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TOOTSIE ROLL INDUSTRIES INC  
Form 10-Q  
August 13, 2009

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 JULY 4, 2009

OR

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

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

COMMISSION FILE NUMBER 1-1361

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

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

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

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

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

Yes  No

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

Yes  No

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

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

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

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Yes                      No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (July 4, 2009)

Class	Outstanding
Common Stock, \$.69 4/9 par value	36,099,795
Class B Common Stock, \$.69 4/9 par value	19,926,770

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

JULY 4, 2009

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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 "Information Regarding Forward-Looking Statements" under Part I - Item 2 "Management's Discussion and Analysis

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of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

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

ASSETS	July 4, 2009	June 28, 2008	Dec. 31, 2008
CURRENT ASSETS			
Cash & cash equivalents	\$ 33,149	\$ 31,251	\$ 68,908
Investments	15,854	15,778	17,963
Trade accounts receivable, Less allowances of \$2,202, \$2,081 & \$1,923	28,191	25,120	31,213
Other receivables	4,028	3,487	2,983
Inventories, at cost			
Finished goods & work in process	63,218	74,858	34,862
Raw material & supplies	26,605	27,683	20,722
Prepaid expenses	8,139	2,806	11,328
Deferred income taxes	-	1,585	-
 Total current assets	 179,184	 182,568	 187,979
 PROPERTY, PLANT & EQUIPMENT, at cost			
Land	19,323	19,417	19,307
Buildings	89,130	88,286	89,077
Machinery & equipment	280,316	266,577	279,100
Construction in progress	32,582	13,225	20,701
	421,351	387,505	408,185
Less-accumulated depreciation	198,102	184,085	190,557
Net property, plant and equipment	223,249	203,420	217,628
 OTHER ASSETS			
Goodwill	73,237	73,237	73,237
Trademarks	189,024	189,024	189,024
Investments	49,488	73,217	49,809
Split dollar life insurance	74,808	74,944	74,808
Investment in joint venture	9,286	11,030	10,333
Prepaid expenses	9,994	-	9,274
	405,837	421,452	406,485
 Total assets	 \$808,270	 \$807,440	 \$812,092

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

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	(in thousands except per share data)		(UNAUDITED)
LIABILITIES AND SHAREHOLDERS' EQUITY	July 4,	June 28,	Dec. 31,
CURRENT LIABILITIES	2009	2008	2008
Accounts payable	\$ 12,501	\$ 26,983	\$ 13,885
Dividends payable	4,498	4,425	4,401
Accrued liabilities	36,703	36,829	40,335
Deferred income taxes	631	-	631
Total current liabilities	54,333	68,237	59,252
 NON-CURRENT LIABILITIES			
Deferred income taxes	44,031	35,794	43,346
Postretirement health care and life insurance benefits	16,208	13,847	15,468
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	19,623	21,009	19,412
Deferred compensation and other liabilities	33,983	36,934	32,344
Total non-current liabilities	121,345	115,084	118,070
Total liabilities	175,678	183,321	177,322
 SHAREHOLDERS' EQUITY			
Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 36,100, 35,659 & 35,658, respectively, issued	25,069	24,763	24,762
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 19,927, 19,406 & 19,357, respectively, issued	13,838	13,476	13,442
Capital in excess of par value	489,107	472,067	470,927
Retained earnings	120,018	126,589	142,872
Accumulated other comprehensive loss	(13,448)	(10,784)	(15,241)
Treasury stock (at cost)- 67, 65 & 65 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders' equity	632,592	624,119	634,770
Total liabilities and shareholders' equity	\$808,270	\$807,440	\$812,092

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

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### EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS (in thousands except per share amounts) (UNAUDITED)

