TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
August 11, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended JULY 2, 2011

OR

o 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date (July 2, 2011)

Class	Outstanding
Common Stock, $.69 4/9 par value	**36,889,948**
Class B Common Stock, $.69 4/9 par value	**21,039,591**

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

JULY 2, 2011

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See 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.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

	July 2, 2011 (unaudited)	December 31, 2010	July 3, 2010 (unaudited)
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents	$ 41,282	$ 115,976	$ 60,006
Investments	10,324	7,996	7,082
Trade accounts receivable,			
Less allowances of $1,661, $1,531 & $1,879	26,862	37,394	23,566
Other receivables	7,043	9,961	7,471
Inventories, at cost			
Finished goods & work in process	75,385	36,935	71,604
Raw material & supplies	31,308	22,141	34,055
Prepaid expenses	8,103	6,499	8,001
Deferred income taxes	682	689	1,367
Total current assets	200,989	237,591	213,152
PROPERTY, PLANT & EQUIPMENT, at cost			
Land	21,659	21,619	21,570
Buildings	103,002	102,934	102,395
Machinery & equipment	307,325	307,178	297,919
Construction in progress	15,221	9,243	12,624
	447,207	440,974	434,508
Less-accumulated depreciation	234,714	225,482	216,129
Net property, plant and equipment	212,493	215,492	218,379
OTHER ASSETS			
Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	103,835	64,461	61,721
Split dollar life insurance	74,441	74,441	74,638
Prepaid expenses	5,034	6,680	6,444
Investment in joint venture	4,751	4,254	3,930
Deferred income taxes	9,106	9,203	11,580
Total other assets	445,428	407,300	406,574

Total assets	**$ 858,910**	**$ 860,383**	**$ 838,105**

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

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(in thousands except per share data)

	July 2, 2011 (unaudited)	December 31, 2010	July 3, 2010 (unaudited)
LIABILITIES AND SHAREHOLDERS EQUITY CURRENT LIABILITIES			
Accounts payable	$ 13,869	$ 9,791	$ 13,671
Dividends payable	4,635	4,529	4,560
Accrued liabilities	41,197	44,185	44,292
Total current liabilities	59,701	58,505	62,523
NONCURRENT LIABILITIES			
Deferred income taxes	47,159	48,743	42,842
Postretirement health care and life insurance benefits	21,709	20,689	17,489
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	10,074	9,835	17,695
Deferred compensation and other liabilities	48,866	46,157	39,217
Total noncurrent liabilities	135,308	132,924	124,743
SHAREHOLDERS EQUITY			
Common Stock, $.69-4/9 par value- 120,000 shares authorized; 36,890, 36,057 & 36,517, respectively, issued	25,618	25,040	25,358
Class B common stock, $.69-4/9 par value- 40,000 shares authorized; 21,040, 20,466 & 20,488, respectively, issued	14,611	14,212	14,228
Capital in excess of par value	543,503	505,495	518,013
Retained earnings	95,261	137,412	110,420
Accumulated other comprehensive loss	(13,100)	(11,213)	(15,188)
Treasury stock (at cost)- 71, 69 & 69 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders equity	663,901	668,954	650,839
Total liabilities and shareholders equity	$ 858,910	$ 860,383	$ 838,105

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (UNAUDITED)

	Quarter Ended	
	July 2, 2011	July 3, 2010
Net product sales	$ 104,884	$ 105,026
Rental and royalty revenue	936	997
Total revenue	105,820	106,023
Product cost of goods sold	71,490	69,360
Rental and royalty cost	238	254
Total costs	71,728	69,614
Product gross margin	33,394	35,666
Rental and royalty gross margin	698	743
Total gross margin	34,092	36,409
Selling, marketing and administrative expenses	26,171	22,544
Earnings from operations	7,921	13,865
Other income (expense), net	1,001	(2,058)
Earnings before income taxes	8,922	11,807
Provision for income taxes	2,757	3,360
Net earnings	6,165	8,447
Other comprehensive income, before tax:		
Foreign currency translation adjustments	448	(1,342)
Unrealized gains on securities	1,965	273
Reclassifications to earnings and changes in fair value of derivatives	(1,607)	(1,257)
Other comprehensive income (loss), before tax	806	(2,326)
Income tax benefit related to items of other comprehensive income	(175)	579
Other comprehensive income (loss), net of tax	631	(1,747)
Comprehensive earnings	$ 6,796	$ 6,700
Retained earnings at beginning of period	$ 93,725	$ 106,529

