TASTY BAKING CO
Form 10-Q
May 15, 2001

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 31, 2001

( ) 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	7,974,769
(Title of Class)	(No. of Shares Outstanding at May 14, 2001)

TASTY BAKING COMPANY AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2001
Current assets:	
Cash	$ 65,505
Accounts and notes receivable, net of allowance for doubtful accounts	24,843,322
Inventories:	
Raw materials	4,231,606
Work in progress	731,508
Finished goods	2,257,596
	7,220,710
Deferred income taxes, prepayments and other	3,299,315
Total current assets	35,428,852
Property, plant and equipment:	180,065,317
Less accumulated depreciation	120,336,538
	59,728,779
Long-term receivables	10,044,489
Deferred income taxes	8,533,257
Spare parts inventory and miscellaneous assets	3,779,198
Total assets	$ 117,514,575
Current liabilities:	
Current obligations under capital leases	$ 212,353
Notes payable, banks	2,750,000
Accounts payable	7,253,024
Accrued liabilities	6,578,599
Total current liabilities	16,793,976
Long-term debt, less current portion	14,000,000
Long-term obligations under capital leases, less current portion	3,826,978
Accrued pensions and other liabilities	11,500,889
Postretirement benefits other than pensions	18,467,011
Shareholders' equity:	
Common stock	4,558,243

Capital in excess of par value of stock	29,404,220
Retained earnings	33,529,908
	67,492,371
Less:	
Treasury stock, at cost	14,214,612
Management Stock Purchase Plan receivables and deferrals	352,038
	52,925,721
Total liabilities and shareholders' equity	$ 117,514,575

See accompanying notes to consolidated condensed financial statements

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

	For the Thirteen Weeks	
	March 31, 2001	March 2
Gross Sales	$65,655,374	
Less discounts and allowances	(23,261,285)	
Net Sales	42,394,089	
Costs and expenses:		
Cost of sales	26,413,844	
Depreciation	1,849,030	
Selling, general and administrative	10,732,086	
Interest expense	282,042	
Other income, net	(318,151)	
	38,958,851	
Income before provision for income taxes	3,435,238	
Provision for income taxes	1,315,787	
Net income	$ 2,119,451	

Average common shares outstanding:	
Basic	7,902,402
Diluted	8,022,865
Per share of common stock:	
Net income:	
Basic	$0.27
Diluted	$0.26
Cash dividend	$0.12

See accompanying notes to consolidated condensed financial statements.

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

	For the Thirte
	March 31, 2001
Cash flows from (used for) operating activities	
Net income	$ 2,119,451
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,849,030
Amortization	15,939
Other	530,691
Changes in assets and liabilities affecting operations	(3,952,023)
Net cash from operating activities	563,088
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(1,763,269)
Proceeds from owner/operators' loan repayments	782,552
Loans to owner/operators	(1,174,608)
Other	9,554

Net cash used for investing activities	(2,145,771)
Cash flows from (used for) financing activities	
Additional long-term debt	1,000,000
Dividends paid	(941,437)
Payment of long-term debt	(20,393)
Net increase in short-term debt	550,000
Net proceeds from sale of common stock	748,776
Net cash from financing activities	1,336,946
Net decrease in cash	(245,737)
Cash, beginning of year	311,242
Cash, end of period	$ 65,505
Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	$ 273,219
Income taxes	$ 798,400
Noncash financing activities:	
Issuance of common stock for services	$ 804,759

See accompanying notes to consolidated condensed financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. 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 31, 2001 and December 30, 2000, the results of its operations for the thirteen weeks ended March 31, 2001 and March 25, 2000 and cash flows for the thirteen weeks ended March 31, 2001 and March 25, 2000. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2000 Annual Report to Shareholders. In addition, the results of operations for the thirteen weeks ended March 31, 2001 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 31, 2001 and March 25, 2000, the difference between the actual expenses incurred and the expenses charged to operations was not material.

2. 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.

3. New Accounting Standards

Statement of Financial Accounting Standards 133, "Accounting for Derivatives"' as amended by SFAS 137 and SFAS 138 became effective in January 2001. This pronouncement did not have an impact on the company's consolidated results of operations, financial position, cash flows or disclosure requirements. The company has not entered into derivative financial instruments or hedging arrangements.

