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TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
November 07, 2007

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 29, 2007

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 (October 5, 2007)

Class Outstanding

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| | |
|---|------------|
| Common Stock, \$.69 4/9 par value | 36,032,350 |
| Class B Common Stock, \$.69 4/9 par value | 18,908,781 |

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

SEPTEMBER 29, 2007

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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 | Sep. 29, | Sep. 30, | Dec. 31, |
|--|---------------|---------------|---------------|
| CURRENT ASSETS | 2007 | 2006 | 2006__ |
| Cash & cash equivalents | \$ 25,139 | \$ 13,176 | \$ 55,729 |
| Investments | 31,439 | 32,364 | 23,531 |
| Trade accounts receivable, Less allowances of \$3,378, \$3,548 & \$2,322 | 93,239 | 90,780 | 35,075 |
| Other receivables | 2,549 | 1,875 | 3,932 |
| Inventories | | | |
| Finished goods & work in process | 47,901 | 47,937 | 42,146 |
| Raw material & supplies | 22,460 | 23,044 | 21,811 |
| Prepaid expenses | 3,419 | 3,349 | 6,489 |
| Deferred income taxes | 6,646 | 6,374 | 2,204 |
| Total current assets | 232,792 | 218,899 | 190,917 |
| PROPERTY, PLANT & EQUIPMENT, at cost | | | |
| Land | 19,402 | 19,401 | 19,402 |
| Buildings | 87,273 | 84,241 | 87,273 |
| Machinery & equipment | 267,148 | 257,580 | 259,049 |
| | 373,823 | 361,222 | 365,724 |
| Less-accumulated depreciation | 173,054 | 160,472 | 162,826 |
| Net property, plant and equipment | 200,769 | 200,750 | 202,898 |
| OTHER ASSETS | | | |
| Goodwill | 73,237 | 74,194 | 74,194 |
| Trademarks | 189,024 | 189,024 | 189,024 |
| Investments | 62,762 | 42,234 | 51,581 |
| Split dollar life insurance | 75,048 | 72,857 | 73,357 |
| Investment in joint venture | 9,168 | 11,168 | 9,668 |
| | 409,239 | 389,477 | 397,824 |
| Total assets | \$842,800 | \$809,126 | \$791,639 |

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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 | Sep. 29, | Sep. 30, | Dec. 31, |
|--------------------------------------|----------|----------|----------|
| CURRENT LIABILITIES | 2007 | 2006 | 2006__ |

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| | | | |
|---------------------------|-----------|-----------|-----------|
| Accounts payable | \$ 18,573 | \$ 20,359 | \$ 13,102 |
| Dividends payable | 4,395 | 4,300 | 4,300 |
| Accrued liabilities | 46,067 | 52,096 | 43,802 |
| Income taxes payable | 7,560 | 17,443 | 1,007 |
| Total current liabilities | 76,595 | 94,198 | 62,211 |

NON-CURRENT LIABILITIES

| | | | |
|--|---------|---------|---------|
| Deferred income taxes | 36,512 | 38,086 | 40,864 |
| Postretirement health care and life insurance benefits | 13,529 | 11,114 | 12,582 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Liability for uncertain tax positions | 18,903 | - | - |
| Deferred compensation and other liabilities | 40,444 | 33,371 | 37,801 |
| Total non-current liabilities | 116,888 | 90,071 | 98,747 |
| Total liabilities | 193,483 | 184,269 | 160,958 |

SHAREHOLDERS' EQUITY

| | | | |
|--|-----------|-----------|-----------|
| Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 36,032, 35,360 & 35,364 respectively, issued | 25,022 | 24,555 | 24,558 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 18,909, 18,414 & 18,390, respectively, issued | 13,131 | 12,788 | 12,771 |
| Capital in excess of par value | 472,605 | 439,232 | 438,648 |
| Retained earnings | 152,936 | 161,856 | 169,233 |
| Accumulated other comprehensive loss | (12,385) | (11,582) | (12,537) |
| Treasury stock (at cost)- 63, 61 & 62 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total shareholders' equity | 649,317 | 624,857 | 630,681 |
| Total liabilities and shareholders' equity | \$842,800 | \$809,126 | \$791,639 |

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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

