TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
November 09, 2006

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 SEPTEMBER 30, 2006

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 X No ___

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

Large accelerated filer X Accelerated filer _ Non-accelerated filer __

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

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 (October 6, 2006)

Class Outstanding

Common Stock, $.69 4/9 par value	35,351,129
Class B Common Stock, $.69 4/9 par value	18,402,511

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

SEPTEMBER 30, 2006

INDEX

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	Sep. 30,	Oct. 01,	Dec. 31,

CURRENT ASSETS	2006	2005	2005
Cash & cash equivalents	$ 13,176	$ 32,361	$ 69,006
Restricted cash	-	-	22,330
Investments	32,364	46,027	54,892
Trade accounts receivable,			
Less allowances of			
$3,548, $3,528 & $2,255	90,780	87,078	30,856
Other receivables	1,875	1,666	2,768
Inventories			
Finished goods & work in process	47,937	45,069	34,311
Raw material & supplies	23,044	21,086	20,721
Prepaid expenses	3,349	3,754	5,840
Deferred income taxes	6,374	1,410	5,872
Total current assets	218,899	238,451	246,596
PROPERTY, PLANT & EQUIPMENT, at cost			
Land	19,401	14,991	14,857
Buildings	84,241	61,776	63,544
Machinery & equipment	257,580	255,713	250,841
	361,222	332,480	329,242
Less-accumulated depreciation	160,472	152,208	150,482
Net property, plant and equipment	200,750	180,272	178,760
OTHER ASSETS			
Goodwill	74,194	74,619	74,194
Trademarks	189,024	193,342	189,024
Investments	42,234	65,265	44,851
Split dollar life insurance	72,857	69,528	69,772
Investment in joint venture	11,168	11,041	10,499
	389,477	413,795	388,340
Total assets	$809,126	$832,518	$813,696

-2-

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

(in thousands except per share data) (UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES	Sep. 30, 2006	Oct. 01, 2005	Dec. 31, 2005
Bank loan	$ -	$ 60,000	$ 32,001
Accounts payable	20,359	17,546	17,482
Dividends payable	4,300	3,751	4,263

Accrued liabilities	52,096	52,603	44,969
Income taxes payable	17,443	17,159	14,941
Total current liabilities	94,198	151,059	113,656
NON-CURRENT LIABILITIES			
Deferred income taxes	38,086	25,974	32,088
Postretirement health care and life insurance benefits	11,114	10,579	10,783
Industrial development bonds	7,500	7,500	7,500
Deferred compensation and other liabilities	33,371	31,488	32,264
Total non-current liabilities	90,071	75,541	82,635
Total liabilities	184,269	226,600	196,291
SHAREHOLDERS' EQUITY			
Common Stock, $.69-4/9 par value- 120,000 shares authorized; 35,360, 35,574 & 35,255 respectively, issued	24,555	24,704	24,483
Class B common stock, $.69-4/9 par value- 40,000 shares authorized; 18,414, 18,006 & 18,000, respectively, issued	12,788	12,504	12,500
Capital in excess of par value	439,232	435,675	426,125
Retained earnings	161,856	145,169	164,236
Accumulated other comprehensive loss	(11,582)	(10,142)	(7,947)
Treasury stock (at cost)- 61, 60 & 60 shares, respectively	(1,992)	(1,992)	(1,992)
Total shareholders' equity	624,857	605,918	617,405
Total liabilities and shareholders' equity	$809,126	$832,518	$813,696

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

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS
(in thousands except per share amounts) (UNAUDITED)

	13 WEEKS ENDED Sep. 30, 2006	& Oct. 1, 2005
Net sales	$186,403	$173,692
Cost of goods sold	116,173	106,197

Gross margin	70,230	67,495
Selling, marketing and administrative expenses	29,926	28,507
Earnings from operations	40,304	38,988
Other income, net	1,890	1,543
Earnings before income taxes	42,194	40,531
Provision for income taxes	13,225	12,866
Net earnings	28,969	27,665
Other comprehensive income, before tax:		
Foreign currency translation adjustments	317	195
Unrealized gains on securities	290	54
Unrealized gains (losses) on derivatives	(2,009)	529
Other comprehensive income (loss), before tax	(1,402)	778
Income tax benefit (expense) related to items of other comprehensive income	635	(215)
Other comprehensive income (loss), net of tax	(767)	563
Comprehensive earnings	$ 28,202	$ 28,228
Retained earnings at beginning of period	$137,182	$121,251
Net earnings	28,969	27,665
Cash dividends	(4,295)	(3,747)
Retained earnings at end of period	$161,856	$145,169
Net earnings per share	$0.54	$0.50
Dividends per share *	$0.08	$0.07
Average number of shares outstanding	54,024	55,105

*Does not include 3% stock dividend to shareholders of record on 3/10/06 and 3/11/05.