Net earnings		**6,165**		**8,447**
Cash dividends		**(4,629)**		**(4,556)**
Retained earnings at end of period	**$**	**95,261**	**$**	**110,420**
Net earnings per share	**$**	**0.11**	**$**	**0.14**
Dividends per share *	**$**	**0.08**	**$**	**0.08**
Average number of shares outstanding		**58,012**		**58,792**

***Does not include 3% stock dividend to shareholders of record on 3/8/11 and 3/9/10.**

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (UNAUDITED)

	Year to Date Ended	
	July 2, 2011	July 3, 2010
Net product sales	$ 213,207	$ 208,270
Rental and royalty revenue	2,008	2,126
Total revenue	215,215	210,396
Product cost of goods sold	145,531	137,483
Rental and royalty cost	508	549
Total costs	146,039	138,032
Product gross margin	67,676	70,787
Rental and royalty gross margin	1,500	1,577
Total gross margin	69,176	72,364
Selling, marketing and administrative expenses	52,135	47,870
Earnings from operations	17,041	24,494
Other income, net	3,993	1,358
Earnings before income taxes	21,034	25,852
Provision for income taxes	6,869	8,201
Net earnings	14,165	17,651
Other comprehensive income, before tax:		
Foreign currency translation adjustments	1,450	(585)
Unrealized gains on securities	1,776	512
Reclassifications to earnings and changes in fair value of derivatives	(6,860)	(4,539)
Other comprehensive loss, before tax	(3,634)	(4,612)
Income tax benefit related to items of other comprehensive income	1,747	1,820
Other comprehensive loss, net of tax	(1,887)	(2,792)
Comprehensive earnings	$ 12,278	$ 14,859
Retained earnings at beginning of period	$ 137,412	$ 148,582

Net earnings		**14,165**		**17,651**
Cash dividends		**(9,141)**		**(9,008)**
Stock dividends 3%		**(47,175)**		**(46,805)**
Retained earnings at end of period	**$**	**95,261**	**$**	**110,420**
Net earnings per share	**$**	**0.24**	**$**	**0.30**
Dividends per share *	**$**	**0.16**	**$**	**0.16**
Average number of shares outstanding		**58,050**		**58,884**

***Does not include 3% stock dividend to shareholders of record on 3/8/11 and 3/9/10.**

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) (UNAUDITED)

	Year to Date Ended	
	July 2, 2011	July 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 14,165	$ 17,651
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	9,255	9,184
(Gain) loss from equity method investment	(133)	139
Amortization of marketable securities	513	232
Changes in operating assets and liabilities:		
Accounts receivable	10,765	13,989
Other receivables	710	(3,612)
Inventories	(47,319)	(49,183)
Prepaid expenses and other assets	84	2,201
Accounts payable and accrued liabilities	995	6,322
Income taxes payable and deferred	(4,078)	(645)
Postretirement health care and life insurance benefits	1,020	815
Deferred compensation and other liabilities	828	550
Other	385	120
Net cash used in operating activities	(12,810)	(2,237)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,067)	(6,781)
Net purchases of trading securities	(2,724)	(2,369)
Purchase of available for sale securities	(37,142)	(3,039)
Sale and maturity of available for sale securities	1,275	2,498
Net cash used in investing activities	(44,658)	(9,691)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid in cash	(9,157)	(9,028)
Shares purchased and retired	(8,069)	(10,028)
Net cash used in financing activities	(17,226)	(19,056)
Decrease in cash and cash equivalents	(74,694)	(30,984)
Cash and cash equivalents at beginning of year	115,976	90,990
Cash and cash equivalents at end of quarter	$ 41,282	$ 60,006
Supplemental cash flow information:		
Income taxes paid, net	$ 7,941	$ 8,470
Interest paid	$ 29	$ 41
Stock dividend issued	$ 47,053	$ 46,682

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

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TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 2, 2011

(in thousands except per share amounts) (UNAUDITED)

Note 1 Significant Accounting Policies

General Information

Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company s 2010 Annual Report on Form 10-K.