Sep. 29, 2007 & Sep. 30, 2006

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| | | |
|---|-----------|-----------|
| Net product sales | \$182,917 | \$186,403 |
| Rental and royalty revenue | 1,231 | 1,428 |
| Total revenue | 184,148 | 187,831 |
| Product cost of goods sold | 122,159 | 116,311 |
| Rental and royalty cost | 354 | 447 |
| Total costs | 122,513 | 116,758 |
| Product gross margin | 60,758 | 70,092 |
| Rental and royalty gross margin | 877 | 981 |
| Total gross margin | 61,635 | 71,073 |
| Selling, marketing and administrative expenses | 28,181 | 30,390 |
| Earnings from operations | 33,454 | 40,683 |
| Other income, net | 1,704 | 1,511 |
| Earnings before income taxes | 35,158 | 42,194 |
| Provision for income taxes | 11,726 | 13,225 |
| Net earnings | 23,432 | 28,969 |
| Other comprehensive income, before tax: | | |
| Foreign currency translation adjustments | (197) | 317 |
| Unrealized gains on securities | 210 | 290 |
| Unrealized gains (losses) on derivatives | 212 | (2,009) |
| Other comprehensive income (loss), before tax | 225 | (1,402) |
| Income tax benefit (expense) related to items of other comprehensive income | (157) | 635 |
| Other comprehensive income (loss), net of tax | 68 | (767) |
| Comprehensive earnings | \$ 23,500 | \$ 28,202 |
| Retained earnings at beginning of period | \$133,894 | \$137,182 |
| Net earnings | 23,432 | 28,969 |
| Cash dividends | (4,390) | (4,295) |
| Retained earnings at end of period | \$152,936 | \$161,856 |
| Net earnings per share | \$.43 | \$0.52 |
| Dividends per share * | \$.08 | \$0.08 |
| Average number of shares outstanding | 54,920 | 55,630 |

*Does not include 3% stock dividend to shareholders of record on 3/09/07 and 3/10/06.

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

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS (in thousands except per share amounts) (UNAUDITED)

| | 39 WEEKS ENDED | |
|---|------------------|------------------|
| | Sep. 29, 2007 | & Sep. 30, 2006 |
| Net product sales | \$377,732 | \$385,169 |
| Rental and royalty revenue | 4,021 | 3,750 |
| Total revenue | 381,753 | 388,919 |
| Product cost of goods sold | 249,173 | 237,734 |
| Rental and royalty cost | 1,223 | 1,050 |
| Total costs | 250,396 | 238,784 |
| Product gross margin | 128,559 | 147,435 |
| Rental and royalty gross margin | 2,798 | 2,700 |
| Total gross margin | 131,357 | 150,135 |
| Selling, marketing and administrative expenses | 73,403 | 76,253 |
| Earnings from operations | 57,954 | 73,882 |
| Other income, net | 6,138 | 4,724 |
| Earnings before income taxes | 64,092 | 78,606 |
| Provision for income taxes | 20,623 | 24,417 |
| Net earnings | 43,469 | 54,189 |
| Other comprehensive income, before tax: | | |
| Foreign currency translation adjustments | (197) | (381) |
| Unrealized gains (losses) on securities | 222 | (450) |
| Unrealized gains (losses) on derivatives | 330 | (4,713) |
| Other comprehensive income (loss), before tax | 355 | (5,544) |
| Income tax benefit (expense) related to items of other comprehensive income | (204) | 1,909 |
| Other comprehensive income (loss), net of tax | 151 | (3,635) |
| Comprehensive earnings | \$ 43,620 | \$ 50,554 |
| Retained earnings at beginning of period | \$169,233 | \$164,236 |
| Net earnings | 43,469 | 54,189 |
| Cash dividends | (13,081) | (12,875) |
| Stock dividends - 3% | (46,685) | (43,694) |
| Retained earnings at end of period | \$152,936 | \$161,856 |
| Net earnings per share | \$.79 | \$0.97 |
| Dividends per share * | \$.24 | \$0.24 |
| Average number of shares outstanding | 55,118 | 55,951 |

*Does not include 3% stock dividend to shareholders of record on 3/09/07 and 3/10/06.