13 WEEKS ENDED

July 4, 2009 & June 28, 2008

Net product sales	\$107,812	\$101,591
Rental and royalty revenue	860	1,023
<b>Total revenue</b>	<b>108,672</b>	<b>102,614</b>
Product cost of goods sold	68,807	68,741
Rental and royalty cost	211	234
<b>Total costs</b>	<b>69,018</b>	<b>68,975</b>
Product gross margin	39,005	32,850
Rental and royalty gross margin	649	789
<b>Total gross margin</b>	<b>39,654</b>	<b>33,639</b>
Selling, marketing and administrative expenses	25,728	23,188
<b>Earnings from operations</b>	<b>13,926</b>	<b>10,451</b>
Other income, net	1,821	653
Earnings before income taxes	15,747	11,104
Provision for income taxes	5,409	3,858
<b>Net earnings</b>	<b>10,338</b>	<b>7,246</b>
<b>Other comprehensive income, before tax:</b>		
Foreign currency translation adjustments	1,534	647
Unrealized losses on securities	(82)	(216)
Unrealized gains (losses) on derivatives	1,182	(856)
Other comprehensive income (loss), before tax	2,634	(425)
Income tax benefit (expense) related to items of other comprehensive income	(550)	399
Other comprehensive income (loss), net of tax	2,084	(26)
<b>Comprehensive earnings</b>	<b>\$ 12,422</b>	<b>\$ 7,220</b>
Retained earnings at beginning of period	\$114,172	\$123,744
Net earnings	10,338	7,246
Cash dividends	(4,492)	(4,401)
<b>Retained earnings at end of period</b>	<b>\$120,018</b>	<b>\$126,589</b>
Net earnings per share	\$0.18	\$0.13
Dividends per share *	\$0.08	\$0.08
Average number of shares outstanding	56,245	56,642

\*Does not include 3% stock dividend to shareholders of record on 3/9/09 and 3/10/08.

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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)	
	26 WEEKS ENDED	
	July 4, 2009	& June 28, 2008
Net product sales	\$201,866	\$191,932
Rental and royalty revenue	1,837	2,115
Total revenue	203,703	194,047
Product cost of goods sold	129,526	129,370
Rental and royalty cost	427	516
Total costs	129,953	129,886
Product gross margin	72,340	62,562
Rental and royalty gross margin	1,410	1,599
Total gross margin	73,750	64,161
Selling, marketing and administrative expenses	47,861	43,238
Earnings from operations	25,889	20,923
Other income (loss), net	1,441	(587)
Earnings before income taxes	27,330	20,336
Provision for income taxes	8,672	6,637
Net earnings	18,658	13,699
Other comprehensive income, before tax:		
Foreign currency translation adjustments	783	3,563
Unrealized gains (losses) on securities	71	(2,360)
Unrealized gains (losses) on derivatives	1,568	(282)
Other comprehensive income, before tax	2,422	921
Income tax benefit (expense) related to items of other comprehensive income	(629)	20
Other comprehensive income, net of tax	1,793	941
Comprehensive earnings	\$ 20,451	\$ 14,640
Retained earnings at beginning of period	\$142,872	\$156,752
Net earnings	18,658	13,699
Cash dividends	(8,883)	(8,697)
Stock dividends - 3%	(32,629)	(35,165)
Retained earnings at end of period	\$120,018	\$126,589
Net earnings per share	\$0.33	\$0.24
Dividends per share *	\$0.16	\$0.16

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Average number of shares outstanding 56,393 56,952

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

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

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

26 WEEKS ENDED

July 4, 2009 & June 28, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$ 18,658	\$ 13,699
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,261	8,005
Amortization of marketable securities	173	202
Net sales (purchases) of trading securities	(1,144)	97
Changes in operating assets and liabilities:		
Accounts receivable	3,118	7,429
Other receivables	523	(856)
Inventories	(34,058)	(44,872)
Prepaid expenses and other assets	3,560	3,789
Accounts payable and accrued liabilities	(5,073)	10,091
Income taxes payable and deferred	307	910
Postretirement health care and life insurance benefits	740	633
Deferred compensation and other liabilities	721	(1,051)
Other	351	224
Net cash used in operating activities	(3,863)	(1,700)

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	(13,719)	(9,742)
Purchase of available for sale securities	-	(25,456)
Sale and maturity of available for sale securities	4,355	39,216
Net cash provided by (used in) investing activities	(9,364)	4,018