Results of operations for the period ended July 2, 2011 are not necessarily indicative of results to be expected for the year to end December 31, 2011 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.

Revision

During 2010, the Company identified certain liabilities for uncertain tax positions that should not have been recorded based on a reevaluation of the related facts. Management has concluded that the effects of the correcting adjustments were not material to the Company s previously issued quarterly and annual financial statements. The Company has revised the previously issued financial statements in this quarterly report and will do so in future filings. The revised financial statements reflect an increase in retained earnings at the beginning of the quarter and year 2010 of $2,773 and $2,654, respectively. The revised financial statements also reflect changes to the provision for income tax expense which resulted in an increase (decrease) in net earnings of $(24) and $95, for the second quarter and year to date 2010, respectively.

Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and

International Financial Reporting Standards (IFRS).   ASU 2011-04 represents converged guidance between U.S. GAAP and IFRS resulting in common requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance will be effective for fiscal years beginning after December 15, 2011 and subsequent interim periods. The Company is currently assessing the impact, if any, on the consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05,   Presentation of Comprehensive Income.   ASU 2011-05 requires us to present components of other comprehensive income and of net income in one continuous statement of comprehensive income, or in two separate, but consecutive statements. The option to report other comprehensive income within the statement of equity has been removed. This new presentation of comprehensive income will be effective for fiscal years beginning after December 15, 2011 and subsequent interim periods.

Note 2   Average Shares Outstanding

Average shares outstanding for the first half ended July 2, 2011 reflect stock purchases of 283 shares for $8,069 and a 3% stock dividend distributed on April 7, 2011. Average shares outstanding for the first half ended July 3, 2010 reflect stock purchases of 384 shares for $10,028 and a 3% stock dividend distributed on April 8, 2010.

Note 3   Income Taxes

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2007 through 2010. Certain foreign jurisdictions are subject to examinations for the years 2004 through 2010.

Note 4   Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Guidance requires disclosure of the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation

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measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Guidance establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management s own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the table below.

As of July 2, 2011, December 31, 2010 and July 3, 2010, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials, investments in trading securities and available for sale securities, including auction rate securities (ARS). The Company s available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

The following table presents information about the Company s financial assets and liabilities measured at fair value as of July 2, 2011, December 31, 2010 and July 3, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Estimated Fair Value July 2, 2011			
	Total Fair Value	Level 1	Input Levels Used Level 2	Level 3
Cash and cash equivalents	$ 41,282	$ 41,282	$	$
ARS	8,130			8,130
Available-for-sale securities excluding ARS	62,953		62,953	
Foreign currency forward contracts	368	368		
Commodity futures contracts	573	573		
Commodity options contracts	565	565		
Trading securities	43,076	43,076		
Total assets measured at fair value	$ 156,947	$ 85,864	$ 62,953	$ 8,130

	Estimated Fair Value December 31, 2010			
	Total Fair Value	Level 1	Input Levels Used Level 2	Level 3
Cash and cash equivalents	$ 115,976	$ 115,976	$	$
ARS	6,775			6,775
Available-for-sale securities excluding ARS	27,178		27,178	
Foreign currency forward contracts	942	942		
Commodity futures contracts	2,310	2,310		
Commodity options contracts	5,369	5,369		
Trading securities	38,504	38,504		
Total assets measured at fair value	$ 197,054	$ 163,101	$ 27,178	$ 6,775

	Estimated Fair Value July 3, 2010			
	Total Fair Value	Level 1	Input Levels Used Level 2	Level 3
Cash and cash equivalents	$ 60,006	$ 60,006	$	$

ARS	**8,279**			**8,279**
Available-for-sale securities excluding ARS	**27,102**		**27,102**	
Foreign currency forward contracts	**1,371**	**1,371**		
Commodity futures contracts	**(823)**	**(823)**		
Commodity options contracts	**(1,339)**	**(1,339)**		
Trading securities	**33,422**	**33,422**		
Total assets measured at fair value	**$ 128,018**	**$ 92,637**	**$ 27,102**	**$ 8,279**

