

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 September 30, 2017

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
(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 (September 30, 2017).

Class	Outstanding
Common Stock, \$.69 4/9 par value	38,046,216
Class B Common Stock, \$.69 4/9 par value	24,917,501

TOOTSIE ROLL INDUSTRIES, INC.

September 30, 2017

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (in thousands) (Unaudited)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	\$ 49,512	\$ 119,145	\$ 94,239
Restricted cash	400	382	409
Investments	74,272	67,513	27,905
Trade accounts receivable, less allowances of \$3,225, \$1,884 & \$3,274	95,341	42,964	81,718
Other receivables	6,405	3,299	1,552
Inventories:			
Finished goods & work-in-process	41,273	34,631	36,173
Raw material & supplies	26,767	22,900	28,613
Prepaid expenses	2,489	7,146	5,077
Deferred income taxes	-	1,320	3,149
Total current assets	<u>296,459</u>	<u>299,300</u>	<u>278,835</u>
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	22,222	22,081	22,155
Buildings	116,555	116,398	114,473
Machinery & equipment	369,753	369,802	355,059
Construction in progress	14,328	3,546	17,511
	<u>522,858</u>	<u>511,827</u>	<u>509,198</u>
Less-accumulated depreciation	344,809	330,922	326,609
Net property, plant and equipment	<u>178,049</u>	<u>180,905</u>	<u>182,589</u>
OTHER ASSETS:			
Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	193,991	164,665	189,956
Split dollar officer life insurance	26,042	26,042	26,042
Prepaid expenses and other assets	34	602	1,526
Deferred income taxes	-	326	275
Total other assets	<u>468,328</u>	<u>439,896</u>	<u>466,060</u>
Total assets	<u>\$ 942,836</u>	<u>\$ 920,101</u>	<u>\$ 927,484</u>

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

(in thousands except per share data) (Unaudited)

September 30, 2017 December 31, 2016 September 30, 2016

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 14,037	\$ 10,320	\$ 13,366
Bank loans	404	336	164
Dividends payable	5,667	5,573	5,578
Accrued liabilities	50,552	46,300	52,354
Postretirement health care	513	513	448
Income taxes payable	7,636	-	3,955
Deferred income taxes	-	519	666
Total current liabilities	<u>78,809</u>	<u>63,561</u>	<u>76,531</u>

NONCURRENT LIABILITIES:

Deferred income taxes	44,316	46,060	49,276
Bank loans	-	230	283
Postretirement health care	11,941	11,615	11,283
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	4,811	5,185	4,939
Deferred compensation and other liabilities	80,936	74,412	72,119
Total noncurrent liabilities	<u>149,504</u>	<u>145,002</u>	<u>145,400</u>

TOOTSIE ROLL INDUSTRIES, INC.

SHAREHOLDERS' EQUITY:

Common stock, \$.69-4/9 par value- 120,000 shares authorized; 38,046, 37,701 & 37,775, respectively, issued	26,421	26,181	26,232
Class B common stock, \$.69-4/9 par value- 40,000 shares authorized; 24,918, 24,221 & 24,226, respectively, issued	17,304	16,820	16,824
Capital in excess of par value	660,779	646,768	649,514
Retained earnings	30,890	43,833	31,557
Accumulated other comprehensive loss	(18,921)	(20,246)	(16,805)
Treasury stock (at cost)- 85, 83 & 83 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	<u>714,481</u>	<u>711,364</u>	<u>705,330</u>
Noncontrolling interests	42	174	223
Total equity	<u>714,523</u>	<u>711,538</u>	<u>705,553</u>
Total liabilities and shareholders' equity	<u>\$ 942,836</u>	<u>\$ 920,101</u>	<u>\$ 927,484</u>

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

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

	Quarter Ended		Year to Date Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net product sales	\$ 182,173	\$ 185,473	\$ 390,495	\$ 393,094
Rental and royalty revenue	842	884	2,771	2,827
Total revenue	<u>183,015</u>	<u>186,357</u>	<u>393,266</u>	<u>395,921</u>
Product cost of goods sold	114,848	114,748	245,523	245,581
Rental and royalty cost	240	235	757	782
Total costs	<u>115,088</u>	<u>114,983</u>	<u>246,280</u>	<u>246,363</u>
Product gross margin	67,325	70,725	144,972	147,513
Rental and royalty gross margin	602	649	2,014	2,045
Total gross margin	<u>67,927</u>	<u>71,374</u>	<u>146,986</u>	<u>149,558</u>
Selling, marketing and administrative expenses	33,095	32,101	86,122	81,772
Earnings from operations	34,832	39,273	60,864	67,786
Other income (loss), net	4,121	1,943	8,565	4,147
Earnings before income taxes	38,953	41,216	69,429	71,933
Provision for income taxes	12,066	12,619	20,681	22,406
Net earnings	26,887	28,597	48,748	49,527
Less: Net earnings (loss) attributable to noncontrolling interests	(46)	(40)	(131)	(142)
Net earnings attributable to Tootsie Roll Industries, Inc.	<u>\$ 26,933</u>	<u>\$ 28,637</u>	<u>\$ 48,879</u>	<u>\$ 49,669</u>
Net earnings attributable to Tootsie Roll Industries, Inc. per share	\$ 0.43	\$ 0.45	\$ 0.77	\$ 0.77
Dividends per share *	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Average number of shares outstanding	62,986	64,021	63,286	64,205
Retained earnings at beginning of period	\$ 9,615	\$ 8,491	\$ 43,833	\$ 52,349
Net earnings attributable to Tootsie Roll Industries, Inc.	26,933	28,637	48,879	49,669
Cash dividends	(5,658)	(5,571)	(16,898)	(16,645)
Stock dividends	-	-	(44,924)	(53,816)
Retained earnings at end of period	<u>\$ 30,890</u>	<u>\$ 31,557</u>	<u>\$ 30,890</u>	<u>\$ 31,557</u>

