.9% | 22.4% |

Second quarter 2006 selling, marketing and administrative expenses were \$22,378 compared to \$22,820 in second quarter 2005, a decrease of \$442 or 1.9%. However, these expenses rose from \$45,110 in first half 2005 to \$45,427 in first half 2006, an increase of \$317 or 0.7%. As a percentage of net sales, total selling, marketing and administrative expenses increased from 22.0% in second quarter 2005 to 23.6% in second quarter 2006, and from 22.4% in first half 2005 to 22.9% in first half 2006. The increase in selling, marketing and administrative expenses as a percentage of sales for second quarter and first half 2006 reflects higher freight and delivery expenses, including higher fuel surcharges from carriers, and additional marketing expenses, principally new artwork and plate expenses, relating to packaging changes associated with the transition to new pack sizes and government mandated labeling changes.

Second quarter 2006 earnings from operations were \$15,672 compared to \$18,921 in second quarter 2005, a decrease of \$3,249 or 17.2%. First half 2006 earnings from operations were \$32,023 compared to \$36,080, a decrease of \$4,057 or 11.2%. The decline in operating earnings in second quarter and first half 2006 principally resulted from lower reported consolidated sales combined with higher input costs and increased marketing expenses as discussed above. Although the Company took actions and implemented programs, including price increases, with the objective to recover these higher input costs, these actions, coupled with the effect of lower sales as discussed above, did not result in the restoration of margins and profits in the second quarter and first half of 2006.

NET EARNINGS:

| Second Quarter | | Second Quarter, 2006 |
|----------------|----------|----------------------|
| 2006 | 2005 | vs. |
| \$12,858 | \$13,731 | Second Quarter, 2005 |
| | | (6.4)% |
| First Half | | First Half, 2006 |
| 2006 | 2005 | vs. |
| \$25,220 | \$26,237 | First Half, 2005 |
| | | (3.9)% |

Second quarter 2006 net earnings were \$12,858 compared to second quarter 2005 net earnings of \$13,731, an \$873 or 6.4% decrease. Second quarter 2006 earnings per share were \$0.24, compared to \$0.25 per share in the prior year comparative period, a decrease of \$0.01 or 4.0%.

First half 2006 net earnings were \$25,220 compared to first half 2005 net earnings of \$26,237 a \$1,017 or 3.9% decrease. First half net earnings per share were \$0.46 in 2006 compared to \$0.48 per share in 2005, a decrease of \$0.02 per share or 4.2%.

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Other income, net was \$2,542 in second quarter 2006 compared to \$1,184 in second quarter 2005, an increase of \$1,358. The aforementioned increase is primarily the result of \$483 of decreased interest expense and a \$739 capital

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gain on investments. Other income, net was \$4,389 in first half 2006 compared to \$2,391 in first half 2005, an increase of \$1,998. First half 2006 other income net reflects \$690 of decreased interest expense, \$316 of increased investment income and a \$739 capital gain on investment. The decreased interest expense in both second quarter and first half 2006 reflects the continuous reduction in bank loans during 2005 and first half 2006.

The consolidated effective income tax rate favorably decreased from 32.4% in both second quarter and first half 2005 to 30.0% in second quarter 2006 and 31.3% in first half 2006. This improvement principally reflects lower effective rates for foreign taxes.

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

LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 2.5 to 1 as of the end of second quarter 2006 as compared to 2.0 to 1 as of the end of second quarter 2005 and 2.2 to 1 as of the end of fourth quarter 2005. Net working capital was \$110,269 as of the end of second quarter 2006 as compared to \$132,940 and \$96,768 as of the end of fourth quarter 2005 and second quarter 2005, respectively. The aforementioned net working capital amounts include aggregate cash and cash equivalents and short-term investments less short-term bank loans which aggregated \$50,963 as of the end of second quarter 2006 compared to \$91,897 and \$44,395, as of the end of fourth quarter 2005 and second quarter 2005, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were \$45,425 as of the end of second quarter 2006 as compared to \$44,851 and \$78,465 as of the end of fourth quarter 2005 and second quarter 2005, respectively. Investments in municipal bonds and other debt securities that matured during first quarters 2006 and 2005 were generally used to pay down bank loans or replaced with debt securities of similar maturities.

During first half 2006, the Company fully repaid \$32,001 of short-term bank loans. The balances of these bank loans, including the long-term portion, as of the end of fourth quarter 2005 and second quarter 2005, were \$32,001 and \$75,400, respectively. These bank loans were paid down through a combination of cash flows provided by operating activities and investment maturities.

Net cash used in operating activities was \$7,033 for first half 2006, compared to \$2,606 in first half 2005. The aforementioned change in net cash used in operating activities principally reflects lower net income combined with increased inventories and the timing of payments and cash flows related to income taxes payable and deferred, partially offset by cash flows provided by decreased accounts receivable and changes in accounts payable and accrued liabilities.

