

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
August 06, 2008

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

FORM 10-Q

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

For the quarterly period ended June 28, 2008

OR

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

For the transition period from ----to----

COMMISSION FILE NUMBER 1-1361

Tootsie Roll Industries, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

Yes No

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

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 28, 2008)

Class Outstanding

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Common Stock, \$.69 4/9 par value	35,659,234
Class B Common Stock, \$.69 4/9 par value	19,405,582

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

JUNE 28, 2008

INDEX

	Page No.
Part I - Financial Information	
Item 1. Financial Statements:	
Condensed Consolidated Statements of Financial Position	2
Condensed Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5-5C
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	6-6E
Item 3. Quantitative and Qualitative Disclosures About Market Risk	6E
Item 4. Controls and Procedures	6E
Part II - Other Information	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	7
Item 4. Submission of Matters to a Vote of Security Holders	7
Item 6. Exhibits	7A
Signatures	7A
Certifications	7B-7D

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

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - 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	June 28, 2008	June 30, 2007	Dec. 31, 2007__
CURRENT ASSETS			
Cash & cash equivalents	\$ 31,251	\$ 39,761	\$ 57,606
Investments	15,778	19,596	41,307
Trade accounts receivable, Less allowances of \$2,081, \$2,090 & \$2,287	25,120	27,396	32,371
Other receivables	3,487	2,850	2,913
Inventories, at cost			
Finished goods & work in process	74,858	75,333	37,031
Raw material & supplies	27,683	25,735	20,371
Prepaid expenses	2,806	5,114	6,551
Deferred income taxes	1,585	7,150	1,576
 Total current assets	 182,568	 202,935	 199,726
 PROPERTY, PLANT & EQUIPMENT, at cost			
Land	19,417	19,402	19,398
Buildings	88,286	87,273	88,225
Machinery & equipment	279,802	263,034	270,070
	387,505	369,709	377,693
Less-accumulated depreciation	184,085	169,100	176,292
Net property, plant and equipment	203,420	200,609	201,401
 OTHER ASSETS			
Goodwill	73,237	73,237	73,237
Trademarks	189,024	189,024	189,024
Investments	73,217	59,172	65,993
Split dollar life insurance	74,944	75,058	74,944
Investment in joint venture	11,030	9,207	8,400
	421,452	405,698	411,598
 Total assets	 \$807,440	 \$809,242	 \$812,725

-2-

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

(in thousands except per share data) (UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY	June 28, 2008	June 30, 2007	Dec. 31, 2007__
CURRENT LIABILITIES			

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Accounts payable	\$ 26,983	\$ 18,817	\$ 11,572
Dividends payable	4,425	4,401	4,344
Accrued liabilities	36,829	38,027	42,056
Total current liabilities	68,237	61,245	57,972

NON-CURRENT LIABILITIES

Deferred income taxes	35,794	36,504	35,940
Postretirement health care and life insurance benefits	13,847	13,201	13,214
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	21,009	19,273	20,056
Deferred compensation and other liabilities	36,934	39,398	39,813
Total non-current liabilities	115,084	115,876	116,523
Total liabilities	183,321	177,121	174,495

SHAREHOLDERS' EQUITY

Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 35,659, 36,099 & 35,404, respectively, issued	24,763	25,069	24,586
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 19,406, 18,916 & 18,892, respectively, issued	13,476	13,136	13,120
Capital in excess of par value	472,067	474,467	457,491
Retained earnings	126,589	133,894	156,752
Accumulated other comprehensive loss	(10,784)	(12,453)	(11,727)
Treasury stock (at cost)- 65, 63 & 63 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders' equity	624,119	632,121	638,230
Total liabilities and shareholders' equity	\$807,440	\$809,242	\$812,725

-2A-

(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

June 28, 2008 & June 30, 2007

Net product sales	\$101,591	\$101,901
Rental and royalty revenues	1,023	1,282
Total revenues	102,614	103,183
Product cost of goods sold	68,741	67,476
Rental and royalty costs	234	294