*Does not include 3% stock dividend to shareholders of record on 3/7/17 and 3/8/16.
(The accompanying notes are an integral part of these statements.)

TOOTSIE ROLL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS
(in thousands except per share amounts) (Unaudited)

	Quarter Ended		Year to Date Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net earnings	\$ 26,887	\$ 28,597	\$ 48,748	\$ 49,527
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(216)	(906)	2,875	(2,337)
Pension and postretirement reclassification adjustments:				
Unrealized gains (losses) for the period on postretirement and pension benefits	4	-	95	-
Less: reclassification adjustment for (gains) losses to net earnings	(366)	(411)	(1,097)	(1,232)
Unrealized gains (losses) on postretirement and pension benefits	(362)	(411)	(1,002)	(1,232)
Investments:				
Unrealized gains (losses) for the period on investments	121	(289)	500	710
Less: reclassification adjustment for (gains) losses to net earnings	-	-	-	4
Unrealized gains (losses) on investments	121	(289)	500	714
Derivatives:				
Unrealized gains (losses) for the period on derivatives	19	1,288	(1,735)	4,411
Less: reclassification adjustment for (gains) losses to net earnings	28	(337)	(109)	646
Unrealized gains (losses) on derivatives	47	951	(1,844)	5,057
Total other comprehensive income (loss), before tax	(410)	(655)	529	2,202
Income tax benefit (expense) related to items of other comprehensive income	70	(91)	796	(1,643)
Total comprehensive earnings	26,547	27,851	50,073	50,086
Comprehensive earnings (loss) attributable to noncontrolling interests	(46)	(40)	(131)	(142)
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	\$ 26,593	\$ 27,891	\$ 50,204	\$ 50,228

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

TOOTSIE ROLL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (Unaudited)

	Year to Date Ended	
	September 30, 2017	September 30, 2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net earnings	\$ 48,748	\$ 49,527
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	14,364	14,651
Deferred income taxes	153	23
Amortization of marketable security premiums	1,840	2,221
Changes in operating assets and liabilities:		
Accounts receivable	(51,270)	(31,367)
Other receivables	(4,265)	2,622
Inventories	(10,018)	(2,826)
Prepaid expenses and other assets	3,313	3,678
Accounts payable and accrued liabilities	8,249	6,906
Income taxes payable	8,706	3
Postretirement health care benefits	(677)	(902)
Deferred compensation and other liabilities	(723)	2,496
Net cash from operating activities	<u>18,420</u>	<u>47,032</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Restricted cash	(17)	-
Capital expenditures	(11,699)	(13,067)
Purchases of trading securities	(3,387)	(3,064)
Sales of trading securities	3,544	645
Purchase of available for sale securities	(51,935)	(45,298)
Sale and maturity of available for sale securities	21,328	26,517
Net cash used in investing activities	<u>(42,166)</u>	<u>(34,267)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Shares purchased and retired	(30,027)	(26,293)
Dividends paid in cash	(16,965)	(16,694)
Proceeds from bank loans	1,182	2,156
Repayment of bank loans	(1,345)	(2,339)
Net cash used in financing activities	<u>(47,155)</u>	<u>(43,170)</u>
Effect of exchange rate changes on cash	1,268	(1,501)
Decrease in cash and cash equivalents	(69,633)	(31,906)
Cash and cash equivalents at beginning of year	119,145	126,145
Cash and cash equivalents at end of quarter	<u>\$ 49,512</u>	<u>\$ 94,239</u>
Supplemental cash flow information:		
Income taxes paid, net	<u>\$ 12,360</u>	<u>\$ 22,622</u>
Interest paid	<u>\$ 49</u>	<u>\$ 19</u>
Stock dividend issued	<u>\$ 69,739</u>	<u>\$ 61,671</u>

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

TOOTSIE ROLL INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(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. (the Company) and in the opinion of management all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the interim period have been reflected. Certain amounts previously reported have been reclassified 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 Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

