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TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
May 13, 2010

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 APRIL 3, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

Yes No

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

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

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

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Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (April 3, 2010)

| Class | Outstanding |
|---|-------------|
| Common Stock, \$.69 4/9 par value | 36,858,140 |
| Class B Common Stock, \$.69 4/9 par value | 20,503,701 |

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

APRIL 3, 2010

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This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of

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the Securities Exchange Act of 1934. See "Information Regarding Forward-Looking Statements" under Part I - Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

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

| ASSETS | April 3, 2010 | April 4, 2009 | Dec. 31, 2009 |
|--|------------------|------------------|------------------|
| CURRENT ASSETS: | | | |
| Cash & cash equivalents | \$ 76,444 | \$ 53,774 | \$ 90,990 |
| Investments | 8,608 | 16,257 | 8,663 |
| Trade accounts receivable, Less allowances of \$2,192, \$2,016 & \$2,356 | 32,661 | 26,980 | 37,512 |
| Other receivables | 11,801 | 2,354 | 8,397 |
| Inventories, at cost | | | |
| Finished goods & work in process | 46,559 | 47,159 | 35,570 |
| Raw material & supplies | 33,981 | 23,229 | 20,817 |
| Prepaid expenses | 7,499 | 7,117 | 8,562 |
| Deferred income taxes | 1,367 | - | 1,367 |
| Total current assets | 218,920 | 176,870 | 211,878 |
| PROPERTY, PLANT & EQUIPMENT, at cost: | | | |
| Land | 21,562 | 19,298 | 21,559 |
| Buildings | 102,379 | 89,046 | 102,374 |
| Machinery & equipment | 297,517 | 279,761 | 296,787 |
| Construction in progress | 10,085 | 26,232 | 6,877 |
| | 431,543 | 414,337 | 427,597 |
| Less-accumulated depreciation | 211,847 | 193,675 | 206,876 |
| Net property, plant and equipment | 219,696 | 220,662 | 220,721 |
| OTHER ASSETS: | | | |
| Goodwill | 73,237 | 73,237 | 73,237 |
| Trademarks | 175,024 | 189,024 | 175,024 |
| Investments | 62,020 | 50,280 | 58,136 |
| Split dollar life insurance | 74,642 | 74,808 | 74,642 |
| Prepaid expenses | 7,319 | 10,929 | 8,068 |
| Investment in joint venture | 4,448 | 8,940 | 4,961 |
| Deferred income taxes | 11,580 | - | 11,580 |
| | 408,270 | 407,218 | 405,648 |
| Total assets | \$846,886 | \$804,750 | \$838,247 |

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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 | April 3, | April 4, | Dec. 31, |
| CURRENT LIABILITIES: | 2010 | 2009 | 2009 |
| Accounts payable | \$ 13,810 | \$ 15,085 | \$ 9,140 |
| Dividends payable | 123 | 91 | 4,458 |
| Accrued liabilities | 45,604 | 36,679 | 42,468 |
| Income taxes payable | 2,010 | - | - |
| Deferred income taxes | - | 631 | - |
| Total current liabilities | 61,547 | 52,486 | 56,066 |
| NONCURRENT LIABILITIES: | | | |
| Deferred income taxes | 42,825 | 43,427 | 44,582 |
| Postretirement health care and life insurance benefits | 17,074 | 15,847 | 16,674 |
| Industrial development bonds | 7,500 | 7,500 | 7,500 |
| Liability for uncertain tax positions | 21,509 | 19,144 | 21,101 |
| Deferred compensation and other liabilities | 41,194 | 32,234 | 39,839 |
| Total non current liabilities | 130,102 | 118,152 | 129,696 |
| SHAREHOLDERS' EQUITY: | | | |
| Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 36,858, 36,514 & 35,802, respectively, issued | 25,596 | 25,357 | 24,862 |
| Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 20,504, 19,932 & 19,919, respectively, issued | 14,239 | 13,842 | 13,833 |
| Capital in excess of par value | 527,081 | 498,265 | 482,250 |
| Retained earnings | 103,756 | 114,172 | 145,928 |
| Accumulated other comprehensive loss | (13,443) | (15,532) | (12,396) |
| Treasury stock (at cost)- 69, 67 & 67 shares, respectively | (1,992) | (1,992) | (1,992) |
| Total shareholders' equity | 655,237 | 634,112 | \$652,485 |
| Total liabilities and shareholders' equity | \$846,886 | \$804,750 | \$838,247 |

