TASTY BAKING CO
Form 10-Q
August 03, 2009

UNITED STATES
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 June 27, 2009

o 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)

Navy Yard Corporate Center, Three Crescent Drive, Suite 200, Philadelphia, Pennsylvania 19112
(Address of principal executive offices including Zip Code)

215-221-8500
(Company's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES o NO o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

There were 8,577,285 shares of Common Stock outstanding as of July 31, 2009.

TASTY BAKING COMPANY AND SUBSIDIARIES

INDEX

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(000's, except per share amounts)

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Gross sales	$ 78,532	$ 72,180	$ 155,461	$ 141,473
Less discounts and allowances	(31,575)	(27,586)	(62,341)	(54,058)
Net sales	46,957	44,594	93,120	87,415
Costs and expenses:				
Cost of sales, exclusive of depreciation shown below	27,451	29,192	57,372	57,986
Depreciation	3,320	3,069	6,559	6,099
Selling, general and administrative	12,376	11,993	25,071	24,004
Interest expense	545	508	1,150	964
Other income, net	(175)	(193)	(383)	(392)
	43,517	44,569	89,769	88,661
Income (loss) before provision for income taxes	3,440	25	3,351	(1,246)
Provision for income taxes	1,095	(50)	1,077	(362)
Net income (loss)	$ 2,345	$ 75	$ 2,274	$ (884)
Average common shares outstanding:				
Basic	8,062	8,043	8,060	8,041
Diluted	8,062	8,043	8,060	8,041
Per share of common stock:				
Net income (loss):				
Basic	$ 0.27	$ 0.01	$ 0.27	$ (0.11)
Diluted	$ 0.27	$ 0.01	$ 0.27	$ (0.11)
Cash dividend	$ 0.05	$ 0.05	$ 0.10	$ 0.10

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(000's)

	For the Twenty-six Weeks Ended June 27, 2009	June 28, 2008
Cash flows from (used for) operating activities		
Net income (loss)	$ 2,274	$ (884)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	6,559	6,099
Amortization	183	188
Asset retirement obligation interest	195	184
Defined benefit pension expense	626	(188)
Pension contributions	(1,211)	(640)
(Increase) decrease deferred taxes	1,407	(623)
Post retirement medical	(4,027)	(851)
Other	1,931	(234)
Changes in assets and liabilities:		
Increase in receivables	(321)	(1,554)
(Increase) decrease in inventories	(204)	272
Decrease (increase) in prepayments, deferred taxes and other	520	(1,407)
Increase in accrued taxes	(432)	79
Decrease in accounts payable, accrued payroll and other current liabilities	(527)	(1,531)
Net cash from (used for) operating activities	6,973	(1,090)
Cash flows from (used for) investing activities		
Purchase of property, plant and equipment	(29,654)	(13,609)
Independent sales distributor loan repayments	1,361	1,502
Loans to independent sales distributors	(1,270)	(1,660)
Other	(166)	(46)
Net cash used for investing activities	(29,729)	(13,813)
Cash flows from (used for) financing activities		
Dividends paid	(850)	(829)
Increase in long-term debt	78,132	62,027
Payment on long-term debt	(54,859)	(49,155)
Net increase in cash overdraft	369	2,832
Net cash from financing activities	22,792	14,875
Net increase in cash and cash equivalents	36	(28)
Cash and cash equivalents, beginning of year	58	57

Cash and cash equivalents, end of period	$	94	$	29
Supplemental cash flow information				
Non-cash capital expenditures	$	2,150	$	-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(000's)

	June 27, 2009	December 27, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 94	$ 58
Receivables, less allowance of $3,334 and $2,862, respectively	21,865	21,519
Inventories	7,394	7,190
Deferred income taxes	2,707	2,707
Prepayments and other	2,929	3,200
Total current assets	34,989	34,674
Property, plant and equipment:		
Land	1,433	1,433
Buildings and improvements	54,554	52,052
Machinery and equipment	136,102	132,609
Construction in progress	62,515	37,412
	254,604	223,506
Less accumulated depreciation and amortization	131,399	125,218
	123,205	98,288
Other assets:		
Long-term receivables from independent sales distributors	9,701	9,817
Deferred income taxes	12,644	13,088
Miscellaneous	3,161	3,330
	25,506	26,235
Total Assets	$ 183,700	$ 159,197
Liabilities		
Current liabilities:		
Accounts payable	$ 8,748	$ 7,641
Accrued payroll and employee benefits	6,175	5,182
Cash overdraft	3,139	2,770
Current obligations under capital leases	902	720
Notes payable, banks and current portion of long-term debt	1,000	1,000
Reserve for restructure	1,652	-
Other current liabilities	5,467	6,419
Total current liabilities	27,083	23,732
Accrued pension	27,901	27,921
Asset retirement obligation	7,244	7,050
Long-term debt	80,093	57,194
Long-term obligations under capital leases, less current portion	1,391	1,199
Postretirement benefits other than pensions	-	2,226