Results of operations for the period ended September 30, 2017 are not necessarily indicative of results to be expected for the year to end December 31, 2017 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to pre-Halloween sales.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Although the Company is continuing its evaluation of the new guidance, based upon the current status of the evaluation, the impact of adoption is not expected to be material to the consolidated financial statements. The Company will use the modified retrospective method of adoption in the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01 which modifies certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for the Company on January 1, 2019. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, which contains amendments to the new revenue recognition standard on identifying performance obligations and accounting for licenses of intellectual property. The amendments related to identifying performance obligations clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract. The licensing implementation amendments clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether revenue is recognized over time or at a point in time. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not

have any significant licenses of intellectual property and is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, which includes amendments addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of the amendments to the standard is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, which requires employers who offer defined benefit and postretirement benefit plans to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit costs will be presented in the income statement separately from the service cost and outside of a subtotal of income from operations. In addition, only the service cost component may be eligible for capitalization where applicable. This guidance is effective for annual periods beginning after December 15, 2017. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, guidance that amends hedge accounting. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. The new guidance amends presentation and disclosure requirements, and how effectiveness is assessed. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

Recently Adopted Pronouncements

In November 2015, the FASB issued ASU 2015-17 which simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. This guidance was adopted on January 1, 2017 on a prospective basis. Prior period balances have not been adjusted.

Note 2 — Average Shares Outstanding

The average number of shares outstanding for nine months 2017 reflects stock purchases of 809 shares for \$30,027 and a 3% stock dividend of 1,850 shares distributed on April 17, 2017. The average number of shares outstanding for nine months 2016 reflects stock purchases of 740 shares for \$26,293 and a 3% stock dividend of 1,819 shares distributed on April 8, 2016.

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 2014 through 2016. With few exceptions, the Company is no longer subject to examination by tax authorities for the year 2013 and prior. The consolidated effective tax rates were 31.0% and 30.6% in third quarter 2017 and 2016, respectively, and 29.8% and 31.1% in nine months 2017 and 2016, respectively. The lower effective tax rate for nine months 2017 compared to nine months 2016 principally reflects certain benefits resulting from filing amended federal and state income tax returns, including a state income tax carry forward.

Note 4 — Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received on 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 September 30, 2017, December 31, 2016 and September 30, 2016, 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 and foreign currencies, investments in trading securities and available for sale securities. The Company's available for sale securities principally consist of corporate and municipal bonds that are publicly traded and variable rate demand notes with interest rates that generally reset weekly and the security can be "put" back and sold weekly. Trading securities principally consist of equity 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 September 30, 2017, December 31, 2016 and September 30, 2016 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Estimated Fair Value September 30, 2017			
	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 49,512	\$ 49,512	\$ -	\$ -
Available for sale securities	193,169	2,402	190,767	-
Foreign currency forward contracts	147	-	147	-
Commodity futures contracts	(364)	(364)	-	-
Trading securities	75,094	75,094	-	-
Total assets measured at fair value	<u>\$ 317,558</u>	<u>\$ 126,644</u>	<u>\$ 190,914</u>	<u>\$ -</u>

	Estimated Fair Value December 31, 2016			
	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 119,145	\$ 119,145	\$ -	\$ -
Available for sale securities	164,183	2,419	161,764	-
Foreign currency forward contracts	(119)	-	(119)	-
Commodity futures contracts, net	1,746	1,746	-	-
Trading securities	67,995	67,995	-	-
Total assets measured at fair value	<u>\$ 352,950</u>	<u>\$ 191,305</u>	<u>\$ 161,645</u>	<u>\$ -</u>

	Estimated Fair Value September 30, 2016			
	Total Fair Value	Input Levels Used		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 94,239	\$ 94,239	\$ -	\$ -
Available for sale securities	151,776	2,429	149,347	-
Foreign currency forward contracts	(532)	-	(532)	-
Commodity futures contracts	3,234	3,234	-	-
Trading securities	66,085	66,085	-	-
Total assets measured at fair value	<u>\$ 314,802</u>	<u>\$ 165,987</u>	<u>\$ 148,815</u>	<u>\$ -</u>

The fair value of the Company's industrial revenue development bonds at September 30, 2017, December 31, 2016 and September 30, 2016 were valued using Level 2 inputs which approximates the carrying value of \$7,500 for the respective periods. Interest rates on these bonds are reset weekly based on current market conditions.

Note 5 — Derivative Instruments and Hedging Activities

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. 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 hedge accounting for its foreign currency and commodity derivative instruments as discussed above. 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. Approximately 43% of this accumulated comprehensive net gain is expected to be reclassified to net earnings in the next 12 months. Substantially all amounts reported in accumulated other comprehensive loss for foreign currency derivatives are expected to be reclassified to other income, net in the next 12 months.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at September 30, 2017, December 31, 2016 and September 30, 2016:

	September 30, 2017		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 2,059	\$ 147	\$ -
Commodity futures contracts	13,616	56	(420)
Total derivatives		<u>\$ 203</u>	<u>\$ (420)</u>
December 31, 2016			
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 2,357	\$ -	\$ (119)
Commodity futures contracts	10,811	1,932	(186)
Total derivatives		<u>\$ 1,932</u>	<u>\$ (305)</u>
September 30, 2016			
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	\$ 5,684	\$ -	\$ (532)
Commodity futures contracts	11,047	3,256	(22)
Total derivatives		<u>\$ 3,256</u>	<u>\$ (554)</u>