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid in cash	(8,878)	(8,738)
Shares repurchased and retired	(13,654)	(19,935)
Net cash used in financing activities	(22,532)	(28,673)
Decrease in cash and cash equivalents	(35,759)	(26,355)
Cash and cash equivalents—beginning of year	68,908	57,606
Cash and cash equivalents end of quarter	\$ 33,149	\$ 31,251

Supplemental cash flow information:

Income taxes paid, net	\$ 6,833	\$ 4,531
Interest paid	\$ 168	\$ 148
Stock dividend issued	\$ 32,537	\$ 35,043

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(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 4, 2009  
(in thousands except per share amounts) (UNAUDITED)

- Note 1 - Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. and Subsidiaries (the Company) and in the opinion of management all adjustments necessary for a fair statement of the results for the interim period have been reflected. All adjustments were of a normal and recurring nature. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The Company adopted SFAS No. 165 as of July 5, 2009 and has evaluated all subsequent events through the date and time its financial statements were issued on August 13, 2009. The adoption of this standard did not have a material impact on the Company's financial accounting or reporting. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2008 Annual Report on Form 10-K.
- Note 2 - Average shares outstanding for the 26 week period ended July 4, 2009 reflect stock repurchases and subsequent retirements of 632 shares for \$13,654 and a 3% stock dividend distributed on April 9, 2009. Average shares outstanding for the 26 week period ended June 28, 2008 reflect stock repurchases and subsequent retirements of 839 shares for \$19,935 and 3% stock dividends distributed on April 10, 2008 and April 9, 2009.
- Note 3 - Results of operations for the period ended July 4, 2009 are not necessarily indicative of results to be expected for the year to end December 31, 2009 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. The Company's quarterly financial reporting is based on thirteen week periods; the first quarter of 2009 ended on April 4, 2009 and first half of 2009 ended on July 4, 2009, and both periods benefited from three additional shipping days compared to the same periods of the prior year.
- 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 2005 through 2007. With few exceptions, the Company is no longer subject to examinations by tax authorities for years 2004 and prior. The Company experienced a decrease in state income tax expense due to the



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effective conclusion of an income tax audit in first quarter 2009 and resulting favorable adjustment.

### Note 5 - Fair Value Measurements

In the first quarter of 2009, the Company adopted FASB statement 157, "Fair Value Measurements," (SFAS 157) for non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. This adoption did not have a material impact on the Company's financial position or results of operations.

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The Company's investments are carried at fair value which is measured on a recurring basis and adjusted each time a financial statement is prepared. In determining fair value of financial instruments, the Company uses various prescribed techniques. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the instrument.

For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

The Company assesses the inputs used to measure fair value using a three-tier hierarchy, as prescribed under SFAS 157. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. 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 4, 2009, the Company held certain financial instruments that were required to be measured at fair value on a recurring basis. These included cash and cash equivalents, derivative hedging instruments related to Canadian dollar forward purchase contracts, and 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 measured at fair value as of July 4, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

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Estimated Fair Value July 4, 2009

Description	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 33,149	\$ 33,149		
Auction Rate Security (ARS)	8,410			\$ 8,410
Available-for-sale Security excluding ARS	28,905		\$ 28,905	
Derivatives	1,916	1,916		
Trading Securities	28,027	28,027		
<b>Total assets measured at fair value</b>	<b>\$100,407</b>	<b>\$ 63,092</b>	<b>\$ 28,905</b>	<b>\$ 8,410</b>

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As of July 4, the Company's long term investments include \$8,410 (\$13,550 original cost) of Jefferson County Alabama Sewer Revenue Refunding Warrants, an ARS, originally purchased with an AAA rating. The fair value remained unchanged from December 31, 2008. The Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs as of July 4, 2009. This valuation model considered, among other items, the credit risk of the collateral underlying the ARS, the credit risk of Financial Guaranty Insurance Company (FIGIC) 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. The Company classified this ARS as non-current and has included it in long term investments on the Consolidated Statements of Financial Position at July 4, 2009 because the Company believes that the current condition of the ARS market as well as the credit condition of Jefferson County and FIGIC may take more than twelve months to improve. Available for sale securities which utilize Level 2 inputs consist primarily of municipal bonds, which are valued based on alternative pricing sources with reasonable levels of price transparency.