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Capital expenditures for first half 2006 and 2005 were \$30,983 and \$8,550, respectively. First half 2006 capital expenditures reflect \$25,241 of investments in rental income producing real estate which was funded from the Company's restricted cash. Excluding the reinvestment of restricted cash, capital expenditures for the 2006 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.

All of the \$22,330 in proceeds from the sale of surplus real estate during 2005 and held as restricted cash as of December 31, 2005, was reinvested in "like kind" real estate during first half 2006 in compliance with U.S. Internal Revenue Code Section 1031. During first half 2006 the Company also reclassified approximately \$7,600 of current income taxes payable to deferred income taxes, all of which relates to the aforementioned Section 1031 reinvestment gain.

Cash dividends paid in first half 2006 and 2005 were \$8,628 and \$7,639, respectively. The Company also repurchased and retired \$15,898 and \$7,475 of its shares outstanding during first half 2006 and 2005, respectively.

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 are subject to certain risks, trends and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. Such risks, trends and uncertainties, which in some instances are beyond the Company's control, include changes in demand and consumer preferences, including seasonal events such as Halloween; the effect of changes in commodity prices and ingredient costs; the effect of changes in foreign currencies on the Company's foreign subsidiaries and resulting effects on costs relating to foreign products principally marketed and sold in the USA ; the Company's reliance on third-party vendors, including foreign supplies for various goods and services; the Company's ability to successfully implement new production processes and automated production lines; the effect of acquisitions on the Company's results of operations and financial condition including the effect of changes in assumptions such as discount rates and profit margins, relating to the Company's impairment testing and analysis of its goodwill and trademarks; changes in the confectionary market place including actions taken by major retailers and customers; customer and consumer response to marketing programs, changes in pack size and weights, and price adjustments; changes in governmental laws and regulations including domestic and foreign taxes; the overall competitive environment in the Company's industry; and changes in assumptions and judgments discussed under the heading "Critical Accounting Policies of the Company's MD&A" included in the 2005 annual report and 10-K. The words "believe," "expect," "anticipate," "estimate," "intend" and similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are as of the date of this filing.

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, cocoa, dextrose, gum base ingredients and packaging costs. The Company is also 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 also 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. There has been no material change in

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the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2005.

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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 July 1, 2006 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 July 1, 2006 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 | Shares Purchased as Part of Publicly Announced Plans Or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|---|--|---|--|
| APR 2 TO APR 29 | 266,500 | \$ 28.67 | NOT APPLICABLE | NOT APPLICABLE |
| APR 30 TO MAY 27 | 13,100 | 29.91 | NOT APPLICABLE | NOT APPLICABLE |
| MAY 28 TO JUL 1 | 55,600 | 28.37 | NOT APPLICABLE | NOT APPLICABLE |
| TOTAL | 335,200 | \$ 28.67 | | |

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 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of the Company, held on May 1, 2006, The following number of votes were cast for the matters indicated:

- For the election of five Directors of the Company by the holders of Common Shares and Class B Common Shares voting together:

| Nominee | For | Withheld | Abstain | Broker Non-Vote |
|-----------------------|-------------|-----------|---------|--------------------|
| Melvin J. Gordon | 204,087,696 | 5,755,507 | -0- | -0- |
| Ellen R. Gordon | 204,052,403 | 5,790,800 | -0- | -0- |
| Lana Jane Lewis-Brent | 207,529,205 | 2,313,998 | -0- | -0- |
| Barre A. Siebert | 207,498,937 | 2,344,266 | -0- | -0- |
| Richard P. Bergeman | 207,157,459 | 2,685,744 | -0- | -0- |

- Proposal to approve the Tootsie Roll Industries, Inc. Management

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Incentive Plan:

| | For | Withheld | Abstain | Broker Non-Vote |
|-------------------------------|-------------|-----------|---------|--------------------|
| Common Shares and Class B | | | | |
| Common Shares voting together | 205,157,095 | 4,236,155 | 449,953 | -0- |

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3. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as auditors for the fiscal year 2006:

| | For | Withheld | Abstain | Broker Non-Vote |
|-------------------------------|-------------|-----------|---------|--------------------|
| Common Shares and Class B | | | | |
| Common Shares voting together | 207,010,579 | 2,773,817 | 58,807 | -0- |

No other matters were submitted to a vote by ballot at the 2006 Annual Meeting.

Item 6. EXHIBITS

Exhibit 10.1 - Tootsie Roll Industries, Inc. Management Incentive Plan, filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on March 24, 2006 (File No. 001-01361) and incorporated herein by reference.

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: Aug. 8, 2006

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

Date: Aug. 8, 2006

BY:/S/G. HOWARD EMBER, JR.

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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 disclosure controls 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

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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: Aug. 8, 2006

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;

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b) designed such disclosure controls 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):

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: Aug. 8, 2006

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 July 1, 2006 (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,

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the financial condition and results of operations of Tootsie Roll Industries, Inc. and its subsidiaries.

Dated: Aug. 8, 2006

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

Dated: Aug. 8, 2006

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

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