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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)

39 WEEKS ENDED

Sep. 29, 2007 & Sep. 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|---|-----------|-----------|
| Net earnings | \$ 43,469 | \$ 54,189 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,997 | 11,557 |
| Amortization of marketable securities | 420 | 762 |
| Purchase of trading securities | (1,901) | (1,994) |
| Sales of trading securities | 1,256 | 1,473 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (58,236) | (60,082) |
| Other receivables | 1,714 | (2,076) |
| Inventories | (6,470) | (16,045) |
| Prepaid expenses and other assets | 1,371 | (1,282) |
| Accounts payable and accrued liabilities | 7,783 | 10,123 |
| Income taxes payable and deferred | 17,788 | 8,124 |
| Postretirement health care and life insurance benefits | 947 | 331 |
| Deferred compensation and other liabilities | 72 | (103) |
| Other | 96 | (3) |
| Net cash provided by operating activities | 20,306 | 4,974 |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|----------|----------|
| Capital expenditures | (9,935) | (33,702) |
| Decrease in restricted cash | - | 22,330 |
| Purchase of available for sale securities | (34,685) | (9,539) |
| Sale and maturity of available for sale securities | 18,615 | 35,173 |
| Net cash provided by (used in) investing activities | (26,005) | 14,262 |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|--|-----------|-----------|
| Repayment of bank loan | - | (32,001) |
| Dividends paid in cash | (13,153) | (12,969) |
| Shares repurchased and retired | (11,738) | (30,096) |
| Net cash used in financing activities | (24,891) | (75,066) |
| Decrease in cash and cash equivalents | (30,590) | (55,830) |
| Cash and cash equivalents at the beginning of year | 55,729 | 69,006 |
| Cash and cash equivalents at the end of quarter | \$ 25,139 | \$ 13,176 |
| Supplemental cash flow information: | | |
| Income taxes paid, net of refunds | \$ 2,685 | \$ 13,339 |
| Interest paid | \$ 441 | \$ 665 |
| Stock dividend issued | \$ 46,520 | \$ 43,563 |

(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
SEPTEMBER 29, 2007
(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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2006 Annual Report on Form 10-K.

The 2006 Condensed Consolidated Statements of Earnings for both the 13 and 39 weeks ended September 30, 2006 have been revised to (1) reflect rental and royalty revenues and related costs in Earnings from operations from Other income, net and (2) reflect compensation expense (benefit) in Product cost of goods sold and Selling, marketing, and administrative expenses and the related appreciation (depreciation) of investments held by the Company to fund deferred compensation plans in Other income, net in accordance with EITF 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" to conform to the current year presentation.

Note 2 - Average shares outstanding for the 39 week period ended September 29, 2007 reflects stock repurchases of 419 shares for \$11,738 and a 3% stock dividend distributed on April 12, 2007. Average shares outstanding for the 39 week period ended September 30, 2006 reflects stock repurchases of 1,068 shares for \$30,096 and a 3% stock dividend distributed on April 13, 2006.

Note 3 - Results of operations for the period ended September 29, 2007 are not necessarily indicative of results to be expected for the year ending December 31, 2007 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.

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Note 5 - As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, the Company performs its annual impairment review of goodwill and other intangible assets not subject to amortization in the fourth quarter of each year in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). Under FAS No. 142, the impairment review of goodwill, trademarks and other

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intangible assets not subject to amortization must be based on estimated fair values. The valuation of intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, gross profit margins, operating cash flows, market multiples, and discount rates.

The Company has experienced declines in its consolidated operating results compared to the prior year principally due to higher input costs including higher costs of ingredients and packaging materials, and higher costs for products manufactured in Canada resulting from the appreciation of the Canadian dollar relative to the U.S. dollar. The Company will be performing its annual impairment testing in fourth quarter 2007 which will include long-term financial and cash flow projections, including assumptions as to future revenue growth, price increases and cost and expense reductions that are necessary to recover these higher input costs. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future under FAS No. 142.

Note 6 - The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) effective January 1, 2007. 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 the year 2003 and prior.

As of January 1, 2007, the Company had \$14,961 of unrecognized tax benefits. Included in this balance is \$7,160 of unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate. As of September 29, 2007, the Company had \$15,205 of unrecognized tax benefits (\$7,403 represented those unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate). During the third quarter and nine months 2007, the Company recorded approximately \$(127) and \$243, respectively, of income tax (benefit) expense relating to its uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Condensed Consolidated Statement of Earnings. As of January 1, 2007, \$3,382 of interest and penalties were included in the Liability for Uncertain Tax Positions account on the Condensed Consolidated Statement of Financial Position. As of September 29,

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2007, \$3,698 of interest and penalties were included in the aforementioned account. During the third quarter and nine months 2007, the Company recorded approximately \$(244) and \$316, respectively, of additional income tax expense (benefit) related to interest and penalties.

The Company is not currently subject to a U.S. federal income tax examination, however, the Company is currently subject to various state tax examinations. Although the Company is unable to determine the ultimate outcome of these examinations, the Company believes that its liability for uncertain tax positions relating to these jurisdictions for such years is adequate.