There is no difference between the fair value and carrying value of the Company's long term debt.

### Note 6 - Derivative Instruments and Hedging Activities

In March 2008, the FASB issued statement 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" (SFAS 161). This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of derivative instruments and related gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The Company adopted SFAS 161 during the first quarter of 2009 and the adoption did not impact its financial condition, results of operations or cash flow.

From time to time, the Company enters into futures contracts.

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Commodity futures 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's futures and forward contracts are being accounted for as cash flow hedges and are recorded on the balance sheet at fair value. Changes therein 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 are expected to be reclassified to cost of goods sold.

The Company utilizes foreign currency forward contracts to reduce the effects of fluctuations in exchange rates, primarily relating to the Canadian dollar. As of July 4, 2009, the Company had foreign currency forward contracts outstanding with a notional amount of \$21,387 that hedged its exposure to changes in foreign currency exchange rates for

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its costs of manufacturing certain products in Canada for the U.S. market. The fair value of foreign currency forward contracts, using level 1 inputs, resulted in an asset of \$1,916 as of July 4, 2009 which is included in other receivables.

During second quarter and first half ended July 4, 2009, the Company recorded \$1,182 and \$1,607, respectively, of existing net derivative gains into accumulated other comprehensive loss which is a component of shareholders' equity in the statement of financial position. The Company also recognized a gain of \$424 and \$478, related to settlement dates of foreign currency contracts settled during the second quarter and first half of 2009, respectively. At July 4, 2009, the Company expects to reclassify existing net gains of approximately \$779 from accumulated other comprehensive loss to next earnings during the next twelve months.

The Company utilizes commodities futures contracts to mitigate the effect of commodity cost fluctuations on certain ingredients, primarily sugar. As of July 4, 2009, the Company had no outstanding commodities futures contracts.

### Note 7 - New Accounting Pronouncements

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP 142-3 was effective for first quarter 2009. The Company does not expect FSP 142-3 to have a material impact

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on the accounting for future acquisitions or intangible assets, but the potential impact is dependent upon the acquisitions of intangible assets in the future.

In April 2009, the FASB issued FASB Staff Position No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of FSP 157-4 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2). FSP 115-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of FSP 115-2 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements.

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In April 2009, the FASB issued FASB Staff Position No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP 107-1). FSP 107-1 requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim periods ending after June 15, 2009. The Company's adoption of FSP 107-1 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements. See Note 5 to the Condensed Consolidated financial statements.

The Company adopted SFAS No. 165, "Subsequent Events" (SFAS 165), During the second quarter 2009. SFAS 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued. SFAS 165 includes a requirement to disclose the date through which subsequent events were evaluated. See Note 1 to the Condensed Consolidated financial statements.



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Second quarter 2009 net product sales were \$107,812 compared to \$101,591 in second quarter 2008, an increase of \$6,221 or 6.1%. First half 2009 net product sales of \$201,866 increased \$9,934 or 5.2% from first half 2008 net product sales of \$191,932. Second quarter and first half 2009 net product sales benefited from effective marketing programs and selective price increases as well as the timing of certain customer orders shipped in second quarter 2009 which were shipped in third quarter 2008. Consolidated 2009 net product sales advanced despite declines in sales outside of the U.S. reflecting lower foreign sales when translated into a stronger U.S. dollar reporting currency.

As the Company's quarterly financial reporting is based on thirteen week periods, the first quarter as well as the first half of 2009 benefited from three additional shipping days compared to the same periods of the prior year. The number of shipping days in the comparative second quarter 2009 and 2008 periods were identical.