Reserve for restructure		-		1,652
Other non-current liabilities		6,620		5,256
Total liabilities		150,332		126,230
Shareholders' equity				
Accumulated other comprehensive income (loss)		(6,949)		(5,599)
Capital in excess of par value of stock		28,386		28,699
Common stock, par value $0.50 per share, and entitled to one		4,558		4,558
vote per share: Authorized 30,000 shares, issued 9,116 shares, outstanding 8,579 shares				
Retained earnings		18,077		16,653
Treasury stock, at cost		(10,704)		(11,344)
Total shareholders' equity		33,368		32,967
Total Liabilities and Shareholders' Equity	$	183,700	$	159,197

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
All disclosures are pre-tax, unless otherwise noted.

1. Summary of Significant Accounting Policies

Nature of the Business
Tasty Baking Company (the “Company”) is a leading producer of sweet baked goods and one of the nation’s oldest and largest independent baking companies, in operation since 1914. It has two manufacturing facilities, one in Philadelphia, PA, and a second in Oxford, PA.

Fiscal Year
The Company and its subsidiaries operate on a 52-53 week fiscal year, ending on the last Saturday of December. Fiscal year 2009 is a 52-week year. Fiscal year 2008 was a 52-week year.

Basis of Presentation
The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring items, which are necessary for a fair presentation of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future period.

Use of Estimates
The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer sales, discounts and allowances, long-lived asset impairment, indefinite-lived asset impairment, pension and postretirement plan assumptions, workers’ compensation expense and income taxes. Actual results may differ from these estimates.

Concentration of Credit
The Company has, in the normal course of business, exposure to concentrations of credit risk with respect to trade receivables. Ongoing credit evaluations of customers’ financial conditions are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management’s expectations.

Revenue Recognition
Revenue is recognized when title and risk of loss pass, which is upon receipt of goods by the independent sales distributors, retailers or third-party distributors. For route sales, the Company sells to independent sales distributors who, in turn, sell to retailers. Revenue from sales to independent sales distributors is recognized upon receipt of the product by the distributor. For sales made directly to a customer or a third-party distributor, revenue is recognized upon receipt of the products by the retailer or third-party distributor.

Sale of Routes

Sales distribution routes are primarily owned by independent sales distributors who purchase the exclusive right to sell and distribute Tastykake® products in defined geographic territories. When the Company sells routes to independent sales distributors, it recognizes a gain or loss on the sale. Routes sold by the Company are either existing routes that the Company has previously purchased from an independent sales distributor or newly established routes in new geographic areas. Any gain or loss recorded by the Company is based on the difference between the sales price and the carrying value of the route. The Company recognizes gains or losses on sales of routes when all material services or conditions related to the sale have been substantially performed or satisfied by the Company. In most cases, the Company will finance a portion of the purchase price with interest bearing notes, which are required to be repaid in full. Interest rates on the notes are based on Treasury or LIBOR yields plus a spread. The Company has no obligation to repurchase a route but may choose to do so to facilitate a change in route ownership.

Sales distribution routes owned by the Company are considered to have an indefinite life and are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any potential impairment is recognized when the fair value of the route is less than its net carrying value. As of June 27, 2009 and December 27, 2008, the net carrying values of sales distribution routes owned by the Company were $2.0 million and $1.9 million, respectively.

Cash and Cash Equivalents
The Company considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents. Cash overdrafts are recorded within current liabilities. Cash flows associated with cash overdrafts are classified as financing activities.

Inventory Valuation
Inventories, which include material, labor and manufacturing overhead, are stated at the lower of cost or market, cost being determined using the first-in, first-out ("FIFO") method. Inventory balances for raw materials, work in progress and finished goods are regularly analyzed and provisions for excess and obsolete inventory are recorded, as necessary, based on the forecast of product demand and production requirements.

Property and Depreciation
Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the applicable lease term, when appropriate. Buildings and improvements, machinery and equipment, and vehicles are depreciated over thirty-nine years, seven to fifteen years, and five to ten years, respectively, except where a shorter useful life is necessitated by the Company's decision to relocate its Philadelphia operations. Spare parts are capitalized as part of machinery and equipment and are expensed as utilized or capitalized as part of the relevant fixed asset. Spare parts are valued using a moving average method and are reviewed for potential obsolescence on a regular basis. Reserves are established for all spare parts that are no longer usable and have no fair market value. Capitalized computer hardware and software is depreciated over five years.