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Total costs	68,975	67,770
Product cost of goods sold	32,850	34,425
Rental and royalty gross margins	789	988
Total gross margin	33,639	35,413
Selling, marketing and administrative expenses	23,188	24,166
Earnings from operations	10,451	11,247
Other income, net	653	3,054
Earnings before income taxes	11,104	14,301
Provision for income taxes	3,858	4,075
Net earnings	7,246	10,226
Other comprehensive income, before tax:		
Foreign currency translation adjustments	647	290
Unrealized losses on securities	(216)	(23)
Unrealized losses on derivatives	(856)	(169)
Other comprehensive (loss) income, before tax	(425)	98
Income tax benefit related to items of other comprehensive income	399	72
Other comprehensive (loss) income, net of tax	(26)	170
Comprehensive earnings	\$ 7,220	\$ 10,396
Retained earnings at beginning of period	\$123,744	\$128,064
Net earnings	7,246	10,226
Cash dividends	(4,401)	(4,396)
Retained earnings at end of period	\$126,589	\$133,894
Net earnings per share	\$0.13	\$0.18
Dividends per share *	\$0.08	\$0.08
Average number of shares outstanding	55,000	56,745

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

-3-

(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)
26 WEEKS ENDED
June 28, 2008 & June 30, 2007

Net product sales	\$191,932	\$194,815
-------------------	-----------	-----------

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Rental and royalty revenues	2,115	2,791
Total revenues	194,047	197,606
Product cost of goods sold	129,370	127,212
Rental and royalty costs	516	766
Total costs	129,886	127,978
Product gross margin	62,562	67,603
Rental and royalty gross margins	1,599	2,025
Total gross margin	64,161	69,628
Selling, marketing and administrative expenses	43,238	45,222
Earnings from operations	20,923	24,406
Other (loss) income, net	(587)	4,528
Earnings before income taxes	20,336	28,934
Provision for income taxes	6,637	8,897
Net earnings	13,699	20,037
Other comprehensive income, before tax:		
Foreign currency translation adjustments	3,563	-
Unrealized (losses) gains on securities	(2,360)	12
Unrealized (losses) gains on derivatives	(282)	118
Other comprehensive income, before tax	921	130
Income tax benefit (expense) related to items of other comprehensive income	20	(47)
Other comprehensive income, net of tax	941	83
Comprehensive earnings	\$ 14,640	\$ 20,120
Retained earnings at beginning of period	\$156,752	\$169,233
Net earnings	13,699	20,037
Cash dividends	(8,697)	(8,691)
Stock dividends - 3%	(35,165)	(46,685)
Retained earnings at end of period	\$126,589	\$133,894
Net earnings per share	\$0.25	\$0.35
Dividends per share *	\$0.16	\$0.16
Average number of shares outstanding	55,310	56,812

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

-3A-

(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)

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

26 WEEKS ENDED
June 28, 2008 & June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$ 13,699	\$ 20,037
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,005	7,796
Amortization of marketable securities	202	312
Sales (purchases) of trading securities	97	(326)
Changes in operating assets and liabilities:		
Accounts receivable	7,429	7,679
Other receivables	(856)	1,202
Inventories	(44,872)	(37,111)
Prepaid expenses and other assets	3,789	1,019
Accounts payable and accrued liabilities	10,091	(61)
Income taxes payable and deferred	910	8,920
Postretirement health care and life insurance benefits	633	619
Deferred compensation and other liabilities	(1,051)	(392)
Other	224	66
Net cash (used in) provided by operating activities	(1,700)	9,760

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	(9,742)	(5,506)
Purchase of available for sale securities	(25,456)	(15,104)
Sale and maturity of available for sale securities	39,216	13,463
Net cash provided by (used in) investing activities	4,018	(7,147)