### PRODUCT COST OF GOODS SOLD:

Second Quarter		Percentage of Net Product Sales	
2009	2008	2nd Qtr. 2009	2nd Qtr. 2008
\$68,807	\$68,741	63.8%	67.7%

  

First Half		Percentage of Net Product Sales	
2009	2008	1st Half 2009	1st Half 2008
\$129,526	\$129,370	64.2%	67.4%

Product cost of goods sold as a percentage of net product sales favorably decreased from 67.7% in the second quarter 2008 to 63.8% in second quarter 2009, and from 67.4% in first half 2008 to 64.2% in first half 2009. This favorable cost percentage decrease is primarily the result of selective price increases, lower product costs for products manufactured in Canada due to more favorable foreign exchange rates, and the overall benefits of additional sales and production volumes, including improved plant efficiencies. In addition, the Company's aggregate ingredient and packaging unit costs decreased slightly during second quarter and first half 2009 when compared to the rising commodity cost environment in the prior year comparative periods. As a result of the above discussed factors, product gross margin increased from 32.3% in second quarter 2008 to 36.2% in second quarter 2009 and from 32.6% in first half 2008 to 35.8% in first half 2009, increases of 3.9% and 3.2% as a percentage of net product sales, respectively.

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### SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

Second Quarter		Percentage of Net Product Sales	
2009	2008	2nd Qtr. 2009	2nd Qtr. 2008
\$25,728	\$23,188	23.9%	22.8%

  

First Half		Percentage of Net Product Sales	
2009	2008	1st Half 2009	1st Half 2008
\$47,861	\$43,238	23.7%	22.5%

Second quarter 2009 and 2008 selling, marketing and administrative expenses were \$25,728 and \$23,188, respectively an increase of \$2,540 or 11.0%; and first half 2009 and 2008 selling, marketing and administrative expenses were \$47,861 and \$43,238, respectively an increase of \$4,623 or 10.7%. The aforementioned expenses reflect increases of \$895 and \$2,102 related to deferred compensation expense in second quarter and first half 2009,

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respectively, compared to 2008. Such deferred compensation expense principally results from changes in the market value of trading securities used as an economic hedge of the Company's deferred compensation liabilities as further discussed below. Adjusting for the aforementioned, selling marketing and administrative expenses increased by \$1,645 or 7.1% and \$2,521 or 5.6% in second quarter and first half 2009, respectively, when compared to the corresponding comparative periods.

As a percentage of net product sales, second quarter selling, marketing and administrative expenses were 23.9% and 22.8% in 2009 and 2008, respectively; and first half same expenses as a percent of net product sales were 23.7% and 22.5% in 2009 and 2008, respectively. Adjusting for the above discussed deferred compensation expenses, operating expenses as a percent of sales increased slightly from 22.8% in second quarter 2008 to 23.0% in second quarter 2009; and from 23.3% in first half 2008 to 23.4% in first half 2009.

The above discussed increases in selling, marketing and administrative expenses primarily reflect the related increases in certain variable operating expenses relating to higher net product sales, increases in certain accrued incentive compensation awards that are generally adjusted for changes in net earnings, and an increase in bad debt expense in the comparative quarterly periods. However, selling, marketing and administrative expenses did favorably benefit from lower energy and fuel costs relating to freight and delivery.

Second quarter 2009 and 2008 earnings from operations were \$13,926 and 10,451, respectively; and first half 2009 and 2008 earnings from operations were \$25,889 and 20,923, respectively. Adjusting for the above discussed deferred compensation expenses (including amounts included in product cost of goods sold), second quarter 2009 earnings from operations were \$15,134 compared to \$10,530 in second quarter 2008, an increase of \$4,604 or 43.7%; and first half 2009 earnings from operations were \$26,770 compared to \$19,032 in first half 2009, an increase of \$7,738 or 40.7%. Results for second quarter and first half 2009 were favorably impacted by higher sales and improved gross profit margins as well as other factors discussed above.