Costs of major additions, replacements and betterments are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. For significant projects, the Company capitalizes interest and labor costs associated with the construction and installation of plant and equipment and significant information technology development projects.

In accordance with Financial Accounting Standards Board ("FASB") Statement No.144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"), long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In instances where the carrying amount may not be recoverable, the review for potential impairment utilizes estimates and assumptions of future cash flows directly related to the asset. For assets where there is no plan for future use, the review for impairment includes estimates and assumptions of the fair value of the asset, which is based on the best information available. These assets are recorded at the lower of their book value or fair value.

The Company has a conditional asset retirement obligation related to asbestos in its Philadelphia manufacturing facility. As a result of the Company's decision to relocate its Philadelphia operations, it was able to estimate a settlement date for the asset retirement obligation and in accordance with FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, recorded an obligation of $6.6 million which was the present value of the future obligation. This obligation will continue to accrete to the full value of the future obligation over the remaining period until settlement of the obligation which is expected to occur in June 2010, while the capitalized asset retirement cost is depreciated through December 2044, the remaining useful life of the Philadelphia manufacturing facility. During the thirteen and twenty-six weeks ended June 27, 2009, the Company recorded $0.1 million and $0.2 million in interest associated with the asset retirement obligation, respectively. Also, during the thirteen and twenty-six weeks ended June 28, 2008, the Company recorded $0.1 million and $0.2 million in interest associated with the asset retirement obligation, respectively. As of June 27, 2009 and December 27, 2008, the asset retirement obligation totaled $7.2 million and $7.0 million, respectively.

Grants

The Company receives grants from various government agencies for employee training purposes. Expenses for the training are recognized in the Company's statements of operations at the time the training takes place. When the proper approvals are given and funds are received from the government agencies, the Company records an offset to the training expense already recognized.

In 2007, in connection with the decision to relocate its Philadelphia manufacturing operations, the Company received a $0.6 million grant from the Department of Community and Economic Development of the Commonwealth of Pennsylvania ("DCED"). The opportunity grant has certain spending, job retention and nondiscrimination conditions with which the Company must comply. The Company accounted for this grant under the deferred income approach and will amortize the deferred income over the same period as the useful life of the asset acquired with the grant. The asset acquired with the grant is expected to be placed into service when the new manufacturing facility becomes fully operational in 2010.

In 2006, in conjunction with The Reinvestment Funds, Allegheny West Foundation and the DCED, the Company activated Project Fresh Start (the "Project"). The Project is an entrepreneurial development program that provides an opportunity for qualified minority entrepreneurs to purchase routes from independent sales distributors. The source of grant monies for this program is the DCED. The grants are used by minority applicants to partially fund their purchase of an independent sales distribution route.

Because the Project's grant funds merely pass through the Company in its role as an intermediary, the Company records an offsetting asset and liability for the total amount of grants as they relate to the Project. There is no statements of operations impact related to the establishment of, or subsequent change to, the asset and liability amounts.

Marketing Costs
The Company expenses marketing costs, which include advertising and consumer promotions, as incurred or as required by Statement of Position 93-7, Reporting on Advertising Costs. Marketing costs are included as a part of selling, general and administrative expense.

Computer Software Costs
The Company capitalizes certain costs, such as software coding, installation and testing that are incurred to purchase or create and implement internal use computer software in accordance with Statement of Position 98-1, Accounting for Costs of Computer Software Development or Obtained for Internal Use. The majority of the Company's capitalized software relates to the implementation of the enterprise resource planning and handheld computer systems.

Freight, Shipping and Handling Costs
Outbound freight, shipping and handling costs are included as a part of selling, general and administrative expense. Inbound freight, shipping and handling costs are capitalized with inventory and expensed with cost of sales.

Pension Plan
The Company's funding policy for the pension plan is to contribute amounts deductible for federal income tax purposes plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate. Effective January 1, 2008, the Company was required to make quarterly contributions under the Pension Protection Act of 2006. The Company will make four quarterly contributions in 2009 totaling $2.4 million. As of June 27, 2009, the Company had made two of the four required contributions. In 1987 the Company elected to immediately recognize all gains and losses in excess of the pension corridor, which is equal to the greater of ten percent of the accumulated pension benefit obligation or ten percent of the market-related value of plan assets.

