TASTY BAKING CO
Form 10-Q
May 13, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the thirteen weeks ended March 30, 2002

( ) 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 1-5084

TASTY BAKING COMPANY

(Exact name of company as specified in its charter)

Pennsylvania	23-1145880
(State of Incorporation)	(IRS Employer Identification Number)

2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129
(Address of Principal Executive Offices) (Zip Code)

(215) 221-8500
(Company's Telephone Number, including area code)

Indicate by check mark whether the company (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 company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $.50	8,066,100
(Title of Class)	(No. of Shares Outstanding as of May 10, 2002)

TASTY BAKING COMPANY AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

TASTY BAKING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited)

	March 30, 2002
Current assets:	
Cash	$ 129,506
Accounts and notes receivable, net of allowance for doubtful accounts	23,356,098
Inventories:	
Raw materials	4,316,605
Work in progress	757,887
Finished goods	2,373,578
	7,448,070
Deferred income taxes, prepayments and other	4,159,399
Total current assets	35,093,073
Property, plant and equipment:	185,646,386
Less accumulated depreciation	126,257,504
	59,388,882
Long-term receivables	10,197,682
Deferred income taxes	7,381,934
Spare parts inventory and miscellaneous assets	3,786,591
Total assets	$ 115,848,162
Current liabilities:	
Current obligations under capital leases	$ 220,951
Notes payable, banks	5,100,000
Accounts payable	4,334,227
Accrued liabilities	6,460,377
Total current liabilities	16,115,555
Long-term debt, less current portion	11,000,000
Long-term obligations under capital leases, less current portion	3,562,779
Accrued pensions and other liabilities	11,720,043
Postretirement benefits other than pensions	18,072,716
Shareholders' equity:	
Common stock	4,558,243
Capital in excess of par value of stock	29,468,280
Retained earnings	35,077,885
	69,104,408
Less:	
Treasury stock, at cost	13,221,322
Management Stock Purchase Plan receivables and deferrals	506,017
	55,377,069

Total liabilities and shareholders' equity	$ 115,848,162

See accompanying notes to consolidated condensed financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	For the Thirteen Weeks Ended	
	March 30, 2002	March 3
Gross Sales	$64,039,058	$ 65,65
Less discounts and allowances	(23,380,184)	(23,41
Net Sales	40,658,874	42,24
Costs and expenses:		
Cost of sales	25,954,274	26,19
Depreciation	1,734,892	1,84
Selling, general and administrative	10,983,307	10,80
Interest expense	367,733	28
Other income, net	(279,761)	(31
	38,760,445	38,80
Income before provision for income taxes	1,898,429	3,43
Provision for income taxes	693,273	1,31
Net income	$ 1,205,156	$2,11
Average common shares outstanding:		
Basic	8,049,657	7,90
Diluted	8,188,303	8,02
Per share of common stock:		
Net income:		
Basic	$0.15	

Diluted	$0.15	
Cash dividend	$0.12	

(a) Reclassified for comparative purposes to reflect the change in presentation for thrift cooperative advertising.

See accompanying notes to consolidated condensed financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Thirte March 30, 2002
Cash flows from (used for) operating activities	
Net income	$ 1,205,156
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,734,892
Amortization	10,490
Conditional Stock Grant	-
Other	105,168
Changes in assets and liabilities affecting operations	(2,112,737)
Net cash from operating activities	942,969
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(1,421,798)
Proceeds from owner/operators' loan repayments	860,855
Loans to owner/operators	(857,488)
Other	62,828
Net cash used for investing activities	(1,355,603)
Cash flows from (used for) financing activities	
Additional long-term debt	-
Dividends paid	(965,907)
Payment of long-term debt	(59,173)
Net increase in short-term debt	1,200,000

Net proceeds from sale of common stock	-
Net cash from financing activities	174,920
Net decrease in cash	(237,714)
Cash, beginning of year	367,220
Cash, end of period	$ 129,506
Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	$ 214,738
Income taxes	$ 150,151

See accompanying notes to consolidated condensed financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. New Credit Facility

On January 31, 2002 the company entered into a new credit facility (facility) for $40,000,000 with two banks. This facility replaced all existing short-term and long-term lines of credit. Under the facility, $15,000,000 is available on a 364 day basis and $25,000,000 is available on a three-year revolving term, both of which are renewable annually for an extension of one year upon approval of the banks. The facility bears interest at an indexed LIBOR rate or the prime rate, and it contains restrictive covenants, which include provisions for the maintenance of tangible net worth, coverage of fixed charges, and restrictions on total indebtedness, guarantees and investments. The 364 day portion of the facility contains a sub-limit of $6,000,000 for overnight "Swing Line" borrowings. The revolving portion allows for Standby Letters of Credit to be issued.

2. Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the company as of March 30, 2002 and December 29, 2001, the results of its operations for the thirteen weeks ended March 30, 2002 and March 31, 2001 and cash flows for the thirteen weeks ended March 30, 2002 and March 31, 2001. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2001 Annual Report to Shareholders. In addition, the results of operations for the thirteen weeks ended March 30, 2002 are not necessarily indicative of the results to be expected for the full year.

Certain expense items are charged to operations in the year incurred. However, for interim reporting purposes the expenses are charged to operations on a pro-rata basis over the company's accounting periods. For the thirteen weeks ended March 30, 2002 and March 31, 2001, the difference between the actual expenses incurred and the expenses charged to operations was not material.

3. Net Income Per Common Share

Net income per common share is presented as basic and diluted earnings per share. Net income per common share - Basic is based on the weighted average number of common shares outstanding during the year. Net income per common share - Diluted is based on the weighted average number of common shares and dilutive potential common shares outstanding during the year. The company's dilutive potential common shares outstanding during the year result entirely from dilutive stock options. Potential common shares, which would result from the exercise of stock options, are not included in the computation of diluted per share amounts when the options' exercise price is greater than the average market price of the common shares.

4. Restricted Stock Plan

On December 21, 2000, the Board of Directors adopted the Tasty Baking Company Restricted Stock Incentive Plan (Restricted Stock Plan), which was approved by shareholders at the 2001 Annual Meeting. Under the terms of the Restricted Stock Plan, 200,000 common shares were authorized and 109,500 common shares were granted to executives of the company. The target for these awards was to be the achievement of a compound annualized increase in earnings per share of 10% per year for fiscal years 2001 through 2003 (the Measurement Period) over earnings per share for fiscal year 2000. Since the target for 2001 had not been achieved, and based on the first quarter 2002 results, the company is satisfied that the overall target will not be achieved. Therefore, in the first quarter of 2002 the balance of the accrual of $239,664 was reversed.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net income for the first quarter of 2002 was $1,205,156 or $.15 per share. Net income for the first quarter of 2001 was $2,119,451 or $.26 per share. During the first quarter of 2001, both the $14.00 and $16.00 stock price targets pertaining to a 1999 conditional stock grant were achieved and a resulting pre-tax charge of $805,000 of compensation expense was recorded. Without the additional expense related to the $16.00 per share price target, net income per share would have been $.29. The achievement of the $16.00 target completed the conditional stock grant.

For the first quarter, gross sales decreased 2.5% to $64,039,058, compared to $65,655,374 last year. The decrease in gross sales was primarily the result of volume decreases due to consumer resistance to price increases and heavy promotional activity by competitors. Gross sales, less discounts and allowances, resulted in a decrease in net sales of 3.8% to $40,658,874, compared to $42,243,264 last year. For comparability, 2001 net sales in this filing are revised due to reclassifications of thrift store and co-operative advertising expenses. In 2002, the company reported expenses incurred to run its thrift stores as operating expenses; in 2001 those expenses were shown as a reduction of net sales. Also during 2002, due to a change in accounting rules, the company is reporting co-operative advertising as a reduction of net sales; in 2001 co-operative advertising was included in operating expense. The percentage decrease in net sales was greater than the percentage decrease in gross sales primarily due to the effect of commissions related to the company's increased national sales efforts.

Cost of sales, as a percentage of gross sales, was 40.5% and 39.9% for the first quarters of 2002 and 2001, respectively. The percentage increase in 2002 was primarily due to an increase in the percentage of sales of lower profit margin products, and an increase in sales to mass merchandisers.

Selling, general and administrative expenses for the first quarter of 2002 increased by $179,539 or 1.7% compared to the first quarter of 2001. Thrift store expenses increased due to the number of stores operating during the quarter (sixteen in 2002 compared to eleven in 2001). This increase was offset by a decrease in compensation expense in 2002 relative to the additional expense in 2001 resulting from the achievement of the conditional stock grant targets.

Interest expense increased for the first quarter of 2002 versus the first quarter of 2001 as a result of bank charges related to a debt restructuring, partially offset by decreased average interest rates as well as lower average borrowing levels.

The effective tax rate was 36.5% for the quarter ended March 30, 2002 and 38.3% for the quarter ended March 31, 2001, which compare to a federal statutory rate of 34%. The difference between the effective rates and the statutory rate was the effect of state taxes.