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It is expected that the liability for uncertain tax positions will change in the next 12 months; however, the Company does not expect the change to have a significant impact on the Company's financial position, results of operations, and related cash flows from operating activities. The related cash flows in future periods with respect to the liability for uncertain tax positions are not readily determinable.

Note 7 - New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 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.

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 that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 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 Financial Statements.

| | | |
|--------------------|-----------|---------------------|
| NET PRODUCT SALES: | | Net change in |
| | | Third Quarter, 2007 |
| | | vs. |
| Third Quarter | | Third Quarter, 2006 |
| 2007 | 2006 | (1.9%) |
| \$182,917 | \$186,403 | |
| | | Nine Months, 2007 |
| | | vs. |
| Nine Months | | Nine Months, 2006 |
| 2007 | 2006 | (1.9%) |
| \$377,732 | \$385,169 | |

Third quarter 2007 net product sales were \$182,917 compared to \$186,403 in third quarter 2006, a decrease of \$3,486 or 1.9%. Nine months 2007 net product sales of \$377,732 decreased \$7,437 or 1.9% from nine months 2006 net product sales of \$385,169. The decrease in third quarter 2007 net product sales was primarily the result of the timing of shipments near the end of the quarter. The nine months 2007 net product sales decline reflects the conclusion of a contract to manufacture product under a private label for a third party and a non-recurring sale of certain inventory to a new foreign distributor both during the prior year first quarter.

| | | |
|-----------------------------|------|---------------------------------|
| PRODUCT COST OF GOODS SOLD: | | Product Cost of Goods Sold as a |
| | | Percentage of Net Product Sales |
| Third Quarter | | 3rd Qtr. 2007 |
| 2007 | 2006 | 3rd Qtr. 2006 |

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| | | | |
|-----------|-----------|-------|-------|
| \$122,159 | \$116,311 | 66.8% | 62.4% |
|-----------|-----------|-------|-------|

| Nine Months | | Product Cost of Goods Sold as a Percentage of Net Product Sales | |
|-------------|-----------|---|------------------|
| 2007 | 2006 | Nine Months 2007 | Nine Months 2006 |
| \$249,173 | \$237,734 | 66.0% | 61.7% |

Product cost of goods sold as a percentage of net product sales increased from 62.4% in the third quarter 2006 to 66.8% in third quarter 2007, and from 61.7% in nine months 2006 to 66.0% in nine months 2007. 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 products manufactured in Canada due to less favorable foreign exchange rates. Substantially all of the Company's principal ingredient costs were significantly higher in third quarter and nine months 2007 compared to the corresponding period of the prior year. In addition, third quarter and nine months 2007 periods were also adversely affected by lower sales volumes and the resulting effects on certain fixed costs, principally plant overhead related costs.

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SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

| Third Quarter | | Percentage of Net Product Sales | |
|---------------|----------|---------------------------------|---------------|
| 2007 | 2006 | 3rd Qtr. 2007 | 3rd Qtr. 2006 |
| \$28,181 | \$30,390 | 15.4% | 16.3% |

| Nine Months | | Percentage of Net Product Sales | |
|-------------|----------|---------------------------------|---------------|
| 2007 | 2006 | 9 Months 2007 | 9 Months 2006 |
| \$73,403 | \$76,253 | 19.4% | 19.8% |

Third quarter 2007 selling, marketing and administrative expenses were \$28,181 compared to \$30,390 in third quarter 2006, a decrease of \$2,209 or 7.37%. The same expenses decreased from \$76,253 in nine months 2006 to \$73,403 in nine months 2007, a decrease of \$2,850 or 3.7%. The changes for both periods primarily reflect the change in net product sales. Although the Company was adversely affected by higher expenses for freight and delivery in nine months 2007, the Company's initiatives to reduce costs in freight and delivery did show progress and resulting lower costs in third quarter 2007 compared to the corresponding period in 2006. In addition, the Company reduced marketing and administrative expenses for both third quarter and nine months 2007 compared to 2006. The prior year third quarter and nine months 2006 marketing expenses reflected new artwork and plates associated with packaging related to changes in pack sizes and government mandated labeling. As a percentage of net product sales, total selling, marketing and administrative expenses favorably decreased from 16.3% in third quarter 2006 to 15.4% in third quarter 2007, and from 19.8% in nine months 2006 to 19.4% in nine months 2007.