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid in cash	(8,738)	(8,756)
Shares repurchased and retired	(19,935)	(9,825)
Net cash used in financing activities	(28,673)	(18,581)
Decrease in cash and cash equivalents	(26,355)	(15,968)
Cash and cash equivalents—beginning of year	57,606	55,729
Cash and cash equivalents end of quarter	\$ 31,251	\$ 39,761
Supplemental cash flow information:		
Income taxes paid (refunded), net	\$ 4,531	\$ (300)
Interest paid	\$ 148	\$ 319
Stock dividend issued	\$ 35,043	\$ 46,520

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

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 28, 2008
(in thousands except per share amounts) (UNAUDITED)

- Note 1 - Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- Note 2 - Average shares outstanding for the 26 week period ended June 28, 2008 reflects stock repurchases and subsequent retirements of 839 shares for \$19,934 and a 3% stock dividend distributed on April 10, 2008. Average shares outstanding for the 26 week period ended June 30, 2007 reflects stock repurchases and subsequent retirements of 346 shares for \$9,825 and a 3% stock dividend distributed on April 12, 2007.
- Note 3 - Results of operations for the period ended June 28, 2008 are not necessarily indicative of results to be expected for the year to end December 31, 2008 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to Halloween sales.
- Note 4 - The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2004 through 2006. With few exceptions, the Company is no longer subject to examinations by tax authorities for years 2003 and prior.
- Note 5 - New Accounting Pronouncements
- In September 2006, the FASB issued statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company has adopted the provisions of SFAS 157 as of January 1, 2008, for financial instruments measured at fair value on recurring and nonrecurring basis. Although the adoption of SFAS 157 did not materially impact its financial condition, results of operations, or cash flows, the Company is now required to provide additional disclosures as part of its financial statements.
- SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, inputs defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs defined as inputs other than quoted prices included within Level 1 that

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

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

As of June 28, 2008, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials, investments in trading securities and available for sale securities, including auction rate securities (ARS), and investments associated with a foreign benefit plan, which were deemed immaterial for further discussion. The Company's available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

As of June 28, 2008, the Company's long-term investments include \$11,043 of Jefferson County Alabama Sewer Revenue Refunding Warrants which is an ARS that is classified as an available for sale security. Due to recent events in the credit markets, as well as events related to Jefferson County and its bond insurance carrier, Financial Guaranty Insurance Company (FGIC), the auction for this ARS failed during the first half of 2008. As such, the Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs as of June 28, 2008. This valuation model considered, among other items, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including our assumption about the market expectation of the next successful auction.

As of June 28, 2008, the Company has concluded that the market decline in fair value of its Jefferson County ARS is temporary because the Company continues to receive interest on its ARS on a timely basis, there has been no default on this ARS, and this ARS is insured by FGIC. The Company also has the intent and ability to hold this ARS until recovery. We expect to receive all contractual cash flows. Therefore, the Company has recorded an unrealized loss of \$2,507 (original cost and par value was \$13,550) to accumulated other comprehensive income as of June 28, 2008.

The Company has also classified this ARS as non-current and has included it in long-term Investments on the unaudited Condensed Consolidated Balance Sheet at June 28, 2008 because the Company

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

believes that the current condition of the auction rate securities market, as well as the financial conditions of Jefferson County and FGIC, may take more than twelve months to improve.

-5A-

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

The Company's assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at June 28, 2008, were as follows:

(in thousands) Description	6/28/2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Auction Rate Security (ARS)	\$ 11,043	\$ -	\$ -	\$ 11,043
Available-for-sale Security Excluding ARS	47,094		47,094	-
Commodity Derivatives	308	308	-	-
Trading Securities	30,858	30,858	-	-
Total assets measured at fair value	\$ 89,303	\$ 31,166	47,094	\$ 11,043

Available for sale securities which utilize Level 2 inputs consist primarily of municipal bonds, which trade in markets that are not considered to be active, but are valued based on quoted market prices or alternative pricing sources with reasonable levels of price transparency.