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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 | |
|--|----------------|-----------------|
| | April 3, 2010 | & April 4, 2009 |
| Net product sales | \$103,244 | \$ 94,054 |
| Rental and royalty revenues | 1,129 | 977 |
| Total revenues | 104,373 | 95,031 |
| Product cost of goods sold | 68,123 | 60,719 |
| Rental and royalty costs | 295 | 216 |
| Total costs | 68,418 | 60,935 |
| Product gross margin | 35,121 | 33,335 |
| Rental and royalty gross margins | 834 | 761 |
| Total gross margin | 35,955 | 34,096 |
| Selling, marketing and administrative expenses | 25,326 | 22,133 |
| Earnings from operations | 10,629 | 11,963 |
| Other income (expense), net | 3,416 | (380) |
| Earnings before income taxes | 14,045 | 11,583 |
| Provision for income taxes | 4,960 | 3,263 |
| Net earnings | 9,085 | 8,320 |
| Other comprehensive income (loss), before tax: | | |
| Foreign currency translation adjustments | 757 | (751) |
| Unrealized gains on securities | 239 | 153 |
| Unrealized gains (losses) on derivatives | (3,282) | 386 |
| Other comprehensive loss, before tax | (2,286) | (212) |

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| | | |
|---|-----------|-----------|
| Income tax (expense) benefit related to items of other comprehensive income | 1,241 | (79) |
| Other comprehensive loss, net of tax | (1,045) | (291) |
| Comprehensive earnings | \$ 8,040 | \$ 8,029 |
| Retained earnings at beginning of period | \$145,928 | \$142,872 |
| Net earnings | 9,085 | 8,320 |
| Cash dividends | (4,452) | (4,391) |
| Stock dividends - 3% | (46,805) | (32,629) |
| Retained earnings at end of period | \$103,756 | \$114,172 |
| Net earnings per share | \$0.16 | \$0.14 |
| Dividends per share * | \$0.08 | \$0.08 |
| Average number of shares outstanding | 57,312 | 58,204 |

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

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

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

| | 13 WEEKS ENDED | |
|---|----------------|-----------------|
| | April 3, 2010 | & April 4, 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 9,085 | \$ 8,320 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 4,646 | 4,158 |
| Amortization of marketable securities | 111 | 86 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,066 | 4,160 |
| Other receivables | (6,686) | 1,015 |
| Inventories | (23,888) | (14,884) |
| Prepaid expenses and other assets | 1,858 | 3,596 |
| Accounts payable and accrued liabilities | 7,684 | (2,421) |
| Income taxes payable and deferred | 1,996 | (287) |
| Postretirement health care and life insurance benefits | 400 | 379 |
| Deferred compensation and other liabilities | 23 | 240 |
| Other | 596 | (188) |
| Net cash provided by operating activities | 891 | 4,174 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (3,400) | (7,287) |
| Purchases of trading securities, net | (2,174) | (693) |
| Purchase of available for sale securities | (347) | - |
| Sale and maturity of available for sale securities | 105 | 1,669 |

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| | | |
|---|-----------|-----------|
| Net cash used in investing activities | (5,816) | (6,311) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid in cash | (8,909) | (8,792) |
| Shares repurchased and retired | (712) | (4,205) |
| Net cash used in financing activities | (9,621) | (12,997) |
| Decrease in cash and cash equivalents | (14,546) | (15,134) |
| Cash and cash equivalents beginning of year | 90,990 | 68,908 |
| Cash and cash equivalents end of quarter | \$ 76,444 | \$ 53,774 |
| Supplemental cash flow information: | | |
| Income taxes paid | \$ 687 | \$ 758 |
| Interest paid | \$ 34 | \$ 126 |
| Stock dividend issued | \$ 46,682 | \$ 32,537 |

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

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 3, 2010
 (in thousands except per share amounts) (UNAUDITED)

Note 1 - Significant Accounting Policies

General Information

Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2009 Annual Report on Form 10-K.

Results of operations for the period ended April 3, 2010 are not necessarily indicative of results to be expected for the year to end December 31, 2010 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.