Financial Condition

The company has consistently demonstrated the ability to generate sufficient cash flow from operations. Bank borrowings, under the company's credit facility, are used to supplement cash flow from operations during periods of cyclical shortages.

For the thirteen weeks ended March 30, 2002, net cash from operating activities increased by $379,881 to $942,969 from $563,088 for the same period in 2001. The increase in 2002 compared to 2001 was due to a smaller increase in receivables as compared to the prior year and a decrease in inventories compared to an increase in the prior year. These positive changes were partially offset by a decrease in liabilities and net income in the current year.

Net cash used for investing activities for the thirteen weeks ended March 30, 2002 decreased by $790,168 relative to the same period in 2001 principally due to lower capital expenditures in the current year. Also, there was an excess of proceeds from owner/operator loan payments over new loans granted in the current quarter compared to an excess of new loans granted over proceeds from loan payments in the prior year.

Net cash from financing activities for the thirteen weeks ended March 30, 2002 decreased by $1,162,026 relative to the same thirteen weeks in 2001 due to the fact that there were no proceeds from the sale of common stock in the current quarter and there was a decrease in net bank borrowings.

For the remainder of 2002 the company anticipates that cash flow from operations, along with the continued availability of credit under the credit facility, will provide sufficient cash to meet operating and financing requirements.

Forward-Looking Statements

Certain statements in this filing that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties, which could cause actual results to differ from those projected. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include changes in general economic or business conditions, the availability of capital upon terms acceptable to the company, the availability and prices of raw materials, the level of demand for the company's products, legal proceedings to which the company is or may become a party, the actions of competitors and customers, changes in consumer tastes or eating habits, the success of plant modernization and business strategies implemented by the company, and the ability to develop and market in a timely and efficient manner new products which are accepted by consumers.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The company has certain floating rate debt notes. Under current market conditions, the company believes that changes in interest rates would not have a material impact on the financial statements of the company. The company also has notes receivable from owner operators whose rates adjust every three years, and, therefore, would partially offset the fluctuations in the company's interest rates on its notes payable. The company also has the right to sell these notes receivable, and could use these proceeds to liquidate a corresponding amount of the debt notes payable.

TASTY BAKING COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In November, 1998, nine (9) independent route owner/operators (Plaintiffs), on behalf of all present and former route owner/operators, commenced suit against the Registrant seeking recovery from the Registrant of amounts (i) which the owner/operators paid in the past to the Internal Revenue Service on account of employment taxes, and (ii) collected by the Registrant since January 1, 1998 as an administrative fee from all unincorporated owner/operators. The Registrant removed the complaint to the United States District Court for the Eastern District of Pennsylvania and was successful in having the complaint dismissed with prejudice as to all federal causes of action.

Subsequently, Plaintiffs commenced a new suit in Common Pleas Court for Philadelphia County, Pennsylvania, asserting state law claims seeking damages for (1) the alleged erroneous treatment of the owner/operators as independent contractors by the Registrant such that the owner/operators were required to pay self-employment, social security and federal unemployment taxes which they allege should have been paid by the Registrant, and (2) for breach of contract relating to the collection of an administrative fee from all unincorporated owner/operators. The Court dismissed with prejudice the Plaintiffs first claim in March 2000. As to the second claim, in January 2002, the Court certified a class of approximately 200 owner/operators (representing approximately 43% of the Registrant's current routes), consisting of unincorporated owner/operators who, since February 7, 1998, have paid or continue to pay the administrative fee to the Registrant. The Registrant believes the case to be without merit and is defending the matter vigorously. The Registrant has not established any reserve in the event that the ultimate outcome of this litigation proves unfavorable to the Registrant. If this matter is determined adversely to the Registrant, the ultimate liability arising therefrom should not be material to the financial position of the Registrant, but could be material to its results of operations in any quarter or annual period.

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

The company did not file a report on Form 8-K during the thirteen weeks ended March 30, 2002.

TASTY BAKING COMPANY AND SUBSIDIARIES

SIGNATURE

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

TASTY BAKING COMPANY

(Company)

May 13, 2002	/S/ John M. Pettine
(Date)	JOHN M. PETTINE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER)
May 13, 2002	/S/ Daniel J. Decina
(Date)	DANIEL J. DECINA VICE PRESIDENT, FINANCE AND CHIEF ACCOUNTING OFFICER (PRINCIPAL ACCOUNTING OFFICER)