

TOOTSIE ROLL INDUSTRIES INC

Form 10-Q

November 10, 2011

[Table of Contents](#)

**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 October 1, 2011

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)

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

**VIRGINIA**  
(State of Incorporation)

**22-1318955**  
(I.R.S. Employer Identification No.)

**7401 South Cicero Avenue, Chicago, Illinois**  
(Address of Principal Executive Offices)

**60629**  
(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) Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (October 1, 2011).

Class	Outstanding
Common Stock, \$.69 4/9 par value	36,807,153
Class B Common Stock, \$.69 4/9 par value	21,032,365

Table of Contents

**TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES**

**OCTOBER 1, 2011**

**INDEX**

	<b>Page No.</b>	
<b><u>Part I</u></b>	<b><u>Financial Information</u></b>	
<b><u>Item 1.</u></b>	<b><u>Financial Statements:</u></b>	
	<b><u>Condensed Consolidated Statements of Financial Position</u></b>	<b>3-4</b>
	<b><u>Condensed Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings</u></b>	<b>5-6</b>
	<b><u>Condensed Consolidated Statements of Cash Flows</u></b>	<b>7</b>
	<b><u>Notes to Condensed Consolidated Financial Statements</u></b>	<b>8-13</b>
<b><u>Item 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>14-18</b>
<b><u>Item 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>18</b>
<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>	<b>18</b>
<b><u>Part II</u></b>	<b><u>Other Information</u></b>	
<b><u>Item 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>19</b>
<b><u>Item 6.</u></b>	<b><u>Exhibits</u></b>	<b>19</b>
<b>Signatures</b>		<b>19</b>
<b>Certifications</b>		<b>20-22</b>

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

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

	October 1, 2011 (Unaudited)	December 31, 2010	October 2, 2010 (Unaudited)
<b>ASSETS</b>			
<b><u>CURRENT ASSETS</u></b>			
Cash & cash equivalents	\$ 25,690	\$ 115,976	\$ 58,862
Investments	9,440	7,996	8,841
Trade accounts receivable, Less allowances of \$2,621, \$1,531 & \$2,949	96,743	37,394	100,602
Other receivables	4,386	9,961	4,999
Inventories, at cost			
Finished goods & work in process	52,174	36,935	43,835
Raw material & supplies	30,835	22,141	31,061
Prepaid expenses	4,516	6,499	4,780
Deferred income taxes	621	689	1,237
<b>Total current assets</b>	<b>224,405</b>	<b>237,591</b>	<b>254,217</b>
<b><u>PROPERTY, PLANT &amp; EQUIPMENT, at cost</u></b>			
Land	21,542	21,619	21,605
Buildings	102,798	102,934	102,419
Machinery & equipment	305,582	307,178	298,102
Construction in progress	21,831	9,243	15,237
	451,753	440,974	437,363
Less-accumulated depreciation	238,395	225,482	220,923
<b>Net property, plant and equipment</b>	<b>213,358</b>	<b>215,492</b>	<b>216,440</b>
<b><u>OTHER ASSETS</u></b>			
Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	98,523	64,461	60,480
Split dollar life insurance	74,429	74,441	74,627
Prepaid expenses	4,029	6,680	7,534
Investment in joint venture	4,325	4,254	3,522
Deferred income taxes	8,291	9,203	10,476
<b>Total other assets</b>	<b>437,858</b>	<b>407,300</b>	<b>404,900</b>
<b>Total assets</b>	<b>\$ 875,621</b>	<b>\$ 860,383</b>	<b>\$ 875,557</b>

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

Table of Contents

(in thousands except per share data)

	October 1, 2011 (Unaudited)	December 31, 2010	October 2, 2010 (Unaudited)
<b><u>LIABILITIES AND SHAREHOLDERS EQUITY CURRENT</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 17,421	\$ 9,791	\$ 17,553
Dividends payable	4,627	4,529	4,554
Accrued liabilities	47,773	44,185	49,552
Income taxes payable	3,661		5,074
<b>Total current liabilities</b>	<b>73,482</b>	<b>58,505</b>	<b>76,733</b>
<b><u>NONCURRENT LIABILITIES</u></b>			
Deferred income taxes	46,560	48,743	42,734
Postretirement health care and life insurance benefits	22,256	20,689	17,837
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	9,560	9,835	16,183
Deferred compensation and other liabilities	45,110	46,157	42,470
<b>Total noncurrent liabilities</b>	<b>130,986</b>	<b>132,924</b>	<b>126,724</b>
<b><u>SHAREHOLDERS EQUITY</u></b>			
Common Stock, \$.69-4/9 par value- 120,000 shares authorized; 36,807, 36,057 & 36,459, respectively, issued	25,560	25,040	25,319
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 21,032, 20,466 & 20,476, respectively, issued	14,606	14,212	14,219
Capital in excess of par value	541,362	505,495	516,369
Retained earnings	108,977	137,412	132,356
Accumulated other comprehensive loss	(17,360)	(11,213)	(14,171)
Treasury stock (at cost)- 71, 69 & 69 shares, respectively	(1,992)	(1,992)	(1,992)
<b>Total shareholders equity</b>	<b>671,153</b>	<b>668,954</b>	<b>672,100</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 875,621</b>	<b>\$ 860,383</b>	<b>\$ 875,557</b>