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

The following table presents the Company's financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 at June 28, 2008:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

	Auction Rate Security
(in thousands)	
Balance at 1/1/2008	\$ -
Transfers to Level 3	27,250
Included in other comprehensive income	(2,507)
Purchases and (sales) net	(13,700)
Balance at 6/28/2008	\$ 11,043

-5B-

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

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

-5C-

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

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

NET PRODUCT SALES		Net change in Second Quarter, 2008 vs. Second Quarter, 2007
Second Quarter		
2008	2007	
\$101,591	\$101,901	(0.3) %
First Half		First Half, 2008 vs. First Half, 2007
2008	2007	
\$191,932	\$194,815	(1.5) %

Second quarter 2008 net product sales were \$101,591 compared to \$101,901 in second quarter 2007, a decrease of \$310 or 0.3%. First half 2008 net product sales of \$191,932 decreased \$2,883 or 1.5% from first half 2007 net product sales of \$194,815. The sales decline in the first half 2008 reflects the overall challenging economic conditions and competitive factors during the period.

PRODUCT COST OF GOODS SOLD:

Second Quarter		Percentage of Net Product Sales	
2008	2007	2nd Qtr. 2008	2nd Qtr. 2007
\$68,741	\$67,476	67.7%	66.2%
First Half		Percentage of Net Product Sales	
2008	2007	1st Half 2008	1st Half 2007
\$129,370	\$127,212	67.4%	65.3%

Product cost of goods sold as a percentage of net product sales increased from

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

66.2% in the second quarter 2007 to 67.7% in second quarter 2008, and from 65.3% in first half 2007 to 67.4% in first half 2008. These increases in product cost of goods sold as a percentage of product net sales are primarily the result of higher input costs relating to major ingredients, packaging materials, and less favorable foreign exchange rates with regard to products manufactured in Canada. Increased plant overhead spending against lower sales volumes also contributed to increased product cost of goods sold as a percent of net product sales.

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

-6-

In order to address the impact of rising input and other costs, the Company periodically reviews each item in its product portfolio to ascertain if price increases, weight declines (indirect price increase) or other actions may be taken. This review includes an evaluation of the risk factors relating to market place acceptance of such changes and their potential effect on future sales volumes. In addition, the estimated cost of packaging modifications associated with weight changes is evaluated.

The Company also maintains ongoing cost reduction programs whereby cost savings initiatives are encouraged and progress monitored. The Company is not able to accurately predict the outcome of these cost savings initiatives and their effects on its future results.

SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

Second Quarter		Percentage of Net Product Sales	
2008	2007	2nd Qtr. 2008	2nd Qtr. 2007
\$23,188	\$24,166	22.8%	23.7%

First Half		Percentage of Net Product Sales	
2008	2007	1st Half 2008	1st Half 2007
\$43,238	\$45,222	22.5%	23.2%

Second quarter 2008 selling, marketing and administrative expenses were \$23,188 compared to \$24,166 in second quarter 2007, a decrease of \$978 or 4.0%. These same expenses decreased from \$45,222 in first half 2007 to \$43,238 in first half 2008, a decrease of \$1,984 or 4.4%. The aforementioned decreases in expenses for both periods primarily reflect the change in net product sales, as well as a decline in deferred compensation expense, which is discussed below. As a percentage of net product sales, such operating expenses decreased slightly from 23.7% in second quarter 2007 to 22.8% in second quarter 2008 and from 23.2% in first half 2007 to 22.5% in first half 2008, principally reflecting the decrease in deferred compensation expense. However, the Company was adversely affected by higher freight, delivery and warehousing expenses, principally reflecting higher fuel costs, during both second quarter and first half 2008 compared to the corresponding periods in the prior year.

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

Second quarter 2008 earnings from operations were \$10,451 compared to \$11,247 in second quarter 2007, a decrease of \$796 or 7.1%. First half 2008 earnings from operations were \$20,923 compared to \$24,406 a decrease of \$3,483 or 14.3%. The decline in operating earnings during both second quarter and first half 2008 were primarily the result of lower sales volume and higher input costs as discussed above.