As of July 2, 2011, the Company s long term investments included an ARS, Jefferson County Alabama Sewer Revenue Refunding Warrants, reported at a fair value of $8,130, after reflecting a $5,140 other than temporary impairment and a $280 temporary decline in market value against its $13,550 par value. In 2008, this ARS was determined to be other than temporarily impaired due to the duration and severity of the decline in fair value. The Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs. This valuation model considered, among other items, a limited

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number of market trades, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates and the amount and timing of expected future cash flows including the Company s assumption about the market expectation of the next successful auction. See Management s Discussion and Analysis of Financial Condition and Results of Operations regarding Jefferson County ARS. The Company classified this ARS as non-current and has included it in long term investments on the Condensed Consolidated Statements of Financial Position at July 2, 2011, December 31, 2010 and July 3, 2010 because the Company believes that the current condition of the ARS market may take more than twelve months to improve.

The following table presents additional information about the Company s financial instruments (all ARS) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at July 2, 2011 and July 3, 2010:

	2011	2010
Balance at January 1	**$ 6,775**	**$ 7,710**
Unrealized gain in other comprehensive loss	**1,355**	**569**
Balance at July 2 and July 3, respectively	**$ 8,130**	**$ 8,279**

The $7,500 carrying amount of the Company s industrial revenue development bonds at July 2, 2011 and July 3, 2010 approximates its estimated fair value as the bonds have a floating interest rate.

Note 5 Derivative Instruments and Hedging Activities

From time to time, the Company uses derivative instruments, including foreign currency forward contracts, commodity futures contracts and commodity option contracts, to manage its exposures to foreign exchange and commodity prices. Commodity futures contracts and most commodity option contracts are intended and effective as hedges of market price risks associated with the anticipated purchase of certain raw materials (primarily sugar). Foreign currency forward contracts are intended and effective as hedges of the Company s exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of products manufactured in Canada and sold in the United States, and periodic equipment purchases from foreign suppliers denominated in a foreign currency. The Company does not engage in trading or other speculative use of derivative instruments.

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

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

income (expense), net.

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The following table summarizes the Company s outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at July 2, 2011, December 31, 2010 and July 3, 2010:

	July 2, 2011		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	$ 1,192	$ 368	$
Commodity futures contracts	7,773	615	(42)
Commodity option contracts	1,160	566	(1)
Total derivatives designated as hedges		1,549	(43)
Derivatives not designated as hedging instruments:			
Commodity option contracts	370		
Total derivatives not designated as hedges			
Total derivatives		$ 1,549	$ (43)

	December 31, 2010		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	$ 3,572	$ 942	$
Commodity futures contracts	4,407	2,310	
Commodity option contracts	10,344	5,481	(112)
Total derivatives designated as hedges		8,733	(112)
Derivatives not designated as hedging instruments:			
Commodity option contracts			
Total derivatives not designated as hedges			
Total derivatives		$ 8,733	$ (112)

	July 3, 2010		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	$ 7,520	$ 1,371	$
Commodity futures contracts	5,033		(823)
Commodity option contracts	11,607	581	(1,680)
Total derivatives designated as hedges		1,952	(2,503)
Derivatives not designated as hedging instruments:			
Commodity option contracts	3,313		(240)
Total derivatives not designated as hedges			(240)
Total derivatives		$ 1,952	$ (2,743)

The effects of derivative instruments on the Company s Condensed Consolidated Statement of Earnings, Comprehensive Earnings and Retained Earnings for quarter and year to date ended July 2, 2011 and July 3, 2010 are as follows:

For Quarter Ended July 2, 2011

	Gain(Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	**$ 12**	**$ 244**	**$**
Commodity futures contracts	**1,615**	**1,415**	
Commodity option contracts	**(1,627)**	**(52)**	
Total	**$**	**$ 1,607**	**$**

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	For Quarter Ended July 3, 2010		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ (590)	$ 1,077	$
Commodity futures contracts	(1,145)	(1,523)	
Commodity option contracts	(295)	(327)	
Total	$ (2,030)	$ (773)	$

	For Year to Date Ended July 2, 2011		
	Gain(Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ 121	$ 695	$
Commodity futures contracts	3,856	5,593	
Commodity option contracts	(4,836)	(287)	
Total	$ (859)	$ 6,001	$