The Company accrues normal periodic pension expense or income during the year based upon certain assumptions and estimates. These estimates and assumptions include discount rate, rate of return on plan assets, compensation increases, mortality and employee turnover. In addition, the rate of return on plan assets is directly related to changes in the equity and credit markets, which can be and have been volatile. The use of estimates and assumptions, market volatility and the Company's election to immediately recognize all gains and losses in excess of its pension corridor in the current year may cause the Company to experience significant changes in its pension expense or income from year to year. Expense or income that falls outside the corridor is recognized only in the fourth quarter of each year.

In accordance with FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, the Company maintains a liability on its balance sheet equal to the under-funded status of its defined benefit and other postretirement benefit plans.

Accounting for Derivative Instruments

The Company has entered into certain variable-to-fixed interest rate swap contracts and foreign currency forward contracts denominated in Australian Dollars ("AUD") to hedge against fluctuations in interest rates and foreign currency exchange rates, respectively. The Company accounts for derivative instruments in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("FAS 133") and FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133.

Treasury Stock
Treasury stock is recorded at cost. Cost is determined by the FIFO method.

Accounting for Income Taxes
The Company accounts for income taxes under the asset and liability method, in accordance with FASB Statement No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to be recovered or settled.

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 represents the earnings for the period available to each share of common stock outstanding during the reporting period. Net income per common share – diluted represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the thirteen and twenty-six weeks ended June 27, 2009 options to purchase common stock totaling 317,075 and 317,200, respectively, were not included in the calculation of net income per common share – diluted since the exercise price per share exceeded the actual price per share during the periods presented. For the thirteen and twenty-six weeks ended June 28, 2008 options to purchase common stock totaling 437,446 and 438,421, respectively, were not included in the calculation of net income per common share – diluted since the exercise price per share exceeded the actual price per share during the periods presented.

	Thirteen Weeks Ended				Twenty-six Weeks Ended			
	June 27, 2009		June 28, 2008		June 27, 2009		June 28, 2008	
	Income (Loss)	Shares	Income (Loss)	Shares	Income (Loss)	Shares	Income (Loss)	Shares
Net income (loss)	$ 2,345		$ 75		$ 2,274		$ (884)	
Less:								
Income attributable to participating securities	(145)		(14)		(128)		(25)	
Net income (loss) available for common shareholders	$ 2,200		$ 61		$ 2,146		$ (909)	
Net income (loss) per common share - basic	0.27	8,062	0.01	8,043	0.27	8,060	(0.11)	8,041
Net income (loss) per common share - diluted	0.27	8,062	0.01	8,043	0.27	8,060	(0.11)	8,041

The Company has determined that the calculation of net income per common share – basic includes all securities that are also required by the net income per common share – diluted calculation, and therefore are the same for all periods presented.

Share-based Compensation
The Company accounts for share-based compensation in accordance with FASB Statement No. 123(R), Share-Based Payment (“FAS 123(R)”). Share-based compensation expense recognized during the current period is based on the

value of the portion of share-based payment awards that is ultimately expected to vest. The total value of compensation expense for restricted stock is equal to the closing market price of Tasty Baking Company shares on the date of grant. FAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on the Company's historical forfeiture experience. The Company calculated its historical pool of windfall tax benefits.

Recent Accounting Statements

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, Effective Date of FASB Statement No. 157. This FSP permits a delay in the effective date of FAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay was intended to allow the Board and constituents additional time to consider the effect of various implementation issues that had arisen from the application of FAS 157. The FASB also issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ("FAS 157-1"), to exclude SFAS 13, Accounting for Leases, and its related interpretive accounting pronouncements from the scope of FAS 157 in February 2008. The Company adopted the provisions of FSP FAS 157-1 and FSP FAS 157-2 in the quarter ended March 28, 2009. The required provisions did not have a material impact on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), Business Combinations (“FAS 141(R)”). FAS 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under FAS 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period impact income tax expense. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption was prohibited. The Company adopted FAS 141 (R) in the quarter ended March 28, 2009. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51 (“FAS 160”), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption was prohibited. The Company adopted FAS 160 for the quarter ended March 28, 2009. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133 (“FAS 161”). FAS 161 applies to all derivative instruments and related hedged items accounted for under FAS 133, Accounting for Derivative Instruments and Hedging Activities. It requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, results of operations, and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted FAS 161 in the quarter ended March 28, 2009. Because FAS 161 applies only to financial statement disclosures, the adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“FSP 03-6-1”), which classifies unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities and requires them to be included in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, Earnings per Share. FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years and requires all prior period earnings per share data presented to be adjusted retrospectively. The Company adopted FSP 03-6-1 for the quarter ended March 28, 2009. For the thirteen and twenty-six weeks ended June 27, 2009, the adoption of the required provisions resulted in a reduction in earnings per share – basic and earnings per share – diluted of approximately 2 cents and 1 cent, respectively.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (“FAS 107-1 and APB 28-1”). This FSP requires disclosure about fair value of financial instruments for interim reporting periods and annual financial statements of publicly traded companies. FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted FAS 107-1 and APB 28-1 in the quarter ended June 27, 2009. Because FAS 107-1 and APB 18-1 applies only to financial statement disclosures, the adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (“FAS 157-4”). This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157 when the volume and level of activity for the asset or liability have significantly decreased and provides guidance on identifying circumstances that indicate a transaction is not orderly. FAS 157-4 is effective for interim reporting periods ending after June 15, 2009. The Company adopted FAS 157-4 in the quarter ended June 27, 2009. The adoption did not have a material impact on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ("FAS 115-2 and FAS 124-2"). This FSP provides a framework to perform an other-than-temporary impairment analysis, in compliance with GAAP, which determines whether the holder of an investment in a debt or equity security, for which changes in fair value are not regularly recognized in earnings, should recognize a loss in earnings when the investment is impaired. Additionally this FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FAS 115-2 is effective for interim reporting periods ending after June 15, 2009. The Company adopted FAS 115-2 and FAS 124-2 in the quarter ended June 27, 2009. The adoption did not have a material impact on the Company's condensed consolidated financial statements.