The effects of derivative instruments on the Company's Condensed Consolidated Statements of Earnings and Retained Earnings and the Condensed Consolidated Statements of Comprehensive Earnings for periods ended September 30, 2017 and September 30, 2016 are as follows:

	For Quarter Ended September 30, 2017		
	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	\$ 118	\$ 55	\$ -
Commodity futures contracts	(99)	(83)	-
Total	\$ 19	\$ (28)	\$ -

	For Quarter Ended September 30, 2016		
	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	\$ (77)	\$ (456)	\$ -
Commodity futures contracts	1,365	793	-
Total	\$ 1,288	\$ 337	\$ -

	For Year to Date Ended September 30, 2017		
	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	\$ 266	\$ 1	\$ -
Commodity futures contracts	(2,001)	108	-
Total	\$ (1,735)	\$ 109	\$ -

	For Year to Date Ended September 30, 2016		
	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	\$ 613	\$ (1,482)	\$ -
Commodity futures contracts	3,798	836	-
Total	\$ 4,411	\$ (646)	\$ -

Note 6 — Pension Plans

During 2017 and 2016, the Company received updated notices that the Bakery and Confectionery Union and Industry International Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, is in "critical and declining status", as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC), and that the Plan is projected to become insolvent in 2030. The Company has been advised that its withdrawal liability would have been \$72,700 if it had withdrawn from the Plan during 2016. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amount, could be payable to the Plan.

The Company is currently unable to determine the ultimate outcome of the above discussed matter and therefore, is unable to determine the effects on its consolidated financial statements, but the ultimate outcome or the effects of any modifications to the current rehabilitation plan and new “hybrid plan” option discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 2) could be material to its consolidated results of operations or cash flows in one or more future periods. See also the Company’s Consolidated Financial Statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations incorporated into the Company’s 2016 Form 10-K.

Note 7 — Accumulated Other Comprehensive Earnings (Loss)

Accumulated Other Comprehensive Earnings (Loss) consists of the following components:

	Foreign Currency Translation	Investments	Foreign Currency Derivatives	Commodity Derivatives	Postretirement and Pension Benefits	Accumulated Other Comprehensive Earnings (Loss)
Balance at December 31, 2016	\$ (25,460)	\$ (697)	\$ (76)	\$ 1,114	\$ 4,873	\$ (20,246)
Other comprehensive earnings (loss) before reclassifications	2,875	319	170	(1,276)	6	2,094
Reclassifications from accumulated other comprehensive loss	-	-	-	(69)	(700)	(769)
Other comprehensive earnings (loss) net of tax	2,875	319	170	(1,345)	(694)	1,325
Balance at September 30, 2017	\$ (22,585)	\$ (378)	\$ 94	\$ (231)	\$ 4,179	\$ (18,921)

	Foreign Currency Translation	Investments	Foreign Currency Derivatives	Commodity Derivatives	Postretirement and Pension Benefits	Accumulated Other Comprehensive Earnings (Loss)
Balance at December 31, 2015	\$ (21,644)	\$ (605)	\$ (1,675)	\$ 173	\$ 6,387	\$ (17,364)
Other comprehensive earnings (loss) before reclassifications	(2,337)	451	391	2,424	-	929
Reclassifications from accumulated other comprehensive loss	-	3	946	(533)	(786)	(370)
Other comprehensive earnings (loss) net of tax	(2,337)	454	1,337	1,891	(786)	559
Balance at September 30, 2016	\$ (23,981)	\$ (151)	\$ (338)	\$ 2,064	\$ 5,601	\$ (16,805)

The amounts reclassified from accumulated other comprehensive income (loss) consisted of the following:

Details about Accumulated Other Comprehensive Income Components	Quarter Ended		Year to Date Ended		Location of (Gain) Loss Recognized in Earnings
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	
Investments	\$ -	\$ -	\$ -	\$ 4	Other income, net
Foreign currency derivatives	(55)	456	(1)	1,482	Other income, net
Commodity derivatives	83	(793)	(108)	(836)	Product cost of goods sold
Postretirement and pension benefits	(187)	(209)	(560)	(628)	Selling, marketing and administrative expenses
Postretirement and pension benefits	(179)	(202)	(537)	(604)	Product cost of goods sold
Total before tax	(338)	(748)	(1,206)	(582)	
Tax (expense) benefit	123	271	437	212	
Net of tax	\$ (215)	\$ (477)	\$ (769)	\$ (370)	

Note 8 — Restricted Cash

Restricted cash comprises certain cash deposits of the Company's majority-owned Spanish companies with international banks that are pledged as collateral for letters of credit and bank borrowings.

Note 9 — Bank Loans

Bank loans comprise borrowings by the Company's majority-owned Spanish companies which are held by international banks. The weighted-average interest rate as of September 30, 2017 and 2016 was 1.9 % and 2.0%, respectively, and maturity dates range from 1 to 2 years for both periods.

