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TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

May 08, 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 MARCH 29, 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 or a non-accelerated filer. See definition of "large accelerated filer", "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 (March 29, 2008)

Class Outstanding

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Common Stock, \$.69 4/9 par value	35,655,865
Class B Common Stock, \$.69 4/9 par value	19,408,951

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

MARCH 29, 2008

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

PART 1. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(in thousands of dollars) (UNAUDITED)

ASSETS	March 29, 2008	March 31, 2007	Dec. 31, 2007
CURRENT ASSETS			
Cash & cash equivalents	\$ 45,267	\$ 58,189	\$ 57,606
Investments	13,945	22,807	41,307
Trade accounts receivable, Less allowances of \$2,084, \$2,055 & \$2,287	27,395	30,698	32,371
Other receivables	4,789	3,592	2,913
Inventories, at cost			
Finished goods & work in process	49,637	52,269	37,031
Raw material & supplies	22,938	23,221	20,371
Prepaid expenses	4,193	5,407	6,551
Deferred income taxes	1,590	6,713	1,576
 Total current assets	 169,754	 202,896	 199,726
 PROPERTY, PLANT & EQUIPMENT, at cost			
Land	19,398	19,402	19,398
Buildings	88,226	87,273	88,225
Machinery & equipment	275,626	260,344	270,070
	383,250	367,019	377,693
Less-accumulated depreciation	180,348	166,162	176,292
Net property, plant and equipment	202,902	200,857	201,401
 OTHER ASSETS			
Goodwill	73,237	73,237	73,237
Trademarks	189,024	189,024	189,024
Investments	75,011	54,043	65,993
Split dollar life insurance	74,944	73,357	74,944
Investment in joint venture	11,002	9,197	8,400
	423,218	398,858	411,598
 Total assets	 \$795,874	 \$802,611	 \$812,725

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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	March 29,	March 31,	Dec. 31,
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CURRENT LIABILITIES	2008	2007	2007
Accounts payable	\$ 16,919	\$ 15,114	\$ 11,572
Dividends payable	4,424	165	4,344
Accrued liabilities	38,322	37,875	42,056
Income tax payable	509	-	-
Total current liabilities	60,174	53,154	57,972
NON-CURRENT LIABILITIES			
Deferred income taxes	36,234	40,410	35,940
Postretirement health care and life insurance benefits	13,503	12,918	13,214
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	20,496	14,444	20,056
Deferred compensation and other liabilities	36,668	38,240	39,813
Total non-current liabilities	114,401	113,512	116,523
Total liabilities	174,575	166,666	174,495
SHAREHOLDERS' EQUITY			
Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 35,656, 36,427 & 35,404 respectively, issued	24,761	25,296	24,586
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 19,409, 18,934 & 18,892, respectively, issued	13,478	13,149	13,120
Capital in excess of par value	472,067	484,052	457,491
Retained earnings	123,744	128,064	156,752
Accumulated other comprehensive loss	(10,759)	(12,624)	(11,727)
Treasury stock (at cost)- 65, 63 & 63 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders' equity	621,299	635,945	\$638,230
Total liabilities and shareholders' equity	\$795,874	\$802,611	\$812,725

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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  
March 29, 2008 & March 31, 2007

Net product sales	\$ 90,341	\$ 92,914
Rental and royalty revenue	1,092	1,509
 Total revenue	 91,433	 94,423
 Product cost of goods sold	 60,629	 59,736
Rental and royalty cost	282	472
 Total costs	 60,911	 60,208
 Product gross margin	 29,712	 33,178

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Rental and royalty gross margin	810	1,037
Total gross margin	30,522	34,215
Selling, marketing and administrative expenses	20,050	21,056
Earnings from operations	10,472	13,159
Other income (loss), net	(1,240)	1,474
Earnings before income taxes	9,232	14,633
Provision for income taxes	2,779	4,822
Net earnings	6,453	9,811
Other comprehensive income, before tax:		
Foreign currency translation adjustments	2,916	(290)
Unrealized (losses) gains on securities	(2,144)	35
Unrealized gains on derivatives	574	287
Other comprehensive income, before tax	1,346	32
Income tax expense related to items of other comprehensive income	(379)	(119)
Other comprehensive income (loss), net of tax	967	(87)
Comprehensive earnings	\$ 7,364	\$ 9,724
Retained earnings at beginning of period	\$156,752	\$169,233
Net earnings	6,453	9,811
Cash dividends	(4,296)	(4,295)
Stock dividends - 3%	(35,165)	(46,685)
Retained earnings at end of period	\$123,744	\$128,064
Net earnings per share	\$0.12	\$0.17
Dividends per share *	\$0.08	\$0.08
Average number of shares outstanding	55,543	56,903