In May 2009, the FASB issued Statement No. 165, Subsequent Events ("FAS 165"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, FAS 165 provides guidance on the period after the balance sheet date and the circumstances under which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. FAS 165 also requires certain disclosures about events or transactions occurring after the balance sheet date. FAS 165 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provisions of FAS 165 in the second quarter ending June 27, 2009. The adoption did not have a material impact on the condensed consolidated financial statements.

In June 2009, the FASB issued Statement No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140 ("FAS 166"), which amends the existing guidance on transfers of financial assets. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. FAS 166 is effective for new transfers of financial assets occurring on or after January 1, 2010. The adoption of FAS 166 is not expected to have a material impact on the Company's condensed consolidated financial statements; however, it could impact future transactions entered into by the Company.

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R) ("FAS 167"), amending the consolidation guidance for variable-interest entities under FIN 46(R), Consolidation of Variable Interest Entities an interpretation of ARB No. 51. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. FAS 167 is effective January 1, 2010. The Company is currently evaluating the impact of this standard on the condensed consolidated financial statements.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification (Codification) and the Hierarchy of GAAP ("FAS 168"), which replaces SFAS No. 162, The Hierarchy of GAAP and establishes the Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative GAAP for SEC registrants. FAS 168 modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and nonauthoritative. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. As FAS 168 is not intended to change or alter existing GAAP, it will not impact the Company's condensed consolidated financial statements. The Company will adjust historical GAAP references in its third quarter 2009 Form 10-Q to reflect accounting guidance references included in the Codification.

2. New Facilities

In May 2007, the Company announced that as part of its comprehensive operational review of strategic manufacturing alternatives, it entered into an agreement to relocate its Philadelphia operations to the Philadelphia Navy Yard. The bakery lease agreement provides for a 26-year lease for a 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the facility is underway and is expected to be substantially complete by the end of 2009. The Company expects the new facility to be fully operational in 2010. The lease provides for no rent payments in the first year of occupancy. Rental payments increase from $3.5 million in the second year of occupancy to $7.2 million in the final year of the lease. In accordance with FASB Statement No. 13, Accounting for Leases (“FAS 13”), the Company will recognize the rental expenses associated with the operating lease on a straight-line basis over the term of the agreement.

As part of this initiative, the Company also entered into a 16-year agreement for $9.5 million in financing at a fixed rate of 8.54% to be used for leasehold improvements. This agreement provides for no principal or interest payments in the first year of occupancy and then requires equal monthly payments of principal and interest aggregating to $1.2 million annually over the remainder of the term.

The Company also entered into an agreement to relocate its corporate headquarters to the Philadelphia Navy Yard. This lease agreement provides for approximately 36,000 square feet of office space. Construction of the office space is complete and during April 2009, the Company relocated its corporate headquarters to the Philadelphia Navy Yard. The office lease term, which commenced in April 2009, will end at the same time as the new bakery lease. The office lease provides for no rent payments during the first six months of occupancy. Rental payments increase from approximately $0.9 million in the second year of occupancy to approximately $1.5 million in the final year of the lease. In accordance with FAS 13, the Company will recognize the rental expenses associated with the agreement on a straight-line basis over the term of the agreement.

In connection with these agreements, the Company provided a $1.1 million letter of credit, which increased to $8.1 million in the beginning of 2009. The outstanding amount of the letter of credit will be redu