	For Year to Date Ended July 3, 2010		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ 21	$ 2,325	$
Commodity futures contracts	(1,283)	(461)	
Commodity option contracts	(1,740)	(327)	
Total	$ (3,002)	$ 1,537	$

During the quarters and years to date ended July 2, 2011 and July 3, 2010, the Company recognized earnings/(losses) of $(105) and $16, and $822 and $(1,788) respectively, related to mark-to-market accounting for certain commodity option contracts.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(in thousands except per share amounts)

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

Net product sales were $104,884 in second quarter 2011 compared to $105,026 in second quarter 2010, a decrease of $142 or 0.1%. First half 2011 net product sales were $213,207 compared to $208,270 in first half 2010, an increase of $4,937 or 2.4%. Second quarter 2011 net product sales were adversely affected by the timing of certain customer sales. First half 2011 sales, which were 2.4% greater than first half 2010 sales, benefited from effective marketing and sales programs and principally reflect organic growth in volume, including product line extensions.

Product cost of goods sold were $71,490 in second quarter 2011 compared to $69,360 in second quarter 2010, and first half 2011 product cost of goods sold were $145,531 compared to $137,483. Product cost of goods sold in second quarter and first half 2011 reflect increases of $601 and $656, respectively, in deferred compensation expense compared to the corresponding periods in the prior year. These increases principally result from changes in the market value of investments in trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned changes in deferred compensation expense, product cost of goods sold increased from $69,879 in second quarter 2010 to $71,408 in second quarter 2011, an increase of $1,529 or 2.2%, and increased from $137,722 in first half 2010 to $145,114 in first half 2011, an increase of $7,392 or 5.4%. As a percentage of net product sales, adjusted product cost of goods sold increased from 66.5% in second quarter 2010 to 68.1% in second quarter 2011, an increase of 1.6% as a percent of sales, and from 66.1% in first half 2010 to 68.1% in first half 2011, an increase of 2.0% as a percent of sales. These unfavorable increases principally reflect significantly higher ingredient unit costs, with higher costs for packaging materials also contributing to increased product cost of good sold. The Company expects its ingredient costs to continue at these significantly higher levels throughout 2011 in comparison to 2010. Although the Company is in the process of implementing price increases because of higher input costs, a substantial portion of such price increases will not become effective until fourth quarter 2011.

Selling, marketing and administrative expenses were $26,171 in second quarter 2010 compared to $22,544 in second quarter 2010, and first half 2011 and 2010 selling, marketing and administrative expenses were $52,135 and $47,870, respectively. Selling, marketing and administrative expenses in second quarter and first half 2010 reflect increases of $2,233 and $2,379, respectively, in deferred compensation expense compared to the corresponding periods in the prior year. These increases principally result from changes in the market value of investments in trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned changes in deferred compensation expense, selling, marketing and administrative expenses increased from $24,497 in second quarter 2010 to $25,891 in second quarter 2011, an increase of $1,394 or 5.7%, and increased from $48,817 in first half 2010 to $50,703 in first half 2011, an increase of $1,886 or 3.9%. As a percentage of net product sales, adjusted selling, marketing and administrative expenses increased from 23.3% in second quarter 2010 to 24.7% in second quarter 2011, an increase of 1.4% as a percent of sales, and increased from 23.4% in first half 2010 to 23.8% in first half 2011, an increase of 0.4% as a percent of sales. Selling marketing and administrative expenses reflect higher distribution expenses, principally increased freight and delivery expenses including higher fuel surcharges, relating to customer deliveries. Freight, delivery, warehousing and distribution expenses as a percent of net product sales increased from 10.0% in second quarter 2010 to 10.5% in second quarter 2011, and from 9.6% in first half 2010 to 10.0% in first half 2011.