NET EARNINGS:

			Second Quarter, 2008
			vs.
	Second Quarter		Second Quarter, 2007
	2008	2007	(29.1) %
\$ 7,246		\$10,226	
			First Half, 2008
			vs.
	First Half		First Half, 2007
	2008	2007	(31.6) %
\$13,699		\$20,037	

-6A-

Second quarter 2008 net earnings were \$7,246 compared to second quarter 2007 net earnings of \$10,226, a \$2,980 or 29.1% decrease. Second quarter 2008 earnings per share were \$0.13, compared to \$0.18 per share in the prior year comparative period, a decrease of \$0.05 or 27.8%.

First half 2008 net earnings were \$13,699 compared to first half 2007 net earnings of \$20,037, a \$6,338 or 31.6% decrease. First half net earnings per share were \$0.25 in 2008 compared to \$0.35 per share in 2007, a decrease of \$0.10 per share or 28.6%.

Other income (loss), net was \$653 in second quarter 2008 compared to \$3,054 in second quarter 2007. Other income (loss), net in second quarter 2008 includes \$79 of investment gains on trading securities relating to deferred compensation plans. However, other income (loss), net in second quarter 2007 includes \$1,476 of investment gains on trading securities relating to such deferred compensation plans. Other income (loss), net was (\$587) in first half 2008 compared to \$4,528 in first half 2007. Other income (loss), net in first half 2008 includes \$1,890 of investment losses on trading securities relating to deferred compensation plans. However, other income (loss), net in first half 2007 includes \$1,928 of investment gains on trading securities relating to such deferred compensation plans. These second quarter and first half 2008 losses resulted in a corresponding decrease in deferred compensation expense included in aggregate cost of products sold and selling, marketing and administrative expenses for first half 2008. However, second quarter and first half 2007 gains resulted in a corresponding increase in deferred compensation expense included in aggregate cost of products sold and selling, marketing and administrative expenses for the corresponding 2007 periods.

The consolidated effective income tax rate increased from 28.5% in second quarter 2007 to 34.9% in second quarter 2008 and from 30.9% in first half 2007 to 32.7% in first half 2008. This increase principally reflects higher foreign taxes and resulting higher overall effective rate.

In addition to the factors discussed above, earnings per share benefited from

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

fewer shares outstanding as a result of the Company's share repurchases in 2007 and 2008.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 2.7 to 1 as of the end of second quarter 2008 as compared to 3.3 to 1 as of the end of second quarter 2007 and 3.4 to 1 as of the end of fourth quarter 2007. Net working capital was \$114,331 as of the end of second quarter 2008 as compared to \$141,690 and \$141,754 as of the end of second quarter 2007 and fourth quarter 2007, respectively. The aforementioned net working capital amounts include total cash and cash equivalents and short-term investments which aggregated \$47,029 as of the end of second quarter 2008 compared to \$59,357 and \$98,913, as of the end of second quarter 2007 and fourth quarter 2007, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were \$73,217 (includes \$11,043 of Jefferson County auction rate securities discussed in Note 5 to the accompanying Condensed Consolidated Financial Statements) as of the end of second quarter 2008, as compared to \$59,172 and \$65,993 as of the end of second quarter 2007 and fourth quarter 2007, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$120,246, \$118,529, \$164,906, respectively for second quarter ended 2008, second quarter 2007 and fourth quarter 2007, respectively. Except for the Jefferson County auction rate securities referenced above, investments in municipal bonds and other debt securities that matured during first half 2008 and 2007 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

-6B-

Net cash used in operating activities was \$1,700 for first half 2008, as compared to net cash provided by operating activities of \$9,760 for first half 2007. The aforementioned change in net cash (used in) provided by operating activities principally reflects the \$6,338 decline in net earnings for the comparative periods, and the timing of payments and cash flows relating to inventories, accounts payable and accrued liabilities, and income taxes payable and deferred. Capital expenditures for first half 2008 and 2007 were \$9,742 and \$5,506, respectively. Capital expenditures for the 2008 year are anticipated to be generally in line with historical annualized spending, and are to be funded from the Company's cash flow from operations and internal sources.