New Accounting Pronouncements

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In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, "Improving Disclosures about Fair Value Measurements". ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the provisions of the standard on January 1, 2010, which did not have a material impact on its Consolidated Financial Statements.

In June 2009, the FASB issued Accounting Standards Codification (ASC) 810, "Consolidation", regarding the consolidation of variable interest entities (formerly SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company's involvement in variable interest entities. This standard is effective for interim and annual periods beginning after November 15, 2009. The Company adopted the provisions of the standard on January 1, 2010, which had no impact on its Consolidated Financial Statements.

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Note 2 - Average Shares Outstanding

Average shares outstanding for the period ended April 3, 2010 reflect stock repurchases of 26 shares for \$712 and a 3% stock dividend distributed on April 8, 2010. Average shares outstanding for the period ended April 4, 2009 reflect stock repurchases of 213 shares for \$4,205 and a 3% stock dividend distributed on April 9, 2009.

Note 3 - Income Taxes

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2006 through 2009. With few exceptions, the Company is no longer subject to examinations by tax authorities for year 2005 and prior. The Company experienced a decrease in state income tax expense in 2009 due to the effective conclusion of an income tax audit in first quarter 2009 and resulting favorable adjustment.

Note 4 - Fair Value Measurements

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

As of April 3, 2010 and December 31, 2009, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials, investments in trading securities and available for sale securities, including auction rate securities (ARS). The Company's available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

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The following table presents information about the Company's financial assets and liabilities measured at fair value as of April 3, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Estimated Fair Value April 3, 2010

| Fair Value | Total Level 1 | Input Levels Used Level 2 | Level 3 | |
|---|------------------|------------------------------|-----------|----------|
| Cash and equivalents | \$ 76,444 | \$ 76,444 | \$ - | \$ - |
| Auction rate security (ARS) | 8,010 | - | - | 8,010 |
| Available-for-sale security excluding ARS | 26,920 | - | 26,920 | - |
| Net derivatives contracts | (348) | (348) | - | - |
| Trading securities | 35,698 | 35,698 | - | - |
| Total assets measured at fair value | \$146,724 | \$111,794 | \$ 26,920 | \$ 8,010 |

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Estimated Fair Value December 31, 2009

| | Total | Input Levels Used | | |
|---|-----------|-------------------|-----------|----------|
| Fair Value | Level 1 | Level 2 | Level 3 | |
| Cash and equivalents | \$ 90,990 | \$ 90,990 | \$ - | \$ - |
| Auction rate security (ARS) | 7,710 | - | - | 7,710 |
| Available-for-sale security excluding ARS | 26,851 | - | 26,851 | - |
| Net derivatives contracts | 5,360 | 5,360 | - | - |
| Trading securities | 32,238 | 32,238 | - | - |
| Total assets measured at fair value | \$163,149 | \$128,588 | \$ 26,851 | \$ 7,710 |

As of April 3, 2010, the Company's long term investments include Jefferson County Alabama Sewer Revenue Refunding Warrants, an auction rate security (ARS), reported at a fair value of \$8,010, after reflecting a \$5,140 other than temporary impairment and a \$400 temporary, as defined, decline in market value against its \$13,550 par value. In 2008, this ARS was determined to be other than temporarily impaired due to the duration and severity of the decline in fair value. The Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs. This valuation model considered, among other items, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including the Company's assumption about the market expectation of the next successful auction. During the first quarter of 2010, the Company recorded a \$300 increase in the market value as a credit to accumulated other comprehensive loss.

The Company classified this ARS as non-current and has included it in long term investments on the Condensed Consolidated Statements of Financial Position because the Company believes that the current condition of the ARS market may take more than twelve months to improve.

The following table presents additional information about the Company's financial instruments (all ARS) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at April 3, 2010:

| | 2010 |
|---|----------|
| Balance at January 1 | \$ 7,710 |
| Unrealized gain in other comprehensive loss | 300 |
| Balance at April 3, 2010 | \$ 8,010 |

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Note 5 - Derivative Instruments and Hedging Activities

From time to time, the Company uses derivative instruments, including foreign currency forward contracts, commodity futures contracts and commodity option contracts, to manage its exposures to foreign exchange and commodity prices. Commodity futures contracts and most commodity option contracts are intended and effective as hedges of market price risks associated with the anticipated purchase of certain raw materials (primarily sugar). Foreign currency

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forward contracts are intended and effective as hedges of the Company's exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of products manufactured in Canada and sold in the United States, and periodic equipment purchases from foreign suppliers denominated in a foreign currency. The Company does not engage in trading or other speculative use of derivative instruments.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Statement of Financial Position. The Company uses either hedge accounting or mark-to-market accounting for its derivative instruments. Derivatives that qualify for hedge accounting are designated as cash flow hedges by formally documenting the hedge relationships, including identification of the hedging instruments, the hedged items and other critical terms, as well as the Company's risk management objectives and strategies for undertaking the hedge transaction.