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

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

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

13 WEEKS ENDED

March 29, 2008 & March 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$ 6,453	\$ 9,811
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,988	3,867
Amortization of marketable securities	97	183
Sales (purchases) of trading securities	632	(307)

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Changes in operating assets and liabilities:		
Accounts receivable	5,043	4,309
Other receivables	(1,302)	522
Inventories	(15,091)	(11,641)
Prepaid expenses and other assets	2,373	3,326
Accounts payable and accrued liabilities	1,573	(3,876)
Income taxes payable and deferred	881	7,551
Postretirement health care and life insurance benefits	289	336
Deferred compensation and other liabilities	(1,193)	(47)
Other	85	83
Net cash provided by operating activities	3,828	14,117
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,394)	(1,934)
Purchase of available for sale securities	(23,236)	(9,418)
Sale and maturity of available for sale securities	36,736	8,291
Net cash provided by (used in) investing activities	8,106	(3,061)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid in cash	(4,339)	(8,596)
Shares repurchased and retired	(19,934)	-
Net cash used in financing activities	(24,273)	(8,596)
Increase (decrease) in cash and cash equivalents	(12,339)	2,460
Cash and cash equivalents-beginning of year	57,606	55,729
Cash and cash equivalents end of quarter	\$ 45,267	\$ 58,189
Supplemental cash flow information:		
Income taxes paid (refunded)	\$ 411	\$ (4,870)
Interest paid	\$ 50	\$ 221
Stock dividend issued	\$ 35,043	\$ 46,520

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 29, 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

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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 period ended March 29, 2008 reflects stock repurchases of 839 shares for \$19,934 and a 3% stock dividend distributed on April 10, 2008. Average shares outstanding for the period ended March 31, 2007 reflects a 3% stock dividend distributed on April 12, 2007.

Note 3 - Results of operations for the period ended March 29, 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 year 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 flow, the Company is now required to provide additional disclosures as part of its financial statements.

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SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 29, 2008, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These

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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 March 29, 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 first quarter 2008 and on April 30, 2008. As such, the Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs as of March 29, 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 expectation of the next successful auction. The Company corroborated the fair value of this ARS by comparing, where possible, to other ARS and municipal securities with similar characteristics.

As of March 29, 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 to maturity. Therefore, the Company has recorded an unrealized loss of \$2,507 (original cost and par value was \$13,550) to accumulated other comprehensive income during the period.

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 March 29, 2008 because the Company believes that the current condition of the auction rate securities market, as well as the financial conditions of Jefferson County and FGIC, may take more than twelve months to improve.

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

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The Company's assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at March 29, 2008, were as follows:

Fair Value Measurements at Reporting  
Date Using  
Quoted  
Prices in  
Active



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(in thousands) Description	3/29/2008	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	49,650		49,650	-
Commodity Derivatives	1,038	1,038	-	-
Trading Securities	30,242	30,242	-	-
Total assets measured at fair value	\$ 91,973	\$ 31,280	49,650	\$ 11,043

Available for sale securities which utilize Level 2 inputs consist primarily of municipal bonds.

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 March 29, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction Rate Security
(in thousands)	
Balance at 12/31/2007	\$ -
Transfers to Level 3	27,250
Included in other comprehensive income	(2,507)
Purchases and (sales) net	(13,700)
Balance at 3/29/2008	\$ 11,043

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 adopt the provisions of SFAS 159 for our existing financial instruments.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an

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

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

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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:

First Quarter		Net change in
2008	2007	First Quarter, 2008 vs. First Quarter, 2007
\$90,341	\$92,914	(2.8%)

First quarter 2008 net product sales were \$90,341 compared to \$92,914 in first quarter 2007, a decrease of \$2,573 or 2.8%. The first quarter 2008 sales decline principally reflects the overall recessionary economic conditions in the United States, the Company's principal market.