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

Table of Contents

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

	Quarter Ended	
	October 1, 2011	October 2, 2010
Net product sales	\$ 186,784	\$ 191,045
Rental and royalty revenue	1,072	1,080
<b>Total revenue</b>	<b>187,856</b>	<b>192,125</b>
Product cost of goods sold	133,041	129,021
Rental and royalty cost	264	274
<b>Total costs</b>	<b>133,305</b>	<b>129,295</b>
Product gross margin	53,743	62,024
Rental and royalty gross margin	808	806
<b>Total gross margin</b>	<b>54,551</b>	<b>62,830</b>
Selling, marketing and administrative expenses	25,425	31,242
Earnings from operations	29,126	31,588
Other income (expense), net	(3,777)	4,618
Earnings before income taxes	25,349	36,206
Provision for income taxes	7,011	9,722
Net earnings	18,338	26,484
<b>Other comprehensive income (loss):</b>		
Foreign currency translation adjustments	(3,554)	183
Unrealized losses on securities	(68)	(2,322)
Unrealized gains on derivatives	314	4,451
Reclassification of realized gains on derivatives to net earnings	(1,551)	(906)
Other comprehensive income (loss), before tax	(4,859)	1,406
Income tax (expense) benefit related to items of other comprehensive income	599	(388)
Other comprehensive income (loss), net of tax	(4,260)	1,018
<b>Comprehensive earnings</b>	<b>\$ 14,078</b>	<b>\$ 27,502</b>

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

<b>Retained earnings at beginning of period</b>	<b>\$ 95,261</b>	<b>\$ 110,420</b>
<b>Net earnings</b>	<b>18,338</b>	<b>26,484</b>
<b>Cash dividends</b>	<b>(4,622)</b>	<b>(4,548)</b>
<b>Retained earnings at end of period</b>	<b>\$ 108,977</b>	<b>\$ 132,356</b>
<b>Net earnings per share</b>	<b>\$ 0.32</b>	<b>\$ 0.45</b>
<b>Dividends per share *</b>	<b>\$ 0.08</b>	<b>\$ 0.08</b>
<b>Average number of shares outstanding</b>	<b>57,822</b>	<b>58,596</b>

---

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

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



Table of Contents

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

	Year to Date Ended	
	October 1, 2011	October 2, 2010
Net product sales	\$ 399,991	\$ 399,315
Rental and royalty revenue	3,080	3,206
<b>Total revenue</b>	<b>403,071</b>	<b>402,521</b>
Product cost of goods sold	278,572	266,504
Rental and royalty cost	772	823
<b>Total costs</b>	<b>279,344</b>	<b>267,327</b>
<b>Product gross margin</b>	<b>121,419</b>	<b>132,811</b>
<b>Rental and royalty gross margin</b>	<b>2,308</b>	<b>2,383</b>
<b>Total gross margin</b>	<b>123,727</b>	<b>135,194</b>
Selling, marketing and administrative expenses	77,560	79,112
<b>Earnings from operations</b>	<b>46,167</b>	<b>56,082</b>
Other income, net	216	5,976
<b>Earnings before income taxes</b>	<b>46,383</b>	<b>62,058</b>
<b>Provision for income taxes</b>	<b>13,880</b>	<b>17,923</b>
<b>Net earnings</b>	<b>32,503</b>	<b>44,135</b>
<b>Other comprehensive income (loss):</b>		
Foreign currency translation adjustments	(2,104)	(402)
Unrealized gains (losses) on securities	1,708	(1,810)
Unrealized gains (losses) on derivatives	(545)	1,449
Reclassification of gains on derivatives to net earnings	(7,552)	(2,443)
<b>Other comprehensive loss, before tax</b>	<b>(8,493)</b>	<b>(3,206)</b>
<b>Income tax benefit related to items of other comprehensive income</b>	<b>2,346</b>	<b>1,432</b>
<b>Other comprehensive loss, net of tax</b>	<b>(6,147)</b>	<b>(1,774)</b>
<b>Comprehensive earnings</b>	<b>\$ 26,356</b>	<b>\$ 42,361</b>