### NET EARNINGS:

	Second Quarter		Second Quarter, 2009
	2009	2008	vs.
	\$10,338	\$ 7,246	Second Quarter, 2008
			42.7%
	First Half		First Half, 2009
	2009	2008	vs.
	\$18,658	\$13,699	First Half, 2008
			36.2%

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Other income, net was \$1,821 in second quarter 2009 compared to \$653 in second quarter 2008, a net increase of \$1,168. For first half 2009 other income (expense), net was \$1,441 compared to \$(587) for first half 2008, a net increase of \$2,028. Other income, net includes the changes in the market value in the Company's trading securities which are an economic hedge of the Company's deferred compensation liabilities. The income (expense) on such trading securities was \$1,209 and \$80 in second quarter 2009 and 2008, respectively, and \$883 and \$(1,889) in first half 2009 and 2008, respectively. Such income or (expense) was substantially offset by a like amount of (expense) or income in the aggregate product cost of goods sold and selling marketing and administrative expenses in the respective periods. Other income, net also

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includes decreases in investment income on available for sale securities and cash balances reflecting lower interest rates in the investment markets.

The consolidated effective income tax rate decreased slightly from 34.7% in second quarter 2008 to 34.3% in second quarter 2009, and from 32.6% in first half 2008 to 31.7% in first half 2009. The decrease in the first half effective tax rate reflects lower state income tax expense due to the effective conclusion of an income tax audit in first quarter 2009 and resulting favorable adjustment.

Second quarter 2009 net earnings were \$10,338 compared to second quarter 2008 net earnings of \$7,246, a \$3,092 or 42.7% increase. Second quarter 2009 earnings per share were \$0.18, compared to \$0.13 per share in second quarter 2008, an increase of \$0.05 or 38.5%. First half 2009 net earnings were \$18,658 compared to first half 2008 net earnings of \$13,699, a \$4,959 or 36.2% increase. First half net earnings per share were \$0.33 in 2009 compared to \$0.24 per share in first half 2008, an increase of \$0.09 per share or 37.5%. The Company's earning per share for both second quarter and first half 2009 reflect common stock purchases in the open market resulting in fewer shares outstanding.

### LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 3.3 to 1 as of the end of second quarter 2009 as compared to 2.7 to 1 as of the end of second quarter 2008 and 3.2 to 1 as of the end of fourth quarter 2008. Net working capital was \$124,851 as of the end of second quarter 2009 as compared to \$114,331 and \$128,727 as of the end of second quarter 2008 and fourth quarter 2008, respectively. The aforementioned net working capital amounts include total cash and cash equivalents and short-term investments which aggregated \$49,003 as of the end of second quarter 2009 compared to \$47,029 and \$86,871, as of the end of second quarter 2008 and fourth quarter 2008, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were \$49,488 (includes \$8,410 of Jefferson County auction rate securities discussed in Note 5 to the accompanying Condensed Consolidated Financial Statements) as of the end of second quarter 2009, as compared to \$73,217 and \$49,809 as of the end of second quarter 2008 and fourth quarter 2008, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$98,491, \$120,246 and \$136,680, respectively for second quarter ended 2009, second quarter 2008 and fourth quarter 2008, respectively. Except for the Jefferson County auction rate securities referenced above, investments in municipal bonds and other debt securities that matured during first half 2009 and 2008 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

Net cash used in operating activities was \$3,863 for first half 2009, as compared to \$1,700 for first half 2008. The aforementioned change in net cash used in operating activities principally reflects the timing of payments and cash flows relating to accounts receivable, inventories, accounts payable and

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accrued liabilities partially offset by the \$4,959 improvement in net earnings for the comparative periods. Capital expenditures for first half 2009 and 2008 were \$13,719 and \$9,742, respectively. Capital expenditures for the 2009 year are anticipated to be generally in line with historical annualized spending, and are to be funded from the Company's cash flow from operations and internal sources.



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Cash dividends paid in first half 2009 and 2008 were \$8,878 and \$8,738, respectively.

During first half 2009, the Company also purchased and retired \$13,654 of its shares of common stock compared to \$19,935 during the same period of the previous year.

### NEW ACCOUNTING PRONOUNCEMENTS

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP 142-3 was effective for first quarter 2009. The Company does not expect FSP 142-3 to have a material impact on the accounting for future acquisitions or intangible assets, but the potential impact is dependent upon the acquisitions of intangible assets in the future.