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

This financial review discusses the Company's financial condition, results of operations, liquidity and capital resources and other matters. Dollars are presented in thousands, except per share amounts. This review should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes included in this Form 10-Q and with the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

Net product sales were \$182,173 in third quarter 2017 compared to \$185,473 in third quarter 2016, a decrease of \$3,300 or 1.8%. Nine months 2017 net product sales were \$390,495 compared to \$393,094 in nine months 2016, a decrease of \$2,599 or 0.7%. Third quarter sales continue to be the Company's largest quarterly sales period due to back-to-school and pre-Halloween seasonal sales. The timing of sales to certain customers had some adverse impact on third quarter and nine months 2017 sales compared to the prior year corresponding periods.

Product cost of goods sold were \$114,848 in third quarter 2017 compared to \$114,748 in third quarter 2016, and nine months 2017 product cost of goods sold were \$245,523 compared to \$245,581 in nine months 2016. Product cost of goods sold includes \$560 and \$522 of certain deferred compensation expenses in third quarter 2017 and 2016, respectively, and \$1,845 and \$816 of certain deferred compensation expenses in nine months 2017 and 2016, respectively. These deferred compensation expenses principally result from the changes in the market value of investments and investment income from trading securities relating to compensation deferred in previous years and are not reflective of current operating results. Adjusting for the aforementioned, product cost of goods sold increased from \$114,226 in third quarter 2016 to \$114,288 in third quarter 2017, an increase of \$62 or 0.1%; but decreased from \$244,765 in nine months 2016 to \$243,678 in nine months 2017, a decrease of \$1,087 or 0.4%. As a percentage of net product sales, adjusted product cost of goods sold was 62.7% and 61.6% in third quarter 2017 and 2016, respectively, an unfavorable increase of 1.1%; and adjusted product cost of goods sold was 62.4% and 62.3% in nine months 2017 and 2016, respectively, an unfavorable increase of 0.1%. Adjusted cost of goods sold as a percent of sales reflects higher ingredients costs, but some of these higher costs were mitigated by continuing improvements in manufacturing operating efficiencies driven by capital improvements and ongoing cost containment programs. Adjusted costs of goods sold in prior year third quarter and nine months 2016 were adversely affected by higher manufacturing costs relating to uncertainties surrounding certain changes in state and national product labeling.

Selling, marketing and administrative expenses were \$33,095 in third quarter 2017 compared to \$32,101 in third quarter 2016, and nine months 2017 selling, marketing and administrative expenses were \$86,122 compared to \$81,772 in nine months 2016. Selling, marketing and administrative expenses includes \$1,717 and \$1,439 of certain deferred compensation expenses in third quarter 2017 and 2016, respectively, and \$5,131 and \$2,266 of certain deferred compensation expenses in nine months 2017 and 2016, respectively. As discussed above, these expenses principally result from changes in the market value of investments and investment income from trading securities relating to compensation deferred in previous years, and are not reflective of current operating results. Adjusting for the aforementioned, selling, marketing and administrative expenses increased from \$30,662 in third quarter 2016 to \$31,378 in third quarter 2017, an increase of \$716 or 2.3%; and adjusted selling, marketing and administrative expenses increased from \$79,506 in nine months 2016 to \$80,991 in nine months 2017, an increase of \$1,485 or 1.9%.

As a percentage of net product sales, adjusted selling, marketing and administrative expenses increased from 16.5% in third quarter 2016 to 17.2% in 2017, an unfavorable increase of 0.7% as a percent of net sales, and adjusted selling, marketing and administrative expenses increased from 20.2% in nine months 2016 to 20.7% in nine months 2017, an unfavorable increase of 0.5% as a percent of net sales. Selling, marketing and administrative expenses include \$12,699 and \$11,620 for customer freight, delivery and warehousing expenses in third quarter 2017 and 2016, respectively, and \$31,775 and \$30,265 for customer freight, delivery and warehousing expenses in nine months 2017 and 2016, respectively. These expenses were 7.0% and 6.3% of net product sales in third quarter 2017 and 2016, respectively, and 8.1% and 7.7% of net product sales in nine months 2017 and 2016, respectively, and are the principal reasons for the above discussed increases in 2017 adjusted selling, marketing and administrative expenses.

Earnings from operations were \$34,832 in third quarter 2017 compared to \$39,273 in third quarter 2016, and were \$60,864 in nine months 2017 compared to \$67,786 in nine months 2016. Earnings from operations include \$2,277 and \$1,961 of certain deferred compensation expenses in third quarter 2017 and 2016, respectively, and include \$6,976 and \$3,082 of certain deferred compensation expenses in nine months 2017 and 2016, respectively, which are discussed above. Adjusting for these deferred compensation costs and expenses, operating earnings were \$37,109 and \$41,234 in third quarter 2017 and 2016, respectively, a decrease of \$4,125 or 10.0%; and adjusted operating earnings were \$67,840 and \$70,868 in nine months 2017 and 2016, respectively, a decrease of \$3,028 or 4.3%. As a percentage of net product sales, these adjusted operating earnings were 20.4% and 22.2% in third quarter 2017 and 2016, respectively, an unfavorable decrease of 1.8% as a percentage of net product sales; and as a percentage of net product sales, these adjusted operating earnings were 17.4% and 18.0% in nine months 2017 and 2016, respectively, an unfavorable decrease of 0.6% as a percentage of net product sales. These declines in operating earnings principally reflect the adverse effects of lower sales, higher ingredient costs and increases in customer freight, delivery and warehousing expenses as discussed above. Management believes the presentation in this and the preceding paragraphs relating to amounts adjusted for deferred compensation expense are more reflective of the underlying operations of the Company.