Earnings from operations were $7,921 in second quarter 2011 compared to $13,865 in second quarter 2010, and were $17,041 in first half 2011 compared to $24,494 in first half 2010. Earnings from operations include the above discussed changes in deferred compensation liabilities relating to corresponding changes in the market value of trading securities that hedge these liabilities as discussed above. Adjusting for the aforementioned as discussed above, operating earnings were $8,283 and $11,393 in second quarter 2011 and 2010, respectively, a decrease of $3,110 or 27.3%; and operating earnings were $18,890 and $23,308 in first half 2011 and 2010, respectively, a decrease of $4,418 or 19.0%. As a percentage of net product sales, these adjusted operating earnings were 7.9% and 10.8% in second quarter 2011 and 2010, respectively, a decrease of 2.9% as a percentage of net product sales; and operating earnings were 8.9% and 11.2% in first half 2011 and 2010, respectively, a decrease of 2.3% as a percentage of net product sales. The above discussed decreases principally reflect the adverse effects of higher ingredient costs as well as higher costs for packaging materials and freight and delivery expenses as discussed above. Management believes the presentation in the preceding paragraphs relating to amounts adjusted for deferred compensation expense better reflect operating results for the quarter and first half ended July 2, 2011 as compared to the quarter and first half ended July 3, 2010 and, accordingly, provides additional insight of the underlying operations of the Company.

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Other income (expense), net, was $1,001 in second quarter 2011 compared to $(2,058) in second quarter 2010, a favorable increase of $3,059. Other income (expense), net, was $3,993 in first half 2011 compared to $1,358 in first half 2010, a favorable increase of $2,635. The increase in second quarter principally reflects a $2,834 favorable net increase in the fair value of trading securities investments which are used as an economic hedge for deferred compensation liabilities. The increase in first half Other income (expense), net principally reflects a $3,035 favorable net increase in the fair value of these trading securities which was offset by $571 unfavorable net decrease in foreign currency exchange transactions. The income (expense), on such trading securities was $362 and $(2,472) in second quarter 2011 and 2010, respectively, and $1,849 and $(1,186) in first half 2011 and 2010, respectively. Such income or (expense) was substantially offset by a like amount of (expense) or income in aggregate product cost of goods sold and selling, marketing, and administrative expenses in the respective periods as discussed above. The income (expense) relating to trading securities in second quarter and first half 2011 and 2010, principally reflects market appreciation (depreciation) in the equity markets in the respective periods.

The consolidated effective tax rates were 30.9% and 28.5% in second quarter 2011 and 2010, respectively, and 32.7% and 31.7% in first half 2011 and 2010, respectively. The increase in the effective tax rate in second quarter and first half principally relates to higher state income taxes.

Net earnings were $6,165 in second quarter 2011 compared to $8,447 in second quarter 2010, and earnings per share were $0.11 and $0.14 in second quarter 2011 and second quarter 2010, respectively, a decrease of $0.03 per share or 21.4%. First half 2011 net earnings were $14,165 compared to first half 2010 net earnings of $17,651, a $3,486 or 19.7% decrease. First half net earnings per share were $0.24 in 2011 compared to $0.30 per share in first half 2010, a decrease of $0.06 per share or 20.0%. Earnings per share for second quarter and first half 2011 did benefit from the reduction in average shares outstanding resulting from common stock purchases in the open market by the Company. Average shares outstanding decreased from 58,792 in second quarter 2010 to 58,012 in second quarter 2011, and from 58,884 in first half 2010 to 58,050 in first half 2011.

Goodwill and intangibles are assessed annually as of December 31 or whenever events or circumstances indicate that the carrying values may not be recoverable from future cash flows. The Company has not ascertained any triggering events, as defined, or other adverse information that would indicate a material impairment of its goodwill or intangibles in second quarter or first half 2011.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows used in operating activities were $12,810 and $2,237 in first half 2011 and 2010, respectively. The $10,573 increase in cash flows used in operating activities from first half 2010 to first half 2011 reflects changes in other current assets and liabilities, principally other accounts receivable, and accounts payable and accrued liabilities, and income taxes payable.

Net cash used in investing activities was $44,658 in first half 2011 compared to $9,691 in first half 2010. This increase of $34,967 consists primarily of $34,103 used to purchase available for sale securities. Cash flows from investing activities reflect capital expenditures of $6,067 and $6,781 in first half 2011 and first half 2010, respectively. Capital expenditures for the 2011 year are anticipated to be generally in line with historical annualized spending, and are to be funded from the Company s cash flow from operations and internal sources.