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

<b>Retained earnings at beginning of period</b>	<b>\$</b>	<b>137,412</b>	<b>\$</b>	<b>148,582</b>
<b>Net earnings</b>		<b>32,503</b>		<b>44,135</b>
<b>Cash dividends</b>		<b>(13,763)</b>		<b>(13,556)</b>
<b>Stock dividends 3%</b>		<b>(47,175)</b>		<b>(46,805)</b>
<b>Retained earnings at end of period</b>	<b>\$</b>	<b>108,977</b>	<b>\$</b>	<b>132,356</b>
<b>Net earnings per share</b>	<b>\$</b>	<b>0.56</b>	<b>\$</b>	<b>0.75</b>
<b>Dividends per share *</b>	<b>\$</b>	<b>0.24</b>	<b>\$</b>	<b>0.24</b>
<b>Average number of shares outstanding</b>		<b>57,978</b>		<b>58,795</b>

---

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

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

Table of Contents

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

	Year to Date Ended	
	October 1, 2011	October 2, 2010
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net earnings	\$ 32,503	\$ 44,135
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	14,465	13,802
(Gain) loss from equity method investment	(24)	372
Amortization of marketable securities	893	367
Changes in operating assets and liabilities:		
Accounts receivable	(60,001)	(62,889)
Other receivables	2,692	1,027
Inventories	(24,544)	(18,333)
Prepaid expenses and other assets	4,571	4,356
Accounts payable and accrued liabilities	11,609	15,389
Income taxes payable and deferred	(809)	5,061
Postretirement health care and life insurance benefits	1,567	1,163
Deferred compensation and other liabilities	1,447	1,388
Other	(789)	206
Net cash from (used in) operating activities	(16,420)	6,044
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Capital expenditures	(12,677)	(9,389)
Net purchases of trading securities	(2,967)	(2,699)
Purchase of available for sale securities	(38,722)	(5,283)
Sale and maturity of available for sale securities	4,559	4,503
Net cash used in investing activities	(49,807)	(12,868)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Dividends paid in cash	(13,788)	(13,583)
Shares purchased and retired	(10,271)	(11,721)
Net cash used in financing activities	(24,059)	(25,304)
Decrease in cash and cash equivalents	(90,286)	(32,128)
Cash and cash equivalents at beginning of year	115,976	90,990
Cash and cash equivalents at end of quarter	\$ 25,690	\$ 58,862
<b>Supplemental cash flow information:</b>		
Income taxes paid, net	\$ 9,385	\$ 12,581
Interest paid	\$ 33	\$ 129
Stock dividend issued	\$ 47,053	\$ 46,682

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

Table of Contents

**TOOTSIE ROLL INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 1, 2011**  
**(in thousands except per share amounts) (UNAUDITED)**

**Note 1 Significant Accounting Policies**

**General Information**

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

Results of operations for the period ended October 1, 2011 are not necessarily indicative of results to be expected for the year to end December 31, 2011 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to Halloween sales.

**Revision**

During 2010, the Company identified certain liabilities for uncertain tax positions that should not have been recorded based on a reevaluation of the related facts. Management has concluded that the effects of the correcting adjustments were not material to the Company's previously issued quarterly and annual financial statements. The Company has revised the previously issued financial statements in this quarterly report and will do so in future filings. The revised financial statements reflect an increase in retained earnings at the beginning of the quarter and year 2010 of \$2,749 and \$2,654, respectively. The revised financial statements also reflect changes to the provision for income tax expense which resulted in a decrease in net earnings for the third quarter and year to date 2010 of \$867 and \$772, respectively.

**Accounting Pronouncements**

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

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

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

**In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, Testing Goodwill for Impairment.** The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. An entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company currently believes there will be no impact on its consolidated financial statements.

**In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-09, Compensation-Retirement Benefits-Multiemployer Plans** which amends the guidance in ASC 715-80. The amendments in ASU 2011-09 provide additional disclosure requirements for entities which participate in multi-employer pension plans. The purpose of the new disclosures is to provide financial statement users with information about an employer's level of

Table of Contents

participation in and the financial health of significant plans. The new disclosures are effective for annual periods ending after December 15, 2011. There will be no impact on the Company's consolidated financial statements as the changes relate only to additional disclosures.

**Note 2 Average Shares Outstanding**

Average shares outstanding for the nine months ended October 1, 2011 reflect stock purchases of 373 shares for \$10,271 and a 3% stock dividend distributed on April 7, 2011. Average shares outstanding for the nine months ended October 2, 2010 reflect stock purchases of 454 shares for \$11,721 and a 3% stock dividend distributed on April 8, 2010.

**Note 3 Income Taxes**

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2008 through 2010. Certain foreign jurisdictions are subject to examinations for the years 2004 through 2010.

**Note 4 Fair Value Measurements**

Current accounting guidance defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Guidance requires disclosure of the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Guidance establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the table below.

As of October 1, 2011, December 31, 2010 and October 2, 2010, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase of certain raw materials, investments in trading securities and available for sale securities, including auction rate securities (ARS). The Company's available for sale and trading securities principally consist of municipal bonds and mutual funds that are publicly traded.