TASTY BAKING COMPANY AND SUBSIDIARIES

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

Results of Operations

Net income for the first quarter of 2001 was $2,119,451 or $.26 per share. Net income for the first quarter of 2000 was $2,022,516 or $.26 per share. However, during the first quarter of 2001, the $14.00 and $16.00 stock price targets pertaining to the 1999 conditional stock grant were achieved and a resulting pre-tax charge of $805,000 of compensation expense was recorded. While the company anticipated achieving the $14.00 per share price target in the first quarter, it did not anticipate achieving the $16.00 per share price target in the same quarter, and as a result the first quarter 2001 was impacted by $.03 per share. Therefore, 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 completes the 1999 conditional stock grant.

For the first quarter, gross sales increased 7.4% to $65,655,374, compared to $61,147,760 last year. The increase in gross sales was primarily the result of price increases instituted at the end of the fourth quarter of 2000. Gross sales, less discounts and allowances, resulted in an increase in net sales of 5.1% to $42,394,089, compared to $40,343,346 reported last year. The percentage increase in net sales was lower than the percentage increase in gross sales due to the effect of returns and commissions.

Cost of sales, as a percentage of gross sales, was 40.2% and 42.5% for the first quarters of 2001 and 2000, respectively. The decrease in the percentage in 2001 was primarily the result of the price increase.

Selling, general and administrative expenses for the first quarter of 2001 increased by $1,408,659 or 15.1% compared to the first quarter of 2000. Part of the increase can be attributed to the compensation expense from the 1999 conditional stock grant. The company also experienced additional costs relative to market expansion and sales growth including freight expenses compounded by fuel surcharges, and an increase in the provision for doubtful accounts relative to the increase in accounts receivable.

Interest expense decreased for the first quarter of 2001 versus the first quarter of 2000 as a result of decreased average interest rates as well as lower average borrowing levels.

The effective tax rate was 38.3% for the quarter ended March 31, 2001 and 35.4% for the quarter ended March 25, 2000, which compares to a federal statutory rate of 34%. The difference between the effective rate and the statutory rate in the first quarter of 2001 was the effect of state taxes. The difference between the effective rate and the statutory rate in the first quarter of 2000 was the effect of state taxes partially offset by tax benefits arising from passive income.

Financial Condition

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

For the thirteen weeks ended March 31, 2001, net cash from operating activities decreased by $455,068 to $563,088 from $1,018,156 for the same period in 2000. The decrease in 2001 compared to 2000 was due to a number of factors. There was a decrease in accrued payroll in the first quarter of 2001 due to the payment in 2001 of management bonuses accrued in 2000. No such bonuses were accrued at year-end 1999, so there was no corresponding cash payment in the first quarter of 2000. In addition, there were increases in inventories and prepayments relative to the comparable quarter last year. These decreases in cash from operating activities were partially offset by an increase in accrued income taxes from a reduction in cash paid for income taxes.

Net cash used for investing activities for the thirteen weeks ended March 31, 2001 decreased by $500,611 relative to the same period in 2000 principally due to lower capital expenditures in the current year partially offset by a decrease in proceeds from owner/operator loan payoffs.

Net cash from financing activities for the thirteen weeks ended March 31, 2001 decreased by $26,363 relative to the same thirteen weeks in 2000. The proceeds from the sale of common stock from the exercise of stock options were offset by a net decrease in short and long-term debt relative to the prior year.

For the remainder of 2001 the company anticipates that cash flow from operations, along with the continued availability of bank lines of credit, the revolving credit agreement and other long-term financing, 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 2. Changes in Securities and Use of Proceeds

During the quarter, the company sold 86,846 shares of its common stock to various officers 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 $999,768.50. 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 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 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 31, 2001.

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 14, 2001

(Date)

/S/ John M. Pettine

JOHN M. PETTINE
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

May 14, 2001	/S/ Daniel J. Decina
(Date)	DANIEL J. DECINA VICE PRESIDENT, FINANCE AND CHIEF ACCOUNTING OFFICER (PRINCIPAL ACCOUNTING OFFICER)