Changes in the fair value of the Company's cash flow hedges are recorded in accumulated other comprehensive loss, net of tax, and are reclassified to earnings in the periods in which earnings are affected by the hedged item. Substantially all amounts reported in accumulated other comprehensive loss for commodity derivatives are expected to be reclassified to cost of goods sold. Substantially all amounts reported in accumulated other comprehensive loss for foreign currency derivatives are expected to be reclassified to other income (expense), net.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at April 3, 2010 and December 31, 2009:

| | April 3, 2010 | | | December 31, 2009 | |
|--|---------------------|----------|-------------|---------------------|----------|
| | Notional Amounts | Assets | Liabilities | Notional Amounts | Assets |
| Derivatives designated as hedging instruments: | | | | | |
| Foreign currency forward contracts | \$ 12,255 | \$ 3,039 | \$ - | \$17,772 | \$ 3,039 |
| Commodity futures contracts | 5,931 | | (1,202) | | |
| Commodity option contracts | 12,344 | 673 | (1,790) | | |
| Total derivatives designated as hedges | | 3,712 | (2,992) | | 3,039 |
| Derivatives not designated as hedging instruments: | | | | | |
| Commodity option contracts | 7,496 | 4 | (1,072) | 12,708 | 1,072 |
| Total derivatives not designated as hedges | | 4 | (1,072) | | 1,072 |
| Total derivatives | | \$ 3,716 | \$ (4,064) | | \$ 5,183 |

Derivative assets are recorded in other receivables and derivative liabilities are recorded in accrued liabilities.

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The effects of derivative instruments on the Company's Condensed

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Consolidated Statement of Earnings, Comprehensive Earnings and Retained Earnings for the quarters ended April 3, 2010 and April 4, 2009 are as follows:

| | For the Quarter Ended April 3, 2010 | | |
|------------------------------------|-------------------------------------|--|--|
| | Gain(Loss) Recognized in OCI | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings |
| Foreign currency forward contracts | \$ 611 | \$ 1,247 | \$ - |
| Commodity futures contracts | (139) | 1,063 | - |
| Commodity option contracts | (1,444) | - | (2,609) |
| Total | \$ (972) | \$ 2,310 | \$ (2,609) |

| | For the Quarter Ended April 4, 2009 | | |
|------------------------------------|-------------------------------------|--|--|
| | Gain (Loss) Recognized in OCI | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings |
| Foreign currency forward contracts | \$ 446 | \$ 21 | \$ - |
| Commodity futures contracts | (37) | 2 | - |
| Commodity option contracts | - | - | - |
| Total | \$ 409 | \$ 23 | \$ - |

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

This financial review discusses the Company's financial condition, results of operations, liquidity and capital resources, new accounting pronouncements, and other matters. It should be read in conjunction with the accompanying Consolidated Financial Statements and related footnotes.

Net product sales were \$103,244 in first quarter 2010 compared to \$94,054 in first quarter 2009, an increase of \$9,190 or 9.8%. First quarter 2010 net product sales benefited from effective marketing programs as well as the timing of certain customer sales in the first quarter 2010 and fourth quarter 2009 reporting periods.

First quarter 2010 net product sales were \$103,244 compared to \$110,318 in fourth quarter 2009. Other than the factors affecting first quarter 2010 net product sales discussed above, this decrease in net product sales is not considered unusual, as the first quarter of the year is historically the Company's lowest sales quarter.