The following table presents information about the Company's financial assets and liabilities measured at fair value as of October 1, 2011, December 31, 2010 and October 2, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

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

	Total Fair Value	Estimated Fair Value October 1, 2011 Input Levels Used		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 25,690	\$ 25,690	\$	\$
ARS	8,130			8,130
Available-for-sale securities excluding ARS	60,802		60,802	
Foreign currency forward contracts	(108)		(108)	
Commodity futures contracts	345	345		
Commodity options contracts				
Trading securities	39,031	39,031		
Total assets measured at fair value	\$ 133,890	\$ 65,066	\$ 60,694	\$ 8,130



Table of Contents

	Estimated Fair Value December 31, 2010			
	Total Fair Value	Level 1	Input Levels Used Level 2                      Level 3	
Cash and cash equivalents	\$ 115,976	\$ 115,976	\$	\$
ARS	6,775			6,775
Available-for-sale securities excluding ARS	27,178		27,178	
Foreign currency forward contracts	942		942	
Commodity futures contracts	2,310	2,310		
Commodity options contracts	5,369	5,369		
Trading securities	38,504	38,504		
Total assets measured at fair value	\$ 197,054	\$ 162,159	\$ 28,120	\$ 6,775

	Estimated Fair Value October 2, 2010			
	Total Fair Value	Level 1	Input Levels Used Level 2                      Level 3	
Cash and cash equivalents	\$ 58,862	\$ 58,862	\$	\$
ARS	5,960			5,960
Available-for-sale securities excluding ARS	27,203		27,203	
Foreign currency forward contracts	820		820	
Commodity futures contracts	647	647		
Commodity options contracts	1,486	1,486		
Trading securities	36,158	36,158		
Total assets measured at fair value	\$ 131,136	\$ 97,153	\$ 28,023	\$ 5,960

As of October 1, 2011, the Company's long term investments included an ARS, Jefferson County Alabama Sewer Revenue Refunding Warrants, reported at a fair value of \$8,130 after reflecting a \$5,140 other than temporary impairment and a \$280 temporary decline in market value against its \$13,550 par value. In 2008, this ARS was determined to be other than temporarily impaired due to the duration and severity of the decline in fair value. The Company estimated the fair value of this ARS utilizing a valuation model with Level 3 inputs. This valuation model considered, among other items, a limited number of market trades, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates and the amount and timing of expected future cash flows including the Company's assumption about the market expectation of the next successful auction. See Management's Discussion and Analysis of Financial Condition and Results of Operations regarding Jefferson County ARS. The Company classified this ARS as non-current and has included it in long term investments on the Condensed Consolidated Statements of Financial Position at October 1, 2011, December 31, 2010 and October 2, 2010 because the Company believes that the current condition of the ARS market may take more than twelve months to improve.

The following table presents additional information about the Company's financial instruments (all ARS) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at October 1, 2011 and October 2, 2010:

	2011	2010
Balance at January 1	\$ 6,775	\$ 7,710
Unrealized gain (loss) in other comprehensive loss	1,355	(1,750)
Balance at October 1 and October 2, respectively	\$ 8,130	\$ 5,960

The \$7,500 carrying amount of the Company's industrial revenue development bonds at October 1, 2011 and October 2, 2010 approximates its estimated fair value as the bonds have a floating interest rate.

**Note 5 Derivative Instruments and Hedging Activities**

From time to time, the Company uses derivative instruments, including foreign currency forward contracts, commodity futures contracts and commodity option contracts to manage its exposures to foreign exchange and commodity prices. Commodity futures contracts and most commodity option contracts are intended and effective as hedges of market price risks associated with the anticipated purchase of certain raw materials (primarily sugar). Foreign currency forward contracts are intended and effective as hedges of the Company's exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of products manufactured in Canada and sold in the United States, and periodic equipment purchases

Table of Contents

from foreign suppliers denominated in a foreign currency. The Company does not engage in trading or other speculative use of derivative instruments.

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

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

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at October 1, 2011, December 31, 2010 and October 2, 2010:

	Notional Amounts	October 1, 2011	
		Assets	Liabilities
<b>Derivatives designated as hedging instruments:</b>			
Foreign currency forward contracts	\$ 7,840	\$	\$ (108)
Commodity futures contracts	5,473	445	(100)
Commodity option contracts			
<b>Total derivatives designated as hedges</b>		<b>445</b>	<b>(208)</b>
<b>Derivatives not designated as hedging instruments:</b>			
Commodity option contracts			
<b>Total derivatives not designated as hedges</b>			
<b>Total derivatives</b>		<b>\$ 445</b>	<b>\$ (208)</b>