Third quarter 2007 earnings from operations were \$33,454 compared to \$40,683 in third quarter 2006, a decrease of \$7,229 or 17.8%. Nine months 2007 earnings from operations were \$57,954 compared to \$73,882 for nine months 2006, a decrease of \$15,928 or 21.6%. The decline in operating earnings during both

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third quarter and nine months 2007 principally resulted from lower sales and higher input costs as discussed above. The Company took actions and implemented programs, including selected price increases as well as cost reduction programs with the objective to recover some of these higher input costs. However, these actions did not result in a recovery all of the increases in ingredient and other input costs during the third quarter and nine months 2007.

NET EARNINGS:

| | | |
|---------------|----------|---------------------|
| Third Quarter | | Third Quarter, 2007 |
| 2007 | 2006 | vs. |
| \$23,432 | \$28,969 | Third Quarter, 2006 |
| | | (19.1)% |
| Nine Months | | Nine Months, 2007 |
| 2007 | 2006 | vs. |
| \$43,469 | \$54,189 | Nine Months, 2006 |
| | | (19.8)% |

Third quarter 2007 net earnings were \$23,432 compared to third quarter 2006 net earnings of \$28,969, a decrease of \$5,537 or 19.1%. Third quarter 2007 earnings per share were \$0.43, compared to \$0.52 per share in the prior year comparative period, a decrease of \$0.09 or 17.3%.

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Nine months 2007 net earnings were \$43,469 compared to nine months 2006 net earnings of \$54,189, a decrease of \$10,720 or 19.8%. Nine months net earnings per share were \$0.79 in 2007 compared to \$0.97 per share in 2006, a decrease of \$0.18 per share or 18.6%.

Other income, net was \$1,704 in third quarter 2007 compared to \$1,511 in third quarter 2006. Other income, net was \$6,138 in nine months 2007 compared to \$4,724 in nine months 2006. The increase in both periods is primarily the result of higher investment income. During the nine months 2007 period the increase was partially offset by a gain on the sale of securities during second quarter 2006.

The consolidated effective income tax rate increased from 31.3% in third quarter 2006 to 33.4% in third quarter 2007 and from 31.1% in nine months 2006 to 32.2% in nine months 2007. The increase in the effective income tax rate principally reflects higher effective rates for foreign taxes.

In addition to the factors discussed above, earnings per share benefited from the Company's common stock purchases in the open market in 2006 and 2007 and resulting few shares outstanding.

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 2007 as compared to 2.3 to 1 as of the end of third quarter 2006 and 3.1 to 1 as of the end of fourth quarter 2006. Net working capital was \$156,197 as of the end of third quarter 2007 as compared to \$128,706 and \$124,701 as of the end of fourth quarter 2006 and

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third quarter 2006, respectively. The aforementioned net working capital amounts include aggregate cash and cash equivalents and short-term investments, less short-term bank loans, which aggregated \$56,578 as of the end of third quarter 2007 compared to \$79,260 and \$45,540, as of the end of fourth quarter 2006 and third quarter 2006, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were \$62,762 as of the end of third quarter 2007 as compared to \$51,581 and \$42,234 as of the end of fourth quarter 2006 and third quarter 2006, respectively. Investments in municipal bonds and other debt securities that matured during nine months 2007 and 2006 were generally used to pay down bank loans or replaced with debt securities of similar maturities.

Net cash provided by operating activities was \$20,306 for nine months 2007, compared to cash used of \$4,974 in nine months 2006. The aforementioned change in net cash from operating activities principally reflects the timing of payments and cash flows related to income taxes payable and deferred combined with reduced cash used to increase inventories, partially offset by reduced cash flows provided by lower net income.

Capital expenditures for nine months 2007 and 2006 were \$9,935 and \$33,702, respectively. Nine months 2006 capital expenditures reflect \$25,241 of investments in rental income producing real estate which was funded from the Company's restricted cash. Capital expenditures for the 2007 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.

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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 fully repaid \$32,001 of short-term bank loans. These bank loans were paid down through a combination of cash flows provided by operating activities and investment maturities.

Cash dividends paid in nine months 2007 and 2006 were \$13,153 and \$12,969, respectively. The Company also repurchased and retired \$11,738 and \$30,086 of its shares outstanding during nine months 2007 and 2006, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) effective January 1, 2007. 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 the year 2003 and prior.