First quarter 2008 net product sales were \$90,341 compared to \$115,010 in fourth quarter 2007. Other than the factors affecting first quarter 2008 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:

First Quarter		Percentage of Net Product Sales	
2008	2007	1st Qtr. 2008	1st Qtr. 2007
\$60,629	\$59,736	67.1%	64.3%

Product cost of goods sold as a percentage of net product sales increased from 64.3% in first quarter 2007 to 67.1% in first quarter 2008. This unfavorable increase in product cost of goods sold as a percentage of net product sales is primarily the result of higher input costs. These higher input costs principally relate to increases in costs for ingredients and packaging materials, products manufactured in Canada (due to less favorable foreign exchange rates), higher costs for labor and fringe benefits, and increases in plant manufacturing overhead costs. In addition, lower sales volumes also adversely affected certain plant manufacturing overhead costs as a percentage of net product sales. As a result, product gross margin decreased from 35.7% in first quarter 2007 to 32.9% in first quarter 2008, a decline of 2.8% as a percentage of net product sales.

### SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

First Quarter		Percentage of Net Product Sales	
2008	2007	1st Qtr. 2008	1st Qtr. 2007
\$20,050	\$21,056	22.2 %	22.7%

Selling, marketing and administrative expenses decreased from \$21,056 in first quarter 2007 to \$20,050 in first quarter 2008, a decrease of \$1,006 or 4.8%. This decrease primarily reflects the decline in operating expenses relating to the decrease in net product sales, as well as a decline in deferred compensation

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expense which is discussed below. As a percentage of net product sales, such operating expenses decreased slightly from 22.7% in 2007 to 22.2% in 2008, principally reflecting the aforementioned decrease in deferred compensation expense. However, the Company was adversely affected by higher freight, delivery and warehousing expenses, principally reflecting higher fuel costs, during first quarter 2008 compared to the corresponding period in the prior year.

First quarter earnings from operations were \$10,472 and \$13,159 in 2008 and 2007, respectively, a decrease of \$2,687 or 20.4%. Results for first quarter 2008 were adversely affected by lower sales volumes and higher input costs as discussed above. Although the Company took actions and implemented programs, including sales price increases and cost reduction initiatives, in 2008 to restore margins that declined as a result of higher input costs, the Company was not able to fully recover ongoing input cost increases in first quarter 2008.

### NET EARNINGS:

First Quarter		Percentage of Net Product Sales	
2008	2007	1st Qtr. 2008	1st Qtr. 2007
\$6,453	\$9,811	7.1%	10.6%

First quarter 2008 net earnings were \$6,453 compared to first quarter 2007 net earnings of \$9,811. First quarter 2008 earnings per share were \$0.12 compared to \$0.17 in first quarter 2007, a decrease of \$0.05 per share or 29%.

Other income (loss), net was (\$1,240) in first quarter 2008 compared to \$1,474 in first quarter 2007, a net decrease of \$2,714. Other income (loss), net in 2008 includes \$1,970 of investment losses on trading securities relating to deferred compensation plans; the aforementioned 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 quarter 2008. However, other income (loss), net in 2007 includes \$452 of investment gains on trading securities relating to deferred compensation plans; the aforementioned 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 first quarter 2007.

The consolidated effective income tax rate decreased from 33.0% in first quarter 2007 to 30.1% in first quarter 2008, a favorable decline of 2.9%. The aforementioned decrease principally reflects a decrease in state income tax expense.

In addition to the factors discussed above, earnings per share benefited from fewer shares outstanding as a result of the Company's share repurchases during the trailing twelve months including first quarter 2008.

### LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 2.8 to 1 as of the end of first quarter 2008 as compared to 3.8 to 1 as of the end of first quarter 2007 and 3.4 to 1 as of the end of fourth quarter 2007. Net working capital was \$109,580 as of the end of first quarter 2008 as compared to \$149,742 and \$141,754 as of the end of first quarter 2007 and fourth quarter 2007, respectively. The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term

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investments which totaled \$59,212 as of the end of first quarter 2008 compared to \$80,996 and \$98,913, as of the end of first quarter 2007 and fourth quarter 2007, respectively. In addition, long term investments, principally debt securities comprising municipal bonds, were \$75,011 (including \$11,043 of Jefferson County auction rate securities discussed below under "New Accounting Pronouncements") as of the end of first quarter 2008, as compared to \$54,043 and \$65,993 as of the end of first quarter 2007 and fourth quarter 2007, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$134,223, \$135,039, \$164,306, respectively for first quarter ended 2008 and 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 quarters 2008 and 2007 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

Net cash provided by operating activities was \$3,828 for first quarter 2008, as compared to \$14,117 for first quarter 2007. The aforementioned change in net cash provided by operating activities principally reflects the \$3,358 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 quarter 2008 and 2007 were \$5,394 and \$1,934, 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 declared in first quarter 2008 and 2007 were \$4,296 and \$4,295, respectively. However, dividends paid in cash were \$4,339 and \$8,596, in first quarter 2008 and 2007, respectively. The difference between dividends declared and dividends paid is due to the timing of the payment of the first quarter dividend in 2007.

During first quarter 2008, the Company purchased and retired 839 of its shares of common stock for \$19,934. The Company had no repurchases and retirements of its outstanding common stock during first quarter 2007.

#### NEW ACCOUNTING PRONOUNCEMENTS

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

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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As of March 29, 2008, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's derivative instruments related to certain commodities and raw materials which are hedged by the Company, and investments in trading securities and available for sale securities, including auction rate securities (ARS). The Company's available for sale and trading securities investments principally consist of municipal bonds and mutual funds that are publicly traded.

As of December 31, 2008, the Company held \$27,250 of ARS, \$13,700 of which were successfully auctioned and sold during first quarter 2008. As of March 29, 2008, the Company's long-term investment includes \$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 first quarter 2008 and on April 30, 2008. As such, the Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs as of March 29, 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 expectation of the next successful auction. The Company corroborated the fair value of this ARS by comparing, where possible, to other ARS and municipal securities with similar characteristics.

As of March 29, 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 to maturity. Therefore, the Company has recorded an unrealized loss of \$2,507 (original cost and par value was \$13,550) to accumulated other comprehensive income during the period.

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 March 29, 2008 because the Company believes that the current condition of the auction rate securities market, as well as the financial conditions of Jefferson County and FGIC, may take more than twelve months to improve.

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

#### INFORMATION REGARDING 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 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

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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 competition, and changes in consumer demand for the Company's products; (ii) fluctuations in the cost and availability of various ingredients and packaging

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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.

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 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 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 of up to three years, the majority of which are held to maturity,

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

### Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, the chief executive officer and chief financial officer of the Company have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 29, 2008 and, based on their evaluation, the chief

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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 March 29, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



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## PART II - OTHER INFORMATION

TOOTSIE ROLL INDUSTRIES, INC.  
AND SUBSIDIARIES

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

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	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 26	167,700	\$ 25.17	NOT APPLICABLE	NOT APPLICABLE
JAN 27 TO FEB 23	9,000	24.96	NOT APPLICABLE	NOT APPLICABLE
FEB 24 TO MAR 29	662,200	23.34	NOT APPLICABLE	NOT APPLICABLE
TOTAL	838,900	\$ 23.72		

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

## Item 6. EXHIBITS

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

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

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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 08, 2008

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

Date: May 08, 2008

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

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Exhibit 31.1

CERTIFICATION

I, Melvin J. Gordon, certify that:

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

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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 08, 2008

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

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Exhibit 31.2

### CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc,;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial

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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 08, 2008

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

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Exhibit 32

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

Each of the undersigned officers of Tootsie Roll Industries, Inc.  
Certifies that (i) the Quarterly Report on Form 10-Q of Tootsie Roll

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Industries, Inc. for the quarterly period ended March 29, 2008 (the Form 10-Q) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Tootsie Roll Industries, Inc. and its subsidiaries.

Dated: May 08, 2008

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

Dated: May 08, 2008

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