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



Table of Contents

		October 2, 2010	
	Notional Amounts	Assets	Liabilities
<b>Derivatives designated as hedging instruments:</b>			
Foreign currency forward contracts	\$ 3,572	\$ 820	\$
Commodity futures contracts	4,941	647	
Commodity option contracts	10,344	1,849	(350)
<b>Total derivatives designated as hedges</b>		<b>3,316</b>	<b>(350)</b>
<b>Derivatives not designated as hedging instruments:</b>			
Commodity option contracts	462		(13)
<b>Total derivatives not designated as hedges</b>			<b>(13)</b>
<b>Total derivatives</b>		<b>\$ 3,316</b>	<b>\$ (363)</b>

The effects of derivative instruments on the Company's Condensed Consolidated Statement of Earnings, Comprehensive Earnings and Retained Earnings for quarter and year to date ended October 1, 2011 and October 2, 2010 are as follows:

	For Quarter Ended October 1, 2011		
	Gain(Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	\$ (116)	\$ 359	\$
Commodity futures contracts	982	1,210	
Commodity option contracts	(552)	(18)	
<b>Total</b>	<b>\$ 314</b>	<b>\$ 1,551</b>	<b>\$</b>

	For Quarter Ended October 2, 2010		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	\$ 323	\$ 875	\$
Commodity futures contracts	1,532	61	
Commodity option contracts	2,596	(30)	
<b>Total</b>	<b>\$ 4,451</b>	<b>\$ 906</b>	<b>\$</b>

	For Year to Date Ended October 1, 2011		
	Gain(Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	\$ 4	\$ 1,054	\$
Commodity futures contracts	4,839	6,803	
Commodity option contracts	(5,388)	(305)	
<b>Total</b>	<b>\$ (545)</b>	<b>\$ 7,552</b>	<b>\$</b>



Table of Contents

	For Year to Date Ended October 2, 2010		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	\$ 344	\$ 3,199	\$
Commodity futures contracts	249	(399)	
Commodity option contracts	856	(357)	
<b>Total</b>	<b>\$ 1,449</b>	<b>\$ 2,443</b>	<b>\$</b>

During the quarters and years to date ended October 1, 2011 and October 2, 2010, the Company recognized earnings/(losses) of \$(16) and \$0, and \$172 and \$(1,616) respectively, related to mark-to-market accounting for certain commodity option contracts.

Table of Contents

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

(in thousands except per share, percentage and ratio figures)

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

Net product sales were \$186,784 in third quarter 2011 compared to \$191,045 in third quarter 2010, a decrease of \$4,261 or 2.2%. Nine months 2011 net product sales were \$399,991 compared to \$399,315 in nine months 2010, an increase of \$676 or 0.2%. Third quarter 2011 net product sales were adversely affected by the timing of certain customer sales in third and fourth quarter 2011.

Product cost of goods sold were \$133,041 in third quarter 2011 compared to \$129,021 in third quarter 2010, and nine months 2011 product cost of goods sold were \$278,572 compared to \$266,504 in nine months 2010. Product cost of goods sold in third quarter and nine months 2011 reflect decreases of \$1,439 and \$783, respectively, in deferred compensation expense compared to the corresponding periods in the prior year. These decreases principally result from changes in the market value of investments in trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned changes in deferred compensation expense, product cost of goods sold increased from \$128,496 in third quarter 2010 to \$133,956 in third quarter 2011, an increase of \$5,460 or 4.2%, and increased from \$266,218 in nine months 2010 to \$279,069 in nine months 2011, an increase of \$12,851 or 4.8%. As a percentage of net product sales, adjusted product cost of goods sold increased from 67.3% in third quarter 2010 to 71.7% in third quarter 2011, an increase of 4.4% as a percent of sales; and from 66.7% in nine months 2010 to 69.8% in nine months 2011, an increase of 3.1% as a percent of sales. These unfavorable increases principally reflect significantly higher ingredient unit costs; however, higher costs for packaging materials and plant manufacturing operations also contributed to increased product cost of goods sold in both third quarter and nine months 2011 periods. The Company expects its ingredient costs to continue at these significantly higher levels, in comparison to 2010, throughout the balance of 2011 and into 2012. Although the Company is in the process of implementing price increases because of higher input costs, a substantial portion of such price increases did not become effective until fourth quarter 2011.