Other income, net was \$4,121 in third quarter 2017 compared to \$1,943 in third quarter 2016, a favorable increase of \$2,178; and other income, net, was \$8,565 in nine months 2017 compared to \$4,147 in nine months 2016, a favorable increase of \$4,418. Other income, net for third quarter 2017 and 2016 includes net gains and investment income of \$2,277 and \$1,961, respectively, on trading securities which provide an economic hedge of the Company's deferred compensation liabilities; and other income, net for nine months 2017 and 2016 includes net gains and investment income of \$6,976 and \$3,082, respectively, on trading securities relating to these programs. These changes in trading securities were substantially offset by a like amount of deferred compensation expense included in product cost of goods sold and selling, marketing, and administrative expenses in the respective periods as discussed above. Other income, net includes gains (losses) on foreign exchange of \$1,082 and \$(582) in third quarter 2017 and 2016, respectively, and \$(527) and \$(572) in nine months 2017 and 2016, respectively.

The consolidated effective tax rates were 31.0% and 30.6% in third quarter 2017 and 2016, respectively, and 29.8% and 31.1% in nine months 2017 and 2016, respectively. The lower effective tax rates for nine months 2017 compared to nine months 2016 principally reflect certain benefits resulting from filing amended federal and state income tax returns, including a state income tax carry forward benefit.

Net earnings attributable to Tootsie Roll Industries, Inc. were \$26,933 (after \$46 net loss attributed to non-controlling interests) in third quarter 2017 compared to \$28,637 (after \$40 net loss attributed to non-controlling interests) in third quarter 2016, and earnings per share were \$0.43 and \$0.45 in third quarter 2017 and 2016, respectively, a decrease of \$0.02 per share, or 4%. Nine months 2017 net earnings attributable to Tootsie Roll Industries, Inc. were \$48,879 (after \$131 net loss attributed to non-controlling interests) compared to nine months 2016 net earnings of \$49,669 (after \$142 net earnings attributed to non-controlling interests), and net earnings per share were \$0.77 in both nine months 2017 and nine months 2016. Earnings per share attributable to Tootsie Roll Industries, Inc. for third quarter and nine months 2017 did benefit from the reduction in average shares outstanding resulting from purchases in the open market by the Company of its common stock. Average shares outstanding decreased from 64,021 in third quarter 2016 to 62,986 in third quarter 2017, and from 64,205 in nine months 2016 to 63,286 in nine months 2017.

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 identified any triggering

events, as defined, or other adverse information that would indicate a material impairment of its goodwill or intangibles in nine months 2017. There were also no impairments in the comparative nine months 2016 period or calendar 2016.

Beginning in 2012, the Company received periodic notices from the Bakery and Confectionery Union and Industry International Pension Plan (Plan), a multi-employer defined benefit pension plan for certain Company union employees, that the Plan's actuary certified the Plan to be in "critical status", the "Red Zone", as defined by the Pension Protection Act (PPA) and the Pension Benefit Guaranty Corporation (PBGC), and that a plan of rehabilitation was adopted by the trustees of the Plan in 2012 (and was further amended in 2016). During 2015, the Company received notices that the Plan's status was changed to "critical and declining status", as defined by the PPA and PBGC, for the plan year beginning January 1, 2015, and that the Plan was projected to have an accumulated funding deficiency for the 2017 through 2024 plan years. A designation of "critical and declining status" implies that the Plan is expected to become insolvent in the next 20 years. In April 2017, the Company received new notices that the Plan remains in "critical and declining status" and is projected to become insolvent in 13 years. These notices also advise that the Plan trustees are considering the reduction or elimination of certain retirement benefits and may seek assistance from the PBGC.

Based on these updated notices, the Plan's funded percentages (plan investment assets as a percentage of plan liabilities), as defined, were 57.0%, 62.8% and 65.1% as of January 1, 2016 (most recent valuation date available), 2015, and 2014, respectively (these valuation dates are as of the beginning of each Plan year). These funded percentages are based on actuarial values, as defined, and do not reflect the actual market value of Plan investments as of these dates. If the market value of investments had been used as of January 1, 2016, the funded percentage would be 53.0% (not 57.0%). As of the January 1, 2016 valuation date (most recent valuation available), 20% of Plan participants were current active employees, 51% were retired or separated from service and receiving benefits, and 29% were retired or separated from service and entitled to future benefits. The number of current active employee Plan participants as of January 1, 2016 fell 2% from the previous year and 4% over the past two years. When compared to the Plan valuation date of January 1, 2011 (five years earlier), current active employees participants have declined 31%, whereas participants who were retired or separated from service and receiving benefits increased 6% and participants who were retired or separated from service and entitled to future benefits increased 8%. The bankruptcy of a major participating employer in the Plan contributed to the above discussed Plan results. The Internal Revenue Service recently issued updated mortality tables (increasing life expectancy) effective January 1, 2018 which will likely increase the Plan's liabilities and further decrease the above discussed funding percentages.