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

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS
(in thousands except per share amounts) (UNAUDITED)
39 WEEKS ENDED
Sep. 30, 2006 & Oct. 1, 2005

Net sales	$385,169	$375,244
Cost of goods sold	237,489	226,559
Gross margin	147,680	148,685
Selling, marketing and administrative expenses	75,353	73 617
Earnings from operations	72,327	75,068
Other income, net	6,279	3,934
Earnings before income taxes	78,606	79,002
Provision for income taxes	24,417	25,100
Net earnings	54,189	53,902
Other comprehensive income, before tax:		
Foreign currency translation adjustments	(381)	806
Unrealized losses on securities	(450)	(152)
Unrealized gains (losses) on derivatives	(4,713)	124
Other comprehensive income (loss), before tax	(5,544)	778
Income tax benefit related to items of other comprehensive income	1,909	11
Other comprehensive income (loss), net of tax	(3,635)	789
Comprehensive earnings	$ 50,554	$ 54,691
Retained earnings at beginning of period	$164,236	$149,055
Net earnings	54,189	53,902
Cash dividends	(12,875)	(11,148)
Stock dividends - 3%	(43,694)	(46,640)
Retained earnings at end of period	$161,856	$145,169
Net earnings per share	$1.00	$0.98
Dividends per share *	$0.24	$0.21
Average number of shares outstanding	54,346	55,184

*Does not include 3% stock dividend to shareholders of record on 3/10/06 and 3/11/05.

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

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

	39 WEEKS ENDED	
	Sep. 30, 2006 &	Oct. 1, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 54,189	$ 53,902
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,557	10,860
Amortization of marketable securities	762	1,332
Purchase of trading securities	(1,994)	(1,770)
Sales of trading securities	1,473	706
Changes in operating assets and liabilities:		
Accounts receivable	(60,082)	(58,359)
Other receivables	(2,076)	658
Inventories	(16,045)	(7,219)
Prepaid expenses and other assets	(1,282)	(2,862)
Accounts payable and accrued liabilities	10,123	5,964
Income taxes payable and deferred	8,124	8,930
Postretirement health care and life insurance benefits	331	504
Deferred compensation and other liabilities	(103)	914
Other	(3)	164
Net cash provided by operating activities	4,974	13,724
CASH FLOWS FROM INVESTING ACTIVITIES:		
Working capital adjustment from acquisition	-	6,755
Capital expenditures	(33,702)	(12,097)
Decrease in restricted cash	22,330	-
Purchase of available for sale securities	(9,539)	(15,086)
Sale and maturity of available for sale securities	35,173	32,936
Net cash provided by (used in) investing activities	14,262	(12,508)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank loan	-	6,400
Repayment of bank loan	(32,001)	(38,400)
Dividends paid in cash	(12,969)	(11,386)
Shares repurchased and retired	(30,096)	(7,474)
Net cash used in financing activities	(75,066)	(50,860)
Decrease in cash and cash equivalents	(55,830)	(24,628)
Cash and cash equivalents at the beginning of year	69,006	56,989
Cash and cash equivalents at the end of quarter	$ 13,176	$ 32,361
Supplemental cash flow information:		
Income taxes paid	$ 13,339	$ 17,044
Interest paid	$ 665	$ 1,961
Stock dividend issued	$ 43,563	$ 46,311

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

TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's 2005 Annual Report on Form 10-K.

Note 2 - Average shares outstanding for the 39 week period ended September 30, 2006 reflects stock repurchases of 1,068 shares for $30,096 and a 3% stock dividend distributed on April 13, 2006. Average shares outstanding for the 39 week period ended October 1, 2005 reflects stock repurchases of 252 shares for $7,474 and a 3% stock dividend distributed on April 14, 2005.

Note 3 - Results of operations for the period ended September 30, 2006 are not necessarily indicative of results to be expected for the year ending December 31, 2006 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to Halloween sales.

Note 4 - The bank loan, a demand note issued in December 2005, was fully repaid in May 2006.