Selling, marketing and administrative expenses were \$25,425 in third quarter 2011 compared to \$31,242 in third quarter 2010, and nine months 2011 selling, marketing and administrative expenses were \$77,560 compared to \$79,112 in nine months 2010. Selling, marketing and administrative expenses in third quarter and nine months 2011 reflect decreases of \$5,256 and \$2,877, respectively, in deferred compensation expense compared to the corresponding periods in the prior year. These decreases principally result from changes in the market value of investments in trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned changes in deferred compensation expense, selling, marketing and administrative expenses decreased from \$29,360 in third quarter 2010 to \$28,800 in third quarter 2011, a decrease of \$560 or 1.9%, however, these expenses increased from \$78,177 in nine months 2010 to \$79,502 in nine months 2011, an increase of \$1,325 or 1.7%. As a percentage of net product sales, adjusted selling, marketing and administrative expenses were unchanged at 15.4% in third quarter 2010 and in third quarter 2011, and increased from 19.6% of sales in nine months 2010 to 19.9% in nine months 2011, an increase of 0.3% as a percent of sales. Selling marketing and administrative expenses reflect higher distribution expenses, principally increased freight and delivery expenses including higher fuel surcharges, relating to customer deliveries. Freight, delivery, warehousing and distribution expenses as a percent of net product sales increased from 6.3% in third quarter 2010 to 6.6% in third quarter 2011, and from 8.0% in nine months 2010 to 8.4% in nine months 2011.



Earnings from operations were \$29,126 in third quarter 2011 compared to \$31,588 in third quarter 2010, and were \$46,167 in nine months 2011 compared to \$56,082 in nine months 2010. Earnings from operations include the above discussed changes in deferred compensation liabilities relating to corresponding changes in the market value of trading securities that hedge these liabilities as discussed above. Adjusting for the aforementioned as discussed above, operating earnings were \$24,838 and \$33,995 in third quarter 2011 and 2010, respectively, a decrease of \$9,157 or 26.9%, and operating earnings were \$43,728 and \$57,303 in nine months 2011 and 2010, respectively, a decrease of \$13,575 or 23.7%. As a percentage of net product sales, these adjusted operating earnings were 13.3% and 17.8% in third quarter 2011 and 2010, respectively, a decrease of 4.5% as a percentage of net product sales; and operating earnings were 10.9% and 14.4% in nine months 2011 and 2010, respectively, a decrease of 3.5% as a percentage of net product sales. The above discussed decreases principally reflect the adverse effects of higher ingredient costs as well as higher costs for packaging materials, plant manufacturing operations, and freight and delivery expenses as discussed above. Management believes the presentation in this and the preceding paragraphs relating to

Table of Contents

amounts adjusted for deferred compensation expense better reflects controllable costs affecting operating results for third quarter and nine months 2011 as compared to the corresponding prior year quarter and nine month periods and, accordingly, provides additional insight of the underlying operations of the Company.

Other income (expense), net, was \$(3,777) in third quarter 2011 compared to \$4,618 in third quarter 2010, an unfavorable decrease of \$8,395. Other income (expense) for third quarter 2011 and 2010 includes a \$(4,288) loss and a \$2,407 gain, respectively, in trading securities, and a \$300 and \$2,200 gain, respectively, on foreign exchange. Other income, net, was \$216 in nine months 2011 compared to \$5,976 in nine months 2010, an unfavorable decrease of \$5,760. Other income (expense) for nine months 2011 and 2010 includes a \$(2,439) loss and a \$1,221 gain, respectively, in trading securities, and a \$1,600 and \$4,100 gain, respectively, on foreign exchange. These unfavorable changes relating to trading securities principally reflect declines in the fair value of trading securities investments which are used as an economic hedge for deferred compensation liabilities. The gain (loss) relating to trading securities was substantially offset by a like amount of deferred compensation (expense) or income included in product cost of goods sold and selling, marketing, and administrative expenses in the respective periods as discussed above. The gain (loss) relating to trading securities in third quarter and nine months 2011 and 2010, principally reflects market appreciation (depreciation) in the equity markets in the respective periods.

The consolidated effective tax rates were 27.7% and 26.9% in third quarter 2011 and 2010, respectively, and 29.9% and 28.9% in nine months 2011 and 2010, respectively. The increase in the effective tax rate in third quarter and nine months 2011 principally relates to higher state income taxes.

Net earnings were \$18,338 in third quarter 2011 compared to \$26,484 in third quarter 2010, and earnings per share were \$0.32 and \$0.45 in third quarter 2011 and third quarter 2010, respectively, a decrease of \$0.13 per share or 28.9%. Nine months 2011 net earnings were \$32,503 compared to nine months 2010 net earnings of \$44,135, an \$11,632 or 26.4% decrease. Nine months net earnings per share were \$0.56 in 2011 compared to \$0.75 per share in nine months 2010, a decrease of \$0.19 per share or 25.3%. Earnings per share for third quarter and nine months 2011 did benefit from the reduction in average shares outstanding resulting from Common Stock purchases in the open market by the Company. Average shares outstanding decreased from 58,596 in third quarter 2010 to 57,822 in third quarter 2011, and from 58,795 in nine months 2010 to 57,978 in nine months 2011.

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

## LIQUIDITY AND CAPITAL RESOURCES

Net cash flows from (used in) operating activities were \$(16,420) and \$6,044 in nine months 2011 and 2010, respectively. The \$22,464 increase in cash flows used in operating activities from nine month 2010 to nine months 2011 principally reflects changes in net earnings, other current assets and liabilities, principally inventories, accounts payable and accrued liabilities, and income taxes payable and deferred.