The Company had no bank borrowing or repayments in second quarter 2011 or 2010, and had no outstanding bank borrowings as of the end of second quarter 2011 or second quarter 2010.

Financing activities include Company Common Stock purchases and retirements of $8,069 and $10,028 in first half 2011 and first half 2010, respectively. Cash dividends of $9,157 and $9,028 were paid in first half 2011 and first half 2010, respectively. The increase in cash dividends each year reflects the annual 3% stock dividend issued in each of these years less the effects of Company Common Stock purchases and retirements.

The Company s current ratio (current assets divided by current liabilities) was 3.4 to 1 as of the end of second quarter 2011 and as of the end of second quarter 2010 and 4.1 to 1 as of the end of fourth quarter 2010. Net working capital was $141,288 as of the end of second quarter 2011 as compared to $179,086 and $150,629 as of the end of fourth and second quarters 2010, respectively.

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The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments which totaled $51,606 as of the end of second quarter 2011 compared to $123,972 and $67,088 as of the end of fourth and second quarters 2010, respectively. In addition, long term investments, principally debt securities comprising municipal bonds, were $103,835 (including $8,130 of Jefferson County auction rate securities (ARS) discussed below) as of the end of second quarter 2011, as compared to $64,461 and $61,721 as of the end of second and fourth quarters 2010, respectively. Aggregate cash and cash equivalents and short and long-term investments were $155,441, $188,433, $128,809, as of the end of second quarter 2011, and as of the end of fourth and second quarters 2010, respectively. The aforementioned includes $43,076, $38,504, and $33,422 as of the end of the second quarter 2011, and fourth and second quarters 2010, respectively, relating to trading securities which are used as an economic hedge for the Company s deferred compensation liabilities. Investments in municipal bonds and other debt securities that matured during second quarters 2011 and 2010 were generally used to purchase the Company s Common Stock or were replaced with debt securities of similar maturities.

During 2008, the Company contributed $16,050 to a VEBA trust to fund the estimated future costs of certain employee health, welfare and other benefits. The Company used the funds, as well as investment income in this VEBA trust, to pay the actual cost of such benefits during 2010 and 2011 and will continue to do so through 2012. As of the end of second quarter 2011, the VEBA trust holds $8,390 of aggregate cash, cash equivalents and investments; this asset value is included in prepaid expenses in the Company s current and other assets.

As of the end of second quarter 2011 and 2010, the Company s long-term investments include $8,130 and $8,279 ($13,550 original cost), respectively, of Jefferson County Alabama Sewer Revenue Refunding Warrants, originally purchased with an insurance-backed AAA rating. This is an ARS that is classified as an available for sale security. Due to adverse events related to Jefferson County and its bond insurance carrier, Financial Guaranty Insurance Company (FGIC), as well as events in the credit markets, the auctions for this ARS have failed since 2008. As such, the Company continues to estimate the fair value of this ARS utilizing a valuation model with Level 3 inputs, as defined by guidance. This valuation model considered, among others items, a limited number of market trades, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including assumptions about the market expectation of the next successful auction or possible negotiated settlement between the County and debt holders. The Company continues to receive all contractual interest payments on this ARS on a timely basis, there has been no default, it is insured by FGIC and the Company has the intent and ability to hold this ARS until recovery of its amortized cost basis. Representatives of Jefferson County and the bond holders are currently in negotiations to reach a settlement agreeable to the bondholders and the insurers, and if a settlement cannot be reached, the County is likely to pursue a bankruptcy filing. The Company is not currently able to predict the outcome of such negotiations and/or bankruptcy, or the amount and timing of net proceeds it may ultimately recover.

ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 represents converged guidance between U.S. GAAP and IFRS resulting in common requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance will be effective for fiscal years beginning after December 15, 2011 and subsequent interim periods. The Company is currently assessing the impact, if any, on the consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires us to present components of other comprehensive income and of net income in one continuous statement of comprehensive income, or in two separate, but

consecutive statements. The option to report other comprehensive income within the statement of equity has been removed. This new presentation of comprehensive income will be effective for fiscal years beginning after December 15, 2011 and subsequent interim periods.

