TASTY BAKING CO
Form 10-Q
August 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 twenty-six weeks ended June 29, 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 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	8,074,185
(Title of Class)	(No. of Shares Outstanding at July 26, 2002)

INDEX OF EXHIBITS IS LOCATED ON PAGE 10 OF 11.

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)

	June 29, 2002
Current assets:	

Cash	$ 498,73
Accounts and notes receivable, net of allowance for doubtful accounts	23,386,39
Inventories:	
Raw materials	4,042,35
Work in progress	846,37
Finished goods	2,741,89
	7,630,62
Deferred income taxes, prepayments and other	4,203,78
Total current assets	35,719,53
Property, plant and equipment:	187,618,16
Less accumulated depreciation	127,897,47
	59,720,69
Long-term receivables	10,299,25
Deferred income taxes	7,381,93
Spare parts inventory and miscellaneous assets	3,834,93
Total assets	$ 116,956,35
Current liabilities:	
Current obligations under capital leases	$ 202,30
Notes payable, banks	2,500,00
Accounts payable	6,574,23
Accrued liabilities	6,839,99
Total current liabilities	16,116,53
Long-term debt, less current portion	11,000,00
Long-term obligations under capital leases, less current portion	3,521,77
Accrued pensions and other liabilities	12,862,25
Postretirement benefits other than pensions	17,932,30
Shareholders' equity:	
Common stock	4,558,24
Capital in excess of par value of stock	29,450,83
Retained earnings	34,987,96
	68,997,04
Less:	
Treasury stock, at cost	12,923,97
Management Stock Purchase Plan receivables and deferrals	549,58
	55,523,47
Total liabilities and shareholders' equity	$ 116,956,35

See accompanying notes to consolidated condensed financial stateme

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

	For the Thirteen Weeks Ended June 29, 2002	For the Thirteen Weeks Ended June 30,2001 (b)	For the Tw June 29, 200
Gross Sales	$65,617,235	$ 66,520,073	$ 129,656,29
Less discounts and allowances	(23,530,676)	(23,323,163)	(46,910,86
Net Sales	42,086,559	43,196,910	82,745,43
Costs and expenses:			
Cost of sales	26,907,214	26,742,951	52,861,48
Depreciation	1,639,966	1,703,058	3,374,85
Restructure charge (a)	1,405,000	-	1,405,00
Selling, general and administrative	10,910,316	10,784,522	21,893,62
Interest expense	188,155	320,355	555,88
Other income, net	(295,478)	(303,078)	(575,23
	40,755,173	39,247,808	79,515,61
Income before provision for income taxes	1,331,386	3,949,102	3,229,81
Provision for income taxes	452,621	1,450,570	1,145,89
Net income	$ 878,765	$ 2,498,532	$ 2,083,92
Average common shares outstanding:			
Basic	8,070,466	7,998,041	8,060,06
Diluted	8,180,632	8,137,241	8,184,46
Per share of common stock:			
Net income:			
Basic	$0.11	$0.31	$0.2
Diluted	$0.11	$0.31	$0.2

Cash dividend	$0.12	$0.12	$0.2

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

	For the Twenty-six Weeks
	June 29, 2002
Cash flows from (used for) operating activities	
Net income	$ 2,083,921
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,374,858
Amortization	20,905
Restructure charge	1,314,714
Other	520,256
Changes in assets and liabilities affecting operations	(526,684)
Net cash from operating activities	6,787,970
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(3,393,580)
Proceeds from owner/operators' loan repayments	2,152,832
Loans to owner/operators	(2,251,038)
Other	70,746
Net cash used for investing activities	(3,421,040)
Cash flows from (used for) financing activities	
Additional long-term debt	-
Dividends paid	(1,934,595)
Payment of long-term debt	(118,820)
Net increase (decrease) in short-term debt	(1,400,000)
Net proceeds from sale of common stock	218,000
Net cash from (used for) financing activities	(3,235,415)

Net increase (decrease) in cash	131,515
Cash, beginning of year	367,220
Cash, end of period	$ 498,735

Supplemental Cash Flow Information:
Cash paid during the period for:

Interest	$ 275,924
Income taxes	$ 901,651

See accompanying notes to consolidated condensed financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Restructure Charges

Thrift, Corporate and Manufacturing Restructure 2002
During the second quarter the company closed six thrift stores and eliminated certain manufacturing and administrative positions. There were a total of 67 employees terminated as a result of the restructure, of which 42 were temporary employees, 13 were thrift store employees and 12 were corporate and administrative employees. Costs related to these events were included in a restructure charge of $1,405,000, $970,922 related to thrift store closures and $434,078 related to elimination of positions. The after-tax effect of this charge was $843,000 or $.10 per share. During the second quarter, $90,286 was expended relative to the charge leaving a balance of $1,314,714 to be paid.

	Original Charge	Expenditures to date	Balance 6/29/02
Lease obligations	$ 767,293	$ 14,566	$ 752,727
Severance	434,078	69,760	364,318
Fixed Assets	90,882	-	90,882
Other	112,747	5,960	106,787
Total	$1,405,000	$ 90,286	$1,314,714

Dutch Mill and Thrift Restructure 2001
During the fourth quarter of 2001, the company closed its Dutch Mill

plant in Wyckoff, New Jersey. In addition, the company closed two thrift stores. Costs related to these events were included in a restructure charge of $1,728,000. On March 30, 2002 the remaining balance to be paid was $161,338. During the second quarter of 2002 there were additional expenditures of $84,352 relative to this charge leaving a balance of $76,986 to be paid.