Net cash used in investing activities was \$49,807 in nine months 2011 compared to \$12,868 in nine months 2010. This increase of \$36,939 consists primarily of \$33,439 used to purchase available for sale securities during nine months 2011. Cash flows used in investing activities reflect capital expenditures of \$12,677 and \$9,389 in nine months 2011 and nine months 2010, respectively. Capital expenditures for the 2011 year are anticipated to be generally in line with historical annualized spending, and are to be funded from the Company's cash flow from operations and internal sources.

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

Financing activities include Company Common Stock purchases and retirements of \$10,271 and \$11,721 in nine months 2011 and nine months 2010, respectively. Cash dividends of \$13,788 and \$13,583 were paid in nine months 2011 and nine months 2010, respectively. The increase in cash dividends each year reflects the annual 3% stock dividend issued in each of these years less the effects of Company Common Stock purchases and retirements.

The Company's current ratio (current assets divided by current liabilities) was 3.1 to 1 as of the end of third quarter 2011 as compared to 4.1 to 1 as of the end of fourth quarter 2010 and 3.3 to 1 as of the end of third quarter 2010. Net working capital was \$150,923 as of the end of third quarter 2011 as compared to \$179,086 and \$177,484 as of the end of fourth and third quarters 2010, respectively.

Table of Contents

The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments which totaled \$35,130 as of the end of third quarter 2011 compared to \$123,972 and \$67,703 as of the end of fourth and third quarters 2010, respectively. In addition, long term investments, principally debt securities comprising municipal bonds, were \$98,523 (including \$8,130 of Jefferson County auction rate securities (ARS) discussed below) as of the end of third quarter 2011, as compared to \$64,461 and \$60,480 as of the end of fourth and third quarters 2010, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$133,653, \$188,433, \$128,183, as of the end of third quarter 2011, and as of the end of fourth and third quarters 2010, respectively. The aforementioned includes \$39,031, \$38,504, and \$36,158 as of the end of the third quarter 2011, and fourth and third quarters 2010, respectively, relating to trading securities which are used as an economic hedge for the Company's deferred compensation liabilities. Investments in municipal bonds and other debt securities that matured during nine months 2011 and 2010 were generally used to purchase the Company's Common Stock or were replaced with debt securities of similar maturities.

During 2008, the Company contributed \$16,050 to a VEBA trust to fund the estimated future costs of certain employee health, welfare and other benefits. The Company used the funds, as well as investment income in this VEBA trust, to pay the actual cost of such benefits during 2010 and 2011 and will continue to do so through 2012. As of the end of the third quarter 2011, the VEBA trust holds \$7,252 of aggregate cash, cash equivalents and investments; this asset value is included in prepaid expenses in the Company's current and other assets.

As of the end of third quarter 2011 and 2010, the Company's long-term investments include \$8,130 and \$5,960 (\$13,550 original cost), respectively, of Jefferson County Alabama Sewer Revenue Refunding Warrants, originally purchased with an insurance-backed AAA rating. This is an ARS that is classified as an available for sale security. Due to adverse events related to Jefferson County and its bond insurance carrier, Financial Guaranty Insurance Company (FGIC), as well as events in the credit markets, the auctions for this ARS have failed since 2008. As such, the Company continues to estimate the fair value of this ARS utilizing a valuation model with Level 3 inputs, as defined by guidance. This valuation model considered, among others items, a limited number of market trades, the credit risk of the collateral underlying the ARS, the credit risk of the bond insurer, interest rates, and the amount and timing of expected future cash flows including assumptions about the market expectation of the next successful auction or possible negotiated settlement between the County and debt holders. The Company continues to receive all contractual interest payments on this ARS on a timely basis, there has been no default, it is insured by FGIC and the Company has the intent and ability to hold this ARS until recovery of its amortized cost basis. Representatives of Jefferson County and the bond holders are currently in negotiations to reach a settlement agreeable to the bondholders and the insurers, and if a settlement cannot be reached that is also agreeable to the state of Alabama which is being asked to provide a form of future guarantee, the County is likely to pursue a bankruptcy filing. The Company is not currently able to predict the outcome of such negotiations and/or bankruptcy, or the amount and timing of net proceeds it may ultimately recover.

#### ACCOUNTING PRONOUNCEMENTS

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

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires us to present components of other comprehensive income and of net income in one continuous statement of comprehensive income or in two separate, but consecutive, statements. The option to report other comprehensive income within the statement of equity has been removed. This new

presentation of comprehensive income will be effective for fiscal years beginning after December 15, 2011 and subsequent interim periods.

In September 2011, the FASB issued ASU 2011-08, **Testing Goodwill for Impairment**. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. An entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company currently believes there will be no impact on its consolidated financial statements.