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RISK FACTORS

The Company s operations and financial results are subject to a number of risks and uncertainties that could adversely affect the Company s operating results and financial condition. Significant risk factors, without limitation, that could impact the Company include the following: (i) significant competitive activity, including advertising, promotional and price competition, and changes in consumer demand for the Company s products; (ii) increases in ingredients and other input costs, which are expected to be significantly higher in 2011 compared to 2010, as well as the uncertainty of long-term costs of major ingredients; (iii) effects on sales, including response from customers and the final consumers, relating to price increase and weight declines (indirect price increase) of products; (iv) the Company s dependence on its enterprise resource planning computer system to manage its supply chain and customer deliveries; (v) availability of ingredients and packaging materials; (vi) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance and seasonal events such as Halloween; (vii) the effect of acquisitions on the Company s results of operations and financial condition; (viii) the effect of changes in foreign currencies on the Company s foreign subsidiaries operating results, and the effect of the fluctuation of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (ix) the Company s reliance on third party vendors for various goods and services; (x) the Company s ability to successfully implement new production processes and lines; (xi) 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; (xii) changes in the confectionery marketplace including actions taken by major retailers and customers; (xiii) customer, consumer and competitor response to marketing programs and price and product weight adjustments, and new products; (xiv) dependence on significant customers, including the volume and timing of their purchases, and availability of shelf space; (xv) increases in ingredient and energy costs, including freight and delivery, that cannot be fully passed along to customers through increased prices due to competitive reasons; (xvi) any significant labor stoppages, strikes or production interruptions; (xvii) changes in governmental laws and regulations including taxes and tariffs; (xviii) the risk that the market value of Company s cash equivalents or investments, including municipal bonds, could decline in value, including being impaired and classified as an other-than-temporary impairment as defined; and (xix) the potential effects of current and future macroeconomic conditions.

In addition, the Company s results may be affected by other general factors, such as financial and securities market factors, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company in markets where it competes and those factors described in Part 1, Item 1A Risk Factors and elsewhere in the Company s Annual Report on Form 10-K and in other Company filings, including quarterly reports on Form 10-Q, with the Securities and Exchange Commission.

FORWARD-LOOKING STATEMENTS

This discussion and certain other sections contain forward-looking statements that are based largely on the Company s current expectations and are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as anticipated, believe, expect, intend, estimate, project, ar 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, include the overall competitive environment in the Company s industry, changes in assumptions and judgments discussed above under the heading Significant Accounting Policies and Estimates , and factors identified and referred to above under the heading Risk Factors.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in sugar, corn syrup, edible oils, including soybean oil, cocoa, dextrose, milk and whey, and gum-base input ingredients and packaging and fuel costs principally relating to freight and delivery fuel surcharges. The Company is exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and operating expenses at its Canadian plants. The Company invests in securities with maturities or auction dates of up to three years, the majority of which are held to maturity, which limits the Company s exposure to interest rate fluctuations. There has been no material change in the Company s market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2010.

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ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, the Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of July 2, 2011 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended July 2, 2011 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. UNREGEISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes purchases of the Company s Common Stock during the quarter ended July 2, 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans Or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
APR 3 TO APR 30		$	NOT APPLICABLE	NOT APPLICABLE
MAY 1 TO MAY 28	10,000	28.51	NOT APPLICABLE	NOT APPLICABLE
MAY 29 TO JUL 2	198,321	28.30	NOT APPLICABLE	NOT APPLICABLE
TOTAL	208,321	$ 28.31	NOT APPLICABLE	NOT APPLICABLE

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

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Item 6. EXHIBITS

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

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

Exhibit 101.INS - XBRL Instance Document.*

Exhibit 101.SCH - XBRL Taxonomy Extension Schema Document.*

Exhibit 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.*

Exhibit 101.LAB - XBRL Taxonomy Extension Label Linkbase Document.*

Exhibit 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.*

Exhibit 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document*

*** Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.**

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: August 11, 2011	**BY:**	**/S/MELVIN J. GORDON** **Melvin J. Gordon**

		Chairman and Chief Executive Officer
Date: August 11, 2011	**BY:**	**/S/G. HOWARD EMBER, JR.** **G. Howard Ember, Jr.** **Vice President Finance and Chief Financial Officer**