Product cost of goods sold were \$68,123 in first quarter 2010 compared to \$60,719 in first quarter 2009, an increase of \$7,404. Product cost of goods sold reflects a \$349 increase in deferred compensation expense in first quarter 2010 compared to first quarter 2009 resulting from changes in the market value of investments in trading securities relating to compensation deferred in previous years, and is not reflective of current operating results. After adjusting for the aforementioned, product cost of goods sold increased from \$60,788 in first quarter 2009 to \$67,843 in first quarter 2010, an increase of \$7,056 or 11.6%. As a percentage of net product sales, product cost of goods sold increased from 64.6% in first quarter 2009 to 66.0% in first quarter 2010, an increase of 1.4% as a percent of sales. This unfavorable increase principally reflects higher ingredient unit costs, primarily relating to sugar. The Company expects its sugar and most other ingredient costs to be significantly higher throughout 2010 compared to 2009.

Selling, marketing and administrative expenses were \$25,326 in first quarter 2010 compared to \$22,133 in first quarter 2009, an increase of \$3,193. Selling, marketing and administrative expenses reflect a \$1,264 increase in deferred compensation expense in first quarter 2010 compared to first quarter 2009 resulting from changes in the market value of investments in trading securities relating to compensation deferred in previous years, and is not reflective of current operating results. Adjusting for the aforementioned, selling, marketing and administrative expenses increased from \$22,391 in first quarter 2009 to \$24,320 in first quarter 2010, an increase of \$1,929 or 8.6%. As a percent of net product sales, these adjusted expenses favorably decreased from 23.8% of net product sales in first quarter 2009 to 23.6% of product sales in 2010. This favorable decrease in such expenses principally reflects the favorable benefits of higher sales volumes partially offset by higher freight, delivery and warehousing and distribution expenses.

Selling, marketing and administrative expenses include \$9,568 and \$8,333 of freight, delivery and warehousing and distribution expenses in first quarter 2010 and 2009, respectively. Freight, delivery and warehousing and

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distribution expenses increased from 8.9% of net product sales in first quarter 2009 to 9.3% of net product sales in first quarter 2010, primarily due to higher energy costs including increased freight fuel surcharges relating to customer deliveries.

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Earnings from operations were \$10,629 in first quarter 2010 compared to \$11,963 in first quarter 2009, a decrease of \$1,334. Earnings from operations includes changes in deferred compensation liabilities relating to corresponding changes in the market value of trading securities that hedge these liabilities as discussed above. Adjusting for the aforementioned net deferred compensation change of \$1,613, operating earnings were \$11,915 and \$11,636 in first quarter 2010 and first quarter 2009, respectively, an increase of \$279 or 2.4%; and as a percentage of net product sales, adjusted operating earnings were 11.5% and 12.4% in first quarter 2010 and 2009, respectively, a decrease of 0.9% as a percent of net product sales. Management believes this comparison is more reflective of the underlying operations of the Company. This decrease principally reflects the adverse effects of higher ingredient costs and higher freight, distribution and warehousing expenses as discussed above.

Other income (expense), net, was \$3,416 in first quarter 2010 compared to \$(380) in first quarter 2009, an increase of \$3,796. This increase principally reflects a \$2,425 favorable improvement in foreign exchange transactions, and a \$1,613 favorable net increase in the fair value of trading securities investments used to hedge deferred compensation liabilities. The income (expense), on such trading securities was \$1,286 and \$(327) in first quarter 2010 and first quarter 2009, respectively. Such income or (expense) was substantially offset by a like amount of (expense) or income in aggregate product cost of goods sold and selling, marketing, and administrative expenses in the respective years as discussed above. The first quarter 2010 income principally reflects market appreciation in the equity markets and the first quarter 2009 (expense) principally reflects the market decline in the equity markets in the respective periods.

The consolidated effective tax rates were 35.3% and 28.2% in 2010 and 2009, respectively. The unfavorable increase in the effective tax rate in first quarter 2010 compared to first quarter 2009 principally reflects a decrease in the state income tax expense in first quarter 2009 due to the effective conclusion of an income tax audit in first quarter 2009 and resulting favorable adjustment.

Net earnings were \$9,085 in first quarter 2010 compared to \$8,320 in first quarter 2009, and earnings per share were \$.16 and \$.14 in first quarter 2010 and first quarter 2009, respectively, an increase of \$.02 or 14.3%. Earnings per share did benefit from the reduction in average shares outstanding resulting from common stock purchases in the open market by the Company. Average shares outstanding decreased from 58,204 in first quarter 2009 to 57,312 in first quarter 2010.