As of January 1, 2007, the Company had \$14,961 of unrecognized tax benefits. Included in this balance is \$7,160 of unrecognized tax benefits that, if

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recognized, would favorably affect the annual effective income tax rate. As of September 29, 2007, the Company had \$15,205 of unrecognized tax benefits (\$7,403 represented those unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate). During the third quarter and nine months 2007, the Company recorded approximately \$(127) and \$243, respectively, of income tax (benefit) expense relating to its uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Condensed Consolidated Statement of Earnings. As of January 1, 2007, \$3,382 of interest and penalties were included in the Liability for Uncertain Tax Positions account on the Condensed Consolidated Statement of Financial Position. As of September 29, 2007, \$3,698 of interest and penalties were included in the aforementioned account. During the third quarter and nine months 2007, the Company recorded approximately \$(244) and \$316, respectively, of additional income tax expense (benefit) related to interest and penalties.

The Company is not currently subject to a U.S. federal income tax examination, however, the Company is currently subject to various state tax examinations. Although the Company is unable to determine the ultimate outcome of these examinations, the Company believes that its liability for uncertain tax positions relating to these jurisdictions for such years is adequate.

It is expected that the liability for uncertain tax positions will change in the next 12 months; however, the Company does not expect the change to have a significant impact on the Company's financial position, results of operations, and related cash flows from operating activities. The related cash flows in future periods with respect to the liability for uncertain tax positions are not readily determinable.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 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.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment to FSAB Statement No. 115," (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 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.

FORWARD-LOOKING STATEMENTS

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From time to time, in the Company's statements and written reports, including this report, the Company discusses its expectations regarding future performance by making certain "forward-looking statements." These forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and actual results may differ materially from those expressed or implied herein. Consequently, the Company wishes to caution readers not to place undue reliance on any forward-looking statements. In connection with the "safe harbor provisions" of the Private Securities Litigation Reform Act of 1995, the Company notes following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Among the factors that could impact the Company's ability to achieve its stated goals are the following: (i) significant competitive activity, including advertising, promotional and price competition, and changes in consumer demand for the Company's products; (ii) fluctuations in the cost and availability of various ingredients and packaging materials; (iii) inherent risks in the marketplace associated with new product introductions, 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 confectionary market place including actions taken by major retailers and customers; (x) customer and consumer response to marketing programs and price and product weight adjustments; (xi) dependence on significant customers, including the volume and timing of their purchases; (xii) increases in energy costs, including freight and delivery, we are not able to pass along to our customers through increased prices; (xiii) any significant labor stoppages or production interruptions; and (xiv) changes in governmental laws and regulations including taxes and tariffs. In addition, the Company's results may be affected by

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general factors, such as economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company in markets where it competes and those factors described in Item 1A "Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K and in other Company filings with the Securities and Exchange Commission.

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, milk and whey, 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

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Company's exposure to interest rate fluctuations. There has been no material change in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2006.

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 29, 2007 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 29, 2007 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 1A. Risk Factors

In addition to the Risk Factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, the following is a significant factor that could impact the Company's financial condition or results of operations.

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As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, the Company performs its annual impairment review of goodwill and other intangible assets not subject to amortization in the fourth quarter of each year in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). Under FAS No. 142, the impairment review of goodwill, trademarks and other intangible assets not subject to amortization must be based on estimated fair values. The valuation of intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, gross profit margins, operating cash flows, market multiples, and discount rates. The Company has experienced declines in its consolidated operating results compared to the prior year principally due to higher input costs including higher costs of ingredients and packaging materials, and higher costs for products manufactured in Canada resulting from the appreciation of the Canadian dollar relative to the U.S. dollar. The Company will be performing its annual impairment testing in fourth quarter 2007 which will include long-term financial and cash flow projections, including assumptions as to future revenue growth, price increases and cost and expense reductions that are necessary to recover these higher input costs. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future under FAS No. 142.

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_____ |
|------------------|---|--|---|---|
| JUL 1 TO JUL 28 | - | \$ - | NOT APPLICABLE | NOT APPLICABLE |
| JUL 29 TO AUG 25 | 51,300 | 25.37 | NOT APPLICABLE | NOT APPLICABLE |
| AUG 26 TO SEP 29 | 22,600 | 26.96 | NOT APPLICABLE | NOT APPLICABLE |
| TOTAL | 73,900 | \$ 25.85 | | |

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.

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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,

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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. 7, 2007

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

Date: Nov. 7, 2007

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

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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):
 - 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. 7, 2007

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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 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

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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. 7, 2007

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 29, 2007 (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.

Dated: Nov. 7, 2007

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

Dated: Nov. 7, 2007

/S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.

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V.P. Finance and
Chief Financial Officer

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