Note 5 - Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact of FIN 48 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006. The Company is currently assessing the impact of SFAS No. 158 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement." SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Company is currently assessing the impact of SAB 108 and has not made a final determination of its effects on the Company's financial statements.

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

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

NET SALES:

Third Quarter 2006	Third Quarter 2005	Net change in Third Quarter, 2006 vs. Third Quarter, 2005
$186,403	$173,692	7.3%

Nine Months 2006	Nine Months 2005	Nine Months, 2006 vs. Nine Months, 2005
$385,169	$375,244	2.6%

Third quarter 2006 net sales were $186,403 compared to $173,692 in third quarter 2005, an increase of $12,711 or 7.3%. Nine months 2006 net sales of $385,169 increased $9,925 or 2.6% from nine months 2005 net sales of $375,244. Record third quarter sales were achieved as a result of successful marketing programs, including those related to "back-to-school" and Halloween, as well as line extensions and new products. Record third quarter sales also propelled the Company to record nine months sales, and overcame a first half that was behind the corresponding period in the prior year. First half 2006 sales were affected by a number of factors including some transitional disruption of sales as a result of package size, weight and price changes, inventory adjustments made by certain national account customers, the timing of shipments in the comparative periods, and a late Easter which adversely impacted the Company's spring-summer promotion by shortening the 2006 sales promotion period compared to the prior year.

The conclusion, during second quarter 2006, of a contract acquired in the Concord Confections acquisition in 2004 to manufacture product under a private label for a third party resulted in a sales decline of approximately $2,700 in the third quarter 2006 and approximately $5,600 in the nine months 2006 compared to the corresponding periods in 2005. As previously disclosed in our Form 10-K for the year ended December 31, 2005, such contract manufacturing sales aggregated 2% of annual net sales in 2005.

COST OF SALES:

Third Quarter		Cost of Sales as a Percentage of Net Sales	
2006	2005	3rd Qtr. 2006	3rd Qtr. 2005
$116,173	$106,197	62.3%	61.1%

Nine Months		Cost of Sales as a Percentage of Net Sales	

2006	2005	Nine Months 2006	Nine Months 2005
$237,489	$226,559	61.7%	60.4%

Cost of sales as a percentage of net sales increased from 61.1% in the third quarter 2005 to 62.3% in third quarter 2006, and from 60.4% in nine months 2005 to 61.7% in nine months 2006. These increases in cost of sales as a percentage of net sales are principally the result of higher input costs relating to major ingredients, energy, including natural gas, higher plant repair and maintenance expenses, and higher costs for products manufactured in Canada due to a strengthening of the Canadian dollar relative to the U.S. dollar. In addition, higher costs for labor and fringe benefits, including health insurance, as well as generally higher plant overhead costs, also contributed to the increase in cost of sales as a percentage of sales for the third quarter and nine months 2006 periods.

The Company anticipates additional cost increases in 2007 in many commodities and packaging materials widely used in the confectionary industry, including sugar, corn syrup, dextrose, and gum base ingredients. The Company is currently studying the effects of these cost increases and how they can be mitigated.

SELLING, MARKETING AND ADMINISTRATIVE EXPENSES:

Third Quarter		Percentage of Net Sales	
2006	2005	3rd Qtr. 2006	3rd Qtr. 2005
$29,926	$28,507	16.1%	16.4%

Nine Months		Percentage of Net Sales	
2006	2005	9 Months 2006	9 Months 2005
$75,353	$73,617	19.6%	19.6%

Third quarter 2006 selling, marketing and administrative expenses were $29,926 compared to $28,507 in third quarter 2005, an increase of $1,419 or 5.0%. In the comparative nine months periods, these expenses rose from $73,617 in 2005 to $75,353 in 2006, an increase of $1,736 or 2.4%. These increases principally reflect the added expenses associated with increased sales combined with higher freight and delivery expenses, including higher fuel surcharges from carriers, and additional marketing expenses associated with the transition to new pack sizes and government mandated labeling changes.

As a percentage of sales, selling, marketing and administrative expenses favorably decreased from 16.4% of sales in third quarter 2005 to 16.1% in 2006, and was unchanged at 19.6% of sales in nine months 2005 and 2006. The aforementioned favorable results generally reflect the Company's cost containment initiatives as well as the benefits of higher sales against certain expenses that are generally not variable with sales.