Goodwill and intangibles are assessed annually as of December 31 or whenever events or circumstances indicate that the carrying values may not be recoverable from future cash flows. The Company has not ascertained any triggering events, as defined, or other adverse information that would indicate a material impairment of its goodwill or intangibles in first quarter 2010.

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LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by (used in) operating activities were \$891 and \$4,174 in first quarter 2010 and first quarter 2009, respectively. The \$3,283 decrease in cash flows from operating activities from first quarter 2009 to first quarter 2010 principally reflects changes in other current assets and liabilities, principally inventories, other accounts receivable, and accounts payable and accrued liabilities.

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Net cash used in investing activities was \$5,816 in first quarter 2010 compared to \$6,311 in first quarter 2009. Cash flows from investing activities reflect capital expenditures of \$3,400 and \$7,287 in first quarter 2010 and first quarter 2009, respectively. The first quarter 2010 and 2009 capital additions include \$468 and \$473, respectively, relating to computer systems and related implementation. Capital expenditures for the 2010 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.

The Company had no bank borrowing or repayments in first quarter 2010 or 2009, and had no outstanding bank borrowings as of the end of first quarter 2010 or first quarter 2009.

Financing activities include common stock purchases and retirements of \$712 and \$4,205 in first quarter 2010 and first quarter 2009, respectively. Cash dividends of \$8,909 and \$8,792 were paid in first quarter 2010 and first quarter 2009, respectively. The increase in cash dividends each year reflects the annual 3% stock dividend issued in each of these years less the effects of Company Common Stock purchases and retirements.

The Company's current ratio (current assets divided by current liabilities) was 3.6 to 1 as of the end of first quarter 2010 as compared to 3.4 to 1 as of the end of first quarter 2009 and 3.8 to 1 as of the end of fourth quarter 2009. Net working capital was \$157,373 as of the end of first quarter 2010 as compared to \$124,384 and \$155,812 as of the end of first quarter 2009 and fourth quarter 2009, respectively. The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments which totaled \$85,052 as of the end of first quarter 2010 compared to \$70,031 and \$99,653, as of the end of first quarter 2009 and fourth quarter 2009, respectively. In addition, long term investments, principally debt securities comprising municipal bonds, were \$62,020 (including \$8,010 of Jefferson County auction rate securities (ARS) discussed below) as of the end of first quarter 2010, as compared to \$50,280 and \$58,136 as of the end of first quarter 2009 and fourth quarter 2009, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$147,072, \$120,311, \$157,789, for first quarter ended 2010 and 2009, and fourth quarter 2009, respectively. Investments in municipal bonds and other debt securities that matured during first quarters 2010 and 2009 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

During 2008, the Company contributed \$16,050 to a VEBA trust to fund the estimated future costs of certain employee health, welfare and other benefits. The Company used the funds, as well as investment income in this VEBA trust, to pay the actual cost of such benefits during 2009 and will

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continue to do so through 2011. As of the end of first quarter 2010, the VEBA trust holds \$12,198 of aggregate cash, cash equivalents and investments; this asset value is included in prepaid expenses in the Company's current and other assets.

As of the end of first quarter 2010 and 2009, the Company's long-term investments include \$8,010 and \$8,410 (\$13,550 original cost), respectively, of Jefferson County Alabama Sewer Revenue Refunding Warrants, originally purchased with an insurance-backed AAA rating. This is an auction rate security (ARS) that is classified as an available for sale security. Due to adverse events related to Jefferson County and its bond insurance carrier, Financial Guaranty Insurance Company (FGIC), as well as events in the credit markets, the auctions for this ARS failed throughout 2008, 2009 and first quarter 2010 (and subsequent to first quarter 2010). As such, the Company continues to estimate the fair value of this ARS utilizing a valuation model with Level 3 inputs, as defined by guidance. This valuation model

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considered, among others items, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including assumptions about the market expectation of the next successful auction.