	Balance 3/30/02	Current Expenditures	Balance 6/29/02
Lease obligations	$ 72,257	$ 54,472	$ 17,785
Severance	15,981	102	15,879
Other	73,100	29,778	43,322
Total	$ 161,338	$ 84,352	$ 76,986

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 June 29, 2002 and December 29, 2001, the results of its operations for the thirteen and twenty-six weeks ended June 29, 2002 and June 30, 2001 and cash flows for the twenty-six weeks ended June 29, 2002 and June 30, 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 and twenty-six weeks ended June 29, 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 twenty-six weeks ended June 29, 2002 and June 30, 2001, the difference between the actual expenses incurred and the expenses charged to operations was not material.

3. 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.

4. 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.

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

Results of Operations

For the second quarter of 2002, the company realized net income of $878,765 versus $2,498,532 for the second quarter of 2001. Net income per share was $.11 in 2002 compared to $.31 in 2001. Included in net income was a restructure charge in the amount of $1,405,000, which consisted of costs associated with the closing of six company thrift stores and severance charges relating to the elimination of certain manufacturing and administrative positions. The after-tax impact of this charge was $843,000 or $.10 per share. After eliminating the effect of this charge, the comparable 2002 second quarter results were $.21 per share.

Net income for the twenty-six weeks ended June 29, 2002 was $2,083,921 versus $4,617,983 for the twenty-six weeks ended June 30, 2001. Net income per share was $.25 in 2002 compared to $.57 in 2001. Included in net income was the restructure charge in the amount of $1,405,000. The after-tax impact of this charge was $843,000 or $.10 per share. After eliminating the effect of this charge, the comparable results for the twenty-six weeks ended June 29, 2002 were $.35 per share.

For the second quarter, gross sales decreased 1.4% to $65,617,235, compared to $66,520,073 last year. The decrease in gross sales for the second quarter of 2002 is primarily the result of volume decreases due to heavy promotional activity mostly from route market competition. Gross sales, less discounts and allowances, resulted in a decrease in net sales of 2.6% to $42,086,559, compared to $43,196,910 reported last year. 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. For comparability, 2001 net sales in this filing are revised, by a net amount of $172,792, to reflect the reclassification 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.

Cost of sales, as a percentage of gross sales, was 41.0% and 40.2% for the second 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 second quarter of 2002 increased by $125,794 or 1.2% compared to the second quarter of 2001. The increase resulted primarily from an increase in advertising and selling expenses.

Interest expense decreased for the second quarter of 2002 versus the second quarter of 2001 primarily as a result of decreased average interest rates as well as lower average borrowing levels.

The effective tax rate was 34% for the quarter ended June 29, 2002 and 36.7% for the quarter ended June 30, 2001, which compares to a federal statutory rate of 34%. The 2002 effective rate was essentially the same as the federal statutory rate as a result of state income taxes being offset by tax benefits arising from passive income and certain permanent differences.

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 twenty-six weeks ended June 29, 2002, net cash from operating activities increased by $3,155,111 to $6,787,970 from $3,632,859 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. In addition, net cash from operating activities in 2002 was affected by favorable adjustments including the restructure charge.

Net cash used for investing activities for the twenty-six weeks ended June 29, 2002 decreased by $735,572 relative to the same period in 2001. This was principally due to reduced purchases of equipment compared to the prior year.

Net cash from financing activities for the twenty-six weeks ended June 29, 2002 decreased by $3,753,295 relative to the same twenty-six week period in 2001. This was principally due to an overall reduction in the company's debt level and to lower proceeds from the sale of company stock.

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 consolidated 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 2. Changes in Securities and Use of Proceeds

During the quarter, the company sold 18,875 shares of its common stock to an officer and one former director of the company pursuant to the exercise of outstanding stock options. All shares were sold for cash and the aggregate price paid for the shares sold was $218,000.00. The options were originally granted under the terms and conditions of the company's various stock option plans and the stock option awards made from time to time to officers and directors. The original stock option awards and the subsequent sale of common stock by the company are exempt from registration as transactions by the issuer not involving a public offering as provided under Section 4(2) of the Securities Act of 1933, as amended, and the regulations and rulings thereunder. All proceeds from the sale of the common stock will be used for general corporate purposes.

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

(a) The company's annual meeting of shareholders was held on April 26, 2002.

(b) The directors elected at the meeting were:

	For	Against	Withheld

Fred C. Aldridge, Jr.	6,590,718	---	79,760
G. Fred DiBona, Jr.	6,585,683	---	84,794
John M. Pettine	6,586,967	---	83,509

Other directors whose terms of office continued after the meeting are as follows: Carl S. Watts, Ronald J. Kozich, Philip J. Baur Jr. and Judith M. von Seldeneck.

(c) Other matters voted upon at the meeting and the results of those votes were as follows:

	For	Against	Abstain
Approval of PricewaterhouseCoopers LLP, as independent certified public accountants	6,642,485	16,120	11,871

The foregoing matters are described in detail in the company's proxy statement dated March 27, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 99.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The company did not file a report on Form 8-K during the twenty-six weeks ended June 29, 2002.

TASTY BAKING COMPANY AND SUBSIDIARIES

SIGNATURES

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)

August 12, 2002	/S/ John M. Pettine
(Date)	JOHN M. PETTINE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)