Third quarter 2006 earnings from operations were $40,304 compared to $38,988 in third quarter 2005, an increase of $1,316 or 3.4%. Improved operating earnings in third quarter 2006 principally resulted from higher reported sales and the benefits of programs implemented by the Company, including price increases and cost reduction initiatives, with the objective to recover higher input costs.

Nine months 2006 earnings from operations were $72,327 compared to $75,068, a decrease of $2,741 or 3.7%. The benefits of higher nine month 2006 sales were mitigated by those adverse factors that affected cost of sales as discussed above, principally higher input costs, and the effects of phasing in marketing programs, including price increases, with the objective to recover increases in costs and expenses.

NET EARNINGS:

Third Quarter 2006	Third Quarter 2005	Third Quarter, 2006 vs. Third Quarter, 2005
$28,969	$27,665	4.7%

Nine Months 2006	Nine Months 2005	Nine Months, 2006 vs. Nine Months, 2005
$54,189	$53,902	0.5%

Third quarter 2006 net earnings were $28,969 compared to third quarter 2005 net earnings of $27,665, a $1,304 or 4.7% increase. Third quarter 2006 earnings per share were $0.54, compared to $0.50 per share in the prior year comparative period, an increase of $0.04 or 8.0%.

Nine months 2006 net earnings were $54,189 compared to nine months 2005 net earnings of $53,902. Nine months net earnings per share were $1.00 in 2006 compared to $0.98 per share in 2005, an increase of $0.02 per share or 2.0%.

Other income, net was $1,890 in third quarter 2006 compared to $1,543 in third quarter 2005, an increase of $347. The aforementioned increase is primarily the result of decreased interest expense of $642 partially offset by decreased investment income of $257. Other income, net was $6,279 in nine months 2006 compared to $3,934 in nine months 2005, an increase of $2,345. Nine months 2006 other income net reflects $1,332 of decreased interest expense combined with $486 of increased royalty income and a $739 capital gain on the sale of marketable securities. The decreased interest expense in both third quarter and nine months 2006 reflects the continuous reduction in bank loans during 2005 and 2006.

The consolidated effective income tax rate favorably decreased to 31.3% in both the third quarter and nine months 2006 from 31.8% in the third quarter 2005 and 32.1% in nine months 2005. This improvement principally reflects lower effective rates on foreign taxes.

In addition to the factors discussed above, earnings per share benefited from fewer shares outstanding as a result of the Company's common stock share repurchases in the open market in 2005 and 2006, and resulting fewer shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's current ratio (current assets divided by current liabilities) was 2.3 to 1 as of the end of third quarter 2006 as compared to 1.6 to 1 as of the end of third quarter 2005 and 2.2 to 1 as of the end of fourth quarter 2005. Net working capital was $124,701 as of the end of third quarter 2006 as compared to $132,940 and $87,392 as of the end of fourth quarter 2005 and third quarter 2005, respectively. The aforementioned net working capital amounts include aggregate cash and cash equivalents and short-term investments less short-term bank loans which aggregated $45,540 as of the end of third quarter 2006 compared to $91,897 and $18,388, as of the end of fourth quarter 2005 and third quarter 2005, respectively. In addition, long-term investments, principally debt securities comprising municipal bonds, were $42,234 as of the end of third quarter 2006 as compared to $44,851 and $65,265 as of the end of fourth quarter 2005 and third quarter 2005, respectively. Investments in municipal bonds and other debt securities that matured during nine months 2006 and 2005 were generally used to pay down bank loans or replaced with debt securities of similar maturities.

-6B-

The Company fully repaid its short-term bank loans in second quarter 2006. The balances of these bank loans as of the end of fourth quarter 2005 and third quarter 2005, were $32,001 and $60,000, respectively. These bank loans were paid down through a combination of cash flows provided by operating activities and investment maturities.

Net cash provided by operating activities was $4,974 for nine months 2006, compared to $13,724 in nine months 2005. The aforementioned change in net cash provided by operating activities principally reflects increases in accounts receivable, other receivables and inventories which were partially offset by increases in accounts payable and accrued liabilities.

Capital expenditures for nine months 2006 and 2005 were $33,702 and $12,097, respectively. Nine months 2006 capital expenditures reflect $25,241 of investments in rental income producing real estate which was funded from the Company's restricted cash. Excluding the reinvestment of restricted cash, capital expenditures for the 2006 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.