The Company has been advised that its withdrawal liability would have been \$72,700, \$61,000 and \$56,400 if it had withdrawn from the Plan during 2016, 2015 and 2014, respectively. The increase from 2015 to 2016 principally reflects poor investment returns of the plan in 2015, a decrease in the PBGC interest rates, and a higher share of the Plan's unfunded vested benefits allocated to the Company. Based on the above, including the Plan's projected insolvency in 13 years, management believes that the Company's withdrawal liability will likely increase further in future years. Based on the Company's actuarial study and certain provisions in ERISA and the law relating to withdrawal liability payments, management believes that the Company's liability would likely be limited to twenty annual payments of \$2,914 which have a present value in the range of \$34,200 to \$44,700. The aforementioned is based on a range of valuation interest rates which management understands is provided under the statute. Should the Company actually withdraw from the Plan at a future date, a withdrawal liability, which could be higher than the above discussed amounts, could be payable to the Plan.

The Company's existing labor contract with the local union commits the Company's participation in this Plan. The Company's labor contract expired on September 30, 2017 but has provisions for automatic extensions unless the one of the parties provides a 60 day notice that they will not extend. Both parties are currently continuing under this automatic extension provision. The amended rehabilitation plan, which continues, requires that employer contributions include 5% compounded annual surcharge increases each year for an unspecified period of time beginning in 2012 as well as certain plan benefit reductions. The Company's pension expense for this Plan for calendar years 2016 and 2015 was \$2,541 and \$2,574, respectively. The aforementioned expense includes surcharges of \$542 and \$447 in calendar years 2016 and 2015, respectively, as required under the plan of rehabilitation as amended. The Company's pension expense for this Plan for nine months 2017 and 2016 was \$2,064 and \$1,959 respectively, which includes surcharges of \$517 and \$417 respectively.

During third quarter 2017, Plan representatives informed the Company that they had received preliminary approval from the PBGC that would transform the Plan into a “hybrid plan” which would comprise both an “old pool” and a “new pool” for participating employers. The “hybrid plan” would allow current participating employers to enter a “new pool” and withdraw from the “old pool” if they agree to 30 years of additional annual installment payments to discharge their existing withdrawal liability of the “old pool”. The “new pool” option would provide certain protections from future withdrawal liabilities and reduced surcharges relating to future plan contributions, but would require employers to remain a participating employer in the “new pool” Plan for 30 years. The Plan believes that this “hybrid plan” as restructured will avoid insolvency. If the Company were to exercise this option, it would be required to make additional annual installment payments (which are in addition to the annual pension expense and surcharges discussed above) to the Plan of \$2.1 million for 30 years (\$63.0 million total) beginning in 2019, or a lump-sum payment of approximately \$40.7 million in 2019. The Company is currently evaluating this proposal with its actuaries and legal counsel. If the Company were to decide to enter this “hybrid plan” agreement, it would record a charge to net after-tax earnings of approximately \$25.6 million which reflects the aforementioned lump-sum pre-tax payment of \$40.7 million (or the present value of the \$2.1 million annual payments for 30 years discussed above), net of the Company’s estimated future income tax benefits.

The Company is currently unable to determine the ultimate outcome of the above discussed matter and therefore, is unable to determine the effects on its consolidated financial statements, but the ultimate outcome or the effects of any modifications to the current rehabilitation plan could be material to its consolidated results of operations or cash flows in one or more future periods. See also the Company’s Consolidated Financial Statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s 2016 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities were \$18,420 and \$47,032 in nine months 2017 and 2016, respectively, a decrease of \$28,612. The decrease in nine months 2017 cash flows from operating activities principally reflects the timing of sales and collections of account receivables including the effects of seasonal (pre-Halloween) sales payment terms, the effects of higher finished goods inventories at September 30, 2017 reflecting the timing of pre-Halloween shipments during the comparative September and October periods, and changes in other receivables primarily due to increased broker margin deposit requirements on commodity hedges.

Net cash used in investing activities was \$42,166 in nine months 2017 compared to \$34,267 in nine months 2016. Cash flows from investing activities reflect \$51,935 and \$45,298 of purchases of available for sale securities during nine months 2017 and 2016, respectively, and \$21,328 and \$26,517 of sales and maturities of available for sale securities during nine months 2017 and 2016, respectively. Nine months 2017 and 2016 investing activities include capital expenditures of \$11,699 and \$13,067, respectively. All capital expenditures in 2017 are expected to be funded from the Company’s cash flow from operations and internal sources. In addition, Company management has committed approximately \$15,000 to a manufacturing plant rehabilitation upgrade and expansion of one of its manufacturing facilities in the U.S.A. Management anticipates capital outlays for this project to approximate \$500 in 2017, \$6,000 in 2018, \$6,000 in 2019 and \$2,500 in 2020.