During the fourth quarter of 2008, the Company determined that the market decline in fair value of its Jefferson County ARS became other-than-temporarily impaired, as defined, and recorded a pre-tax impairment of \$5,140. During the fourth quarter of 2009, the Company evaluated this investment and concluded that an additional decline in the market value was temporary because it was not related to further credit impairment and recorded this \$700 of additional decline in the market value as a charge to accumulated other comprehensive loss. During first quarter 2010, the Company further evaluated this investment and concluded that a portion of the aforementioned temporary decline had reversed and recorded a \$300 increase in the market value as a credit to accumulated other comprehensive loss. Notwithstanding, the Company continues to receive all contractual interest payments on its ARS on a timely basis, there has been no default, it is insured by FGIC and the Company has the intent and ability to hold this ARS until recovery of its amortized cost basis.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, "Improving Disclosures about Fair Value Measurements". ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the provisions of the standard on January 1, 2010, which did not have a material impact on its Consolidated Financial Statements.

In June 2009, the FASB issued Accounting Standards Codification (ASC) 810, "Consolidation", regarding the consolidation of variable interest entities (formerly SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). ASC

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810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company's involvement in variable interest entities. This standard is effective for interim and annual periods beginning after November 15, 2009. The Company adopted the provisions of the standard on January 1, 2010, which had no impact on its Consolidated Financial Statements.

RISK FACTORS

The Company's operations and financial results are subject to a number of risks and uncertainties that could adversely affect the Company's operating results and financial condition. Significant risk factors, without limitations that could impact the Company 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, which are expected to be significantly higher

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in 2010 compared to 2009, of various ingredients, including sugar, and packaging materials, and the availability of such materials; (iii) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance and seasonal events such as Halloween; (iv) the effect of acquisitions on the Company's results of operations and financial condition; (v) the effect of changes in foreign currencies on the Company's foreign subsidiaries operating results, and the effect of the fluctuation of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (vi) the Company's reliance on third party vendors for various goods and services; (vii) the Company's ability to successfully implement new production processes and lines; (viii) the effect of changes in assumptions, including discount rates, sales growth and profit margins and the capability to pass along higher ingredient and other input costs through price increases, relating to the Company's impairment testing and analysis of its goodwill and trademarks; (ix) changes in the confectionery marketplace including actions taken by major retailers and customers; (x) customer, consumer and competitor response to marketing programs and price and product weight adjustments, and new products; (xi) dependence on significant customers, including the volume and timing of their purchases, and availability of shelf space; (xii) increases in ingredient and energy costs, including freight and delivery, that cannot be passed along to customers through increased prices due to competitive reasons; (xiii) any significant labor stoppages, strikes or production interruptions; (xiv) changes in governmental laws and regulations including taxes and tariffs; (xv) the risk that the market value of Company's investments could decline including being classified as "other-than-temporary" as defined; and (xvi) the potential effects of current and future macroeconomic conditions. In addition, the Company's results may be affected by other general factors, such as financial and securities' market factors, 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 Part 1, Item 1A "Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K and in other Company filings, including quarterly reports on Form 10-Q, with the Securities and Exchange Commission.

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FORWARD-LOOKING STATEMENTS

This discussion and certain other sections contain forward-looking statements that are based largely on the Company's current expectations and are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of the words such as "anticipated," "believe," "expect," "intend," "estimate," "project," and other words of similar meaning in connection with a discussion of future operating or financial performance and are subject to certain factors, risks, trends and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. Such factors, risks, trends and uncertainties which in some instances are beyond the Company's control, including the overall competitive environment in the Company's industry, changes in assumptions and judgments discussed above under the heading "Significant Accounting Policies and Estimates", and factors identified and referred to above under the heading "Risk Factors."

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in sugar, corn syrup, edible oils, including soybean oil, cocoa, dextrose, milk and whey, and gum-base input ingredients and packaging and fuel costs. The Company is exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and operating expenses at its Canadian plants. The Company invests in securities with maturities or auction dates 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 the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2009.

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 April 3, 2010 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.

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There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended April 3, 2010 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 |
|------------------|---|--|---|--|
| JAN 1 TO JAN 30 | - | \$ - | NOT APPLICABLE | NOT APPLICABLE |
| JAN 31 TO FEB 27 | - | - | NOT APPLICABLE | NOT APPLICABLE |
| FEB 28 TO APR 3 | 26,400 | 26.92 | NOT APPLICABLE | NOT APPLICABLE |
| TOTAL | 26,400 | \$ 26.92 | | |

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, 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: May 13, 2010

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

Date: May 13, 2010

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

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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

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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: May 13, 2010

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.;

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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: May 13, 2010

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 April 3, 2010 (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: May 13, 2010

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

Dated: May 13, 2010

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

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