Cash dividends paid in first half 2008 and 2007 were \$8,738 and \$8,756, respectively.

During first half 2008, the Company also purchased and retired \$19,935 of its shares of common stock compared to \$9,825 during the same period of the previous year.

NEW ACCOUNTING PRONOUNCEMENTS

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

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

financial statements.

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

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

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

-6C-

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

Such factors, risks, trends and uncertainties, which in some instances are beyond the Company's control, including without limitation, the following: (i) significant competitive activity, including advertising, promotional and price

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

competition, and changes in consumer demand for the Company's products; (ii) fluctuations in the cost and availability of various ingredients and packaging materials; (iii) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance and seasonal events such as Halloween; (iv) the effect of acquisitions on the Company's results of operations and financial condition; (v) the effect of changes in foreign currencies on the Company's foreign subsidiaries operating results, and the effect of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (vi) the Company's reliance on third-party vendors for various goods and services; (vii) the Company's ability to successfully implement new production processes and lines; (viii) the effect of changes in assumptions, including discount rates, sales growth and profit margins, and the capability to pass along higher ingredient and other input costs through price increases, relating to the Company's impairment testing and analysis of its goodwill and trademarks; (ix) changes in the confectionery marketplace including actions taken by major retailers and customers; (x) customer and consumer response to marketing programs and price and product weight adjustments, and new products; (xi) dependence on significant customers, including volume and timing or purchases and availability of shelf space; (xii) increases in input costs, including ingredients, packaging materials, energy and fuel costs related to freight and delivery, that cannot be passed on to customers through increased prices due to competitive reasons; (xiii) any significant labor stoppages, strikes or production interruptions; (xiv) changes in governmental laws and regulations including taxes and tariffs; (xv) changes in the auction rate securities markets and issuing municipalities and their insurers. In addition, the Company's results may be affected by general factors, such as economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company in markets where it competes and those factors described 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.

-6D-

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

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

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, the chief executive officer and chief financial officer of the Company have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 28, 2008 and, based on their evaluation, the chief executive officer and chief financial officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 28, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-6E-

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_____
--------	---	--	---	---

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

MAR 30 TO JUN 28

NONE

NONE

NOT APPLICABLE

NOT APPLICABLE

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

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of the Company, held on May 5, 2008, the following number of votes were cast for the matters indicated:

1. For the election of five directors of the Company by the holders of Common Shares and Class B Common Shares voting together:

Nominee	For	Withheld	Abstain	Broker Non-Vote
Melvin J. Gordon	209,447,980	9,148,627	-0-	-0-
Ellen R. Gordon	209,453,475	9,143,132	-0-	-0-
Lana Jane Lewis-Brent	214,719,557	3,877,050	-0-	-0-
Barre A. Siebert	214,859,743	3,736,864	-0-	-0-
Richard P. Bergeman	215,405,014	3,191,593	-0-	-0-

2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as auditors for the fiscal year 2008:

	For	Withheld	Against	Broker Non-Vote
Common Shares and Class B Common Shares voting together	215,835,633	2,637,169	-0-	-0-

No other matters were submitted to a vote by ballot at the 2008 Annual Meeting.

-7-

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: Aug. 6, 2008

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

Date: Aug. 6, 2008

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

-7A-

Exhibit 31.1

CERTIFICATION

I, Melvin J. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Aug. 6, 2008

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

-7B-

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

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

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: Aug. 6, 2008

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

-7C-

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 June 28, 2008 (the

Edgar Filing: TOOTSIE ROLL INDUSTRIES INC - Form 10-Q

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: Aug. 6, 2008

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

Dated: Aug. 6, 2008

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