The Company’s consolidated financial statements include bank borrowings of \$404 and \$447 at September 30, 2017 and 2016, respectively, all of which relates to its two majority-owned and controlled Spanish companies. The Company had no other outstanding bank borrowings at September 30, 2017.

Financing activities include Company common stock purchases and retirements of \$30,027 and \$26,293 in nine months 2017 and 2016, respectively. Cash dividends of \$16,965 and \$16,694 were paid in nine months 2017 and 2016, respectively.

The Company’s current ratio (current assets divided by current liabilities) was 3.8 to 1 at September 30, 2017 compared to 4.7 to 1 at December 31, 2016 and 3.6 to 1 at September 30, 2016. Net working capital was \$217,650 at September 30, 2017 compared to \$235,739 and \$202,304 at December 31, 2016 and September 30, 2016, respectively.

The aforementioned net working capital amounts are principally reflected in aggregate cash and cash equivalents and short-term investments of \$123,784 at September 30, 2017 compared to \$186,658 and \$122,144 at December 31, 2016

and September 30, 2016, respectively. In addition, long term investments, principally debt securities comprising corporate and municipal bonds were \$193,991 at September 30, 2017, as compared to \$164,665 and \$189,956 at December 31, 2016 and September 30, 2016, respectively. Aggregate cash and cash equivalents and short and long-term investments were \$317,775, \$351,323, and \$312,100, at September 30, 2017, December 31, 2016 and September 30, 2016, respectively. The aforementioned includes \$75,094, \$67,995, and \$66,085 at September 30, 2017, December 31, 2016 and September 30, 2016, respectively, relating to trading securities which are used as an economic hedge for the Company's deferred compensation liabilities. Investments in corporate and municipal bonds, variable rate demand notes, and other debt securities that matured during nine months 2017 and 2016 were generally used to purchase the Company's common stock or were replaced with debt securities of similar maturities.

The Company periodically contributes to a VEBA trust, managed and controlled by the Company, to fund the estimated future costs of certain employee health, welfare and other benefits. The Company is currently using these VEBA funds to pay the actual cost of such benefits through most of 2017. The VEBA trust held \$602, \$3,027 and \$3,379 of aggregate cash and cash equivalents at September 30, 2017, December 31, 2016 and September 30, 2016, respectively. This asset value is included in prepaid expenses in the Company's Consolidated Statement of Financial Position. These assets are categorized as Level 1 within the fair value hierarchy. The Company is planning to make a contribution to this VEBA in the range of \$10,000 to \$15,000 in fourth quarter 2017. This contribution would result in the prepayment of these employee benefits.

ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Company's condensed consolidated financial statements.

RISK FACTORS

There were no material changes to the risk factors disclosed in the Company's 2016 Form 10-K.

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," "plan" 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 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 and sufficient availability of sugar, corn syrup, edible oils, including palm oils, 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 all labor, benefits and local plant operating costs at its Canadian plants. The Company is exposed to exchange rate fluctuations in Mexico, Canada, and Spain where its subsidiaries sell products in their local currencies. The Company invests in securities with maturities dates of up to approximately three years which are generally held to maturity, and variable rate demand notes where interest rates are generally reset weekly, all of which limits the Company's exposure to interest rate fluctuations. There have been no material changes in the Company's market risks that would significantly affect the disclosures made in the Form 10-K for the year ended December 31, 2016.

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, 2017 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, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's purchases of its common stock during the quarter ended September 30, 2017:

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 1 to Jul 31	116,012	\$ 35.78	Not Applicable	Not Applicable
Aug 1 to Aug 31	156,575	36.56	Not Applicable	Not Applicable
Sep 1 to Sep 30	-	-	Not Applicable	Not Applicable
Total	272,587	\$ 36.23	Not Applicable	Not Applicable

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

ITEM 6. EXHIBITS

Exhibits 31.1 — [Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

Exhibits 31.2 — [Certification of the Chief Financial Officer 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 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 7, 2017

BY: /S/ELLEN R. GORDON
Ellen R. Gordon
Chairman and Chief
Executive Officer

Date: November 7, 2017

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

CERTIFICATION

I, Ellen R. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tootsie Roll Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of 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: November 7, 2017

By: /S/ELLEN R. GORDON

Ellen R. Gordon
Chairman and Chief
Executive Officer

CERTIFICATION

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

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

Date: November 7, 2017

By: /S/G. HOWARD EMBER, JR.

G. Howard Ember, Jr.
Vice President Finance and
Chief Financial Officer

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, 2017 (the Form 10-Q) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Tootsie Roll Industries, Inc.

Dated: November 7, 2017

/S/ELLEN R. GORDON

Ellen R. Gordon
Chairman and Chief
Executive Officer

Dated: November 7, 2017

/S/G. HOWARD EMBER, JR.

G. Howard Ember, Jr.
Vice President Finance and
Chief Financial Officer