All of the $22,330 in proceeds from the sale of surplus real estate during 2005 and held as restricted cash as of December 31, 2005, was reinvested in "like kind" real estate during first half 2006 in compliance with U.S. Internal Revenue Code Section 1031. During first half 2006 the Company also reclassified approximately $7,600 of current income taxes payable to deferred income taxes, all of which relates to the aforementioned Section 1031 reinvestment gain.

Cash dividends paid in nine months 2006 and 2005 were $12,969 and $11,386, respectively. The Company also repurchased and retired $30,096 and $7,474 of its shares outstanding during nine months 2006 and 2005, respectively.

RECENT ACCOUNTING PRONOUNCMENTS

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The

Company is currently assessing the impact of FIN 48 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006. The Company is currently assessing the impact of SFAS No. 158 and has not yet made any determination as to the effects, if any, that it may have on the Company's financial position and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement." SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Company is currently assessing the impact of SAB 108 and has not made a final determination of its effects on the Company's financial statements.

This discussion and certain other sections of this Form 10-Q contain forward-looking statements that are based largely on the Company's current expectations and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. Such risks, trends and uncertainties, which in some instances are beyond the Company's control, include changes in demand and consumer preferences, including seasonal events such as Halloween; the effect of changes in commodity prices and ingredient costs; the effect of changes in foreign currencies on the Company's foreign subsidiaries and resulting effects on costs relating to foreign products principally marketed and sold in the USA; the

Company's reliance on third-party vendors, including foreign supplies for various goods and services; the Company's ability to successfully implement new production processes and automated production lines; the effect of acquisitions on the Company's results of operations and financial condition including the effect of changes in assumptions such as discount rates and profit margins, relating to the Company's impairment testing and analysis of its goodwill and trademarks; changes in the confectionary market place including actions taken by major retailers and customers; customer and consumer response to marketing programs, changes in pack size and weights, and price adjustments; changes in governmental laws and regulations; changes in domestic and foreign taxes laws as well as the Company's ability to utilize deferred tax assets relating to foreign tax loss and credit carry-forwards; the overall competitive environment in the Company's industry; changes in assumptions and judgments discussed under the heading "Critical Accounting Policies" of the Company included in the 2005 Annual Report and Form 10-K; and the effects of new accounting pronouncements, discussed above. The words "believe," "expect," "anticipate," "estimate," "intend" and similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are as of the date of this filing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

The Company is exposed to various market risks, including fluctuations in sugar, corn syrup, edible oils, cocoa, dextrose, gum base ingredients and packaging costs. The Company is also exposed to exchange rate fluctuations in the Canadian dollar which is the currency used for a portion of the raw material and packaging material costs and operating expenses at its Canadian plants. The Company invests in securities with maturities of up to three years, the majority of which are held to maturity, which limits the Company's exposure to interest rate fluctuations. 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, 2005.

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 September 30, 2006 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 September 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-6E-

PART II - OTHER INFORMATION

TOOTSIE ROLL INDUSTRIES, INC.
AND SUBSIDIARIES

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

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans Or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
JUL 2 TO JUL 29	8,100	$ 27.67	NOT APPLICABLE	NOT APPLICABLE
JUL 30 TO AUG 26	267,400	26.96	NOT APPLICABLE	NOT APPLICABLE
AUG 27 TO SEP 30	234,800	28.72	NOT APPLICABLE	NOT APPLICABLE
TOTAL	510,300	$ 27.78		

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

Item 6. EXHIBITS

Exhibits 31.1 and 31.2 - Certifications Pursuant to Section

302 of the Sarbanes-Oxley Act of 2002.

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

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: Nov. 9, 2006 BY:/S/MELVIN J. GORDON
Melvin J. Gordon
Chairman of the Board

Date: Nov. 9, 2006 BY:/S/G. HOWARD EMBER, JR.
G. Howard Ember, Jr.
Vice President Finance

-7-

Exhibit 31.1

CERTIFICATION

I, Melvin J. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc,;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

b) designed such disclosure controls 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: Nov. 9, 2006

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

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc,;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the 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 disclosure controls 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: Nov. 9, 2006

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

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 September 30, 2006 (the Form 10-Q) fully complies with the requirements of secton 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: Nov. 9, 2006	/S/MELVIN J. GORDON Melvin J. Gordon Chairman and Chief Executive Officer
Dated: Nov. 9, 2006	/S/G. HOWARD EMBER, JR. G. Howard Ember, Jr. V.P. Finance and Chief Financial Officer