Table of Contents

In September 2011, FASB issued ASU 2011-09, **Compensation-Retirement Benefits-Multiemployer Plans** which amends the guidance in ASC 715-80. The amendments in ASU 2011-09 provide additional disclosure requirements for entities which participate in multi-employer pension plans. The purpose of the new disclosures is to provide financial statement users with information about an employer's level of participation in and the financial health of significant plans. The new disclosures are effective for annual periods ending after December 15, 2011. There will be no impact on the Company's consolidated financial statements as the changes relate only to additional disclosures.

**RISK FACTORS**

The Company's operations and financial results are subject to a number of risks and uncertainties that could adversely affect the Company's operating results and financial condition. Significant risk factors, without limitation, that could impact the Company include the following: (i) significant competitive activity, including advertising, promotional and price competition, and changes in consumer demand for the Company's products; (ii) increases in ingredients and other input costs, which are expected to be significantly higher in 2011 and into 2012 compared to 2010, as well as the uncertainty of long-term costs of major ingredients; (iii) effects on sales, including response from customers and the final consumers, relating to price increase and weight declines (indirect price increase) of products; (iv) the Company's dependence on its enterprise resource planning computer system to manage its supply chain and customer deliveries; (v) availability of ingredients and packaging materials; (vi) inherent risks in the marketplace, including uncertainties about trade and consumer acceptance and seasonal events such as Halloween; (vii) the effect of acquisitions on the Company's results of operations and financial condition; (viii) the effect of changes in foreign currencies on the Company's foreign subsidiaries operating results, and the effect of the fluctuation of the Canadian dollar on products manufactured in Canada and marketed and sold in the United States in U.S. dollars; (ix) the Company's reliance on third party vendors for various goods and services; (x) the Company's ability to successfully implement new and automated production processes and lines; (xi) the effect of changes in assumptions, including discount rates, sales growth and profit margins and the capability to pass along higher ingredient and other input costs through price increases, relating to the Company's impairment testing and analysis of its goodwill and trademarks; (xii) changes in the confectionery marketplace including actions taken by major retailers and customers; (xiii) customer, consumer and competitor response to marketing programs and price and product weight adjustments, and new products; (xiv) dependence on significant customers, including the volume and timing of their purchases, and availability of and competition for shelf space; (xv) increases in ingredient and energy costs, including freight and delivery, that cannot be fully passed along to customers through increased prices due to competitive reasons; (xvi) any significant labor stoppages, strikes or production interruptions; (xvii) changes in governmental laws and regulations including taxes and tariffs; (xviii) the risk that the market value of Company's cash equivalents or investments, including municipal bonds, could decline in value, including being impaired and classified as an other-than-temporary impairment as defined; (xix) the potential effects of current and future macroeconomic conditions; and (xx) the risk that the Company's information technology systems fail to perform adequately or the Company is unable to protect such information technology systems against data corruption, cyber-based attacks or network security breaches.

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

**FORWARD-LOOKING STATEMENTS**

This discussion and certain other sections contain forward-looking statements that are based largely on the Company's current expectations and are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can be identified by the use of words such as anticipated, believe, expect, intend, estimate, project, 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, include the overall competitive environment in the Company's industry, changes in assumptions and judgments discussed above under the heading Significant Accounting Policies and Estimates, and factors identified and referred to above under the heading Risk Factors.

The risk factors identified and referred to above are believed to be significant factors, but not necessarily all of the significant factors that could cause actual results to differ from those expressed in any forward-looking statement. Readers are cautioned

Table of Contents

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

**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 October 1, 2011 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended October 1, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents**PART II OTHER INFORMATION****TOOTSIE ROLL INDUSTRIES, INC.****AND SUBSIDIARIES****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table summarizes purchases of the Company's Common Stock during the quarter ended October 1, 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans Or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
<b>JUL 3 TO JUL 30</b>		\$	<b>NOT APPLICABLE</b>	<b>NOT APPLICABLE</b>
<b>JUL 31 TO AUG 27</b>	<b>55,000</b>	<b>24.97</b>	<b>NOT APPLICABLE</b>	<b>NOT APPLICABLE</b>
<b>AUG 28 TO OCT 1</b>	<b>35,021</b>	<b>23.59</b>	<b>NOT APPLICABLE</b>	<b>NOT APPLICABLE</b>
<b>TOTAL</b>	<b>90,021</b>	<b>\$ 24.43</b>	<b>NOT APPLICABLE</b>	<b>NOT APPLICABLE</b>

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

**Item 6. EXHIBITS**

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

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

**Exhibit 101.INS** - XBRL Instance Document.\*

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

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

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

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

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

---

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

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

TOOTSIE ROLL INDUSTRIES, INC.

Date: November 10, 2011

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

Date: November 10, 2011

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