In April 2009, the FASB issued FASB Staff Position No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of FSP 157-4 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2). FSP 115-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of FSP 115-2 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP 107-1). FSP 107-1 requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim periods ending after June 15, 2009. The Company's adoption of FSP 107-1 during second quarter 2009 did not have a material impact on the Company's consolidated financial statements. See Note 5 to the Condensed Consolidated financial statements.

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The Company adopted SFAS No. 165, "Subsequent Events" (SFAS 165), during the second quarter 2009. SFAS 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before

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financial statements are issued. SFAS 165 includes a requirement to disclose the date through which subsequent events were evaluated. See Note 1 to the condensed consolidated financial statements.

### 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 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 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, consumer and competitor response to marketing programs and price and product weight adjustments, and new products; (xi) dependence on significant customers, including volume and timing of their purchases, and availability of shelf space; (xii) increases in energy costs, including freight and delivery, that cannot be passed along to customers through increased prices due to competitive reasons; (xiii) any significant labor stoppages, strikes or production interruptions; (xiv) changes in governmental laws and regulations including taxes and tariffs; (xv) the risk that the market value of Company's investments could decline including being classified as "other than temporary" as defined, and (xvi) the potential effects of the current and future recessionary economic conditions. In addition, the Company's results may be affected by general factors, such as overall economic conditions, financial and securities' market factors, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company in markets where it competes and those factors described in Part 1, Item 1A "Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K and in other Company filings, including quarterly reports on Form 10-Q, with the Securities and Exchange Commission.

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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 input ingredients and packaging and fuel costs. The Company is exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and operating expenses at its Canadian plants. The Company invests in securities with maturities or auction dates of up to three years, the majority of which are held to maturity, which limits the Company's exposure to interest rate fluctuations. There has been no material change in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2008.

### 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 4, 2009 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 4, 2009 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
APR 4 TO MAY 2	NONE	NONE	NOT APPLICABLE	NOT APPLICABLE
MAY 3 TO MAY 30	118,100	\$ 22.85	NOT APPLICABLE	NOT APPLICABLE
MAY 31 TO JUL 4	301,700	22.32	NOT APPLICABLE	NOT APPLICABLE
TOTAL	419,800	\$ 22.47	NOT APPLICABLE	NOT APPLICABLE

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

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

At the Annual Meeting of Shareholders of the Company, held on May 4, 2009, the following number of votes were cast for the matters indicated:

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

Nominee	For	Withheld	Abstain	Broker Non-Vote
Melvin J. Gordon	219,677,596	5,534,224	-0-	-0-
Ellen R. Gordon	219,762,186	5,449,634	-0-	-0-
Lana Jane Lewis-Brent	220,596,207	4,615,613	-0-	-0-
Barre A. Siebert	221,610,127	3,601,693	-0-	-0-
Richard P. Bergeman	220,615,158	4,596,662	-0-	-0-

- Proposal to ratify the appointment of PricewaterhouseCoopers LLP as auditors for the fiscal year 2009:

	For	Withheld	Against	Broker Non-Vote
Common Shares and Class B				

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Common Shares voting together 223,007,018 -0- 2,121,267 -0-

No other matters were submitted to a vote by ballot at the 2009 Annual Meeting.

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Item 6. EXHIBITS

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOOTSIE ROLL INDUSTRIES, INC.

Date: Aug. 13, 2009

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

Date: Aug. 13, 2009

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

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Exhibit 31.1

CERTIFICATION

I, Melvin J. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the

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financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: Aug. 13, 2009

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

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Exhibit 31.2

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### CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Aug. 13, 2009



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

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Exhibit 32

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

Each of the undersigned officers of Tootsie Roll Industries, Inc. Certifies that (i) the Quarterly Report on Form 10-Q of Tootsie Roll Industries, Inc. for the quarterly period ended July 4, 2009 (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: Aug. 13, 2009

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

Dated: Aug. 13, 2009

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

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