TASTY BAKING CO
Form 10-Q
November 13, 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 thirty-nine weeks ended September 29, 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 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	8,052,677
(Title of Class)	(No. of Shares Outstanding at November 7, 2001)

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)

	September 29, 2001

Current assets:	
Cash	$ 109,058
Accounts and notes receivable, net of allowance for doubtful accounts	25,593,399
Inventories:	
Raw materials	3,905,783
Work in progress	763,225
Finished goods	2,414,189
	7,083,197
Deferred income taxes, prepayments and other	3,286,587
Total current assets	36,072,241
Property, plant and equipment:	184,299,482
Less accumulated depreciation	123,752,646
	60,546,836
Long-term receivables	10,244,930
Deferred income taxes	8,533,257
Spare parts inventory and miscellaneous assets	4,053,446
Total assets	$ 119,450,710
Current liabilities:	
Current obligations under capital leases	$ 200,159
Notes payable, banks	2,900,000
Accounts payable	7,058,095
Accrued liabilities	7,436,769
Total current liabilities	17,595,023
Long-term debt, less current portion	13,000,000
Long-term obligations under capital leases, less current portion	3,664,496
Accrued pensions and other liabilities	11,642,969
Postretirement benefits other than pensions	18,385,938
Shareholders' equity:	
Common stock	4,558,243
Capital in excess of par value of stock	29,153,507
Retained earnings	35,152,814
	68,864,564
Less:	
Treasury stock, at cost	13,213,241
Management Stock Purchase Plan receivables and deferrals	489,039
	55,162,284
Total liabilities and shareholders' equity	$ 119,450,710

See accompanying notes to consolidated condensed financial statements.

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

	For the Thirteen Weeks Ended		For t
	September 29, 2001	September 23, 2000	September 29, 2
Gross Sales	$ 62,531,791	$ 60,571,793	$ 194,707,238
Less discounts and allowances	(22,191,145)	(20,716,010)	(68,948,385)
Net Sales	40,340,646	39,855,783	125,758,853
Costs and expenses:			
Cost of sales	26,929,080	26,154,324	80,438,854
Depreciation	1,713,048	1,900,398	5,265,136
Selling, general and administrative	10,042,967	9,595,653	31,033,804
Interest expense	264,225	411,812	866,622
Other income, net	(316,181)	(346,385)	(937,410)
	38,633,139	37,715,802	116,667,006
Income before provision for income taxes	1,707,507	2,139,981	9,091,847
Provision for income taxes	657,430	748,924	3,423,787
Net income	$ 1,050,077	$ 1,391,057	$ 5,668,060
Average common shares outstanding:			
Basic	8,041,297	7,845,341	7,980,580
Diluted	8,202,964	7,886,859	8,124,676
Per share of common stock:			
Net income: Basic	$0.13	$0.18	$0.71
Diluted	$0.13	$0.18	$0.70

Cash dividend	$0.12	$0.12	$0.36

See accompanying notes to consolidated condensed financial stateme

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

	For the Thi September 29, 2001
Cash flows from (used for) operating activities	
Net income	$ 5,668,060
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	5,265,135
Amortization	49,927
Other	307,452
Changes in assets and liabilities affecting operations	(3,888,618)
Net cash from operating activities	7,401,956
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(5,997,432)
Proceeds from owner/operators' loan repayments	2,888,092
Loans to owner/operators	(3,480,589)
Other	29,885
Net cash used for investing activities	(6,560,044)
Cash flows from (used for) financing activities	
Additional long-term debt	1,000,000
Dividends paid	(2,867,140)
Payment of long-term debt	(1,195,069)
Net increase in short-term debt	700,000
Net proceeds from sale of common stock	1,318,113
Net cash used for financing activities	(1,044,096)

Net decrease in cash	(202,184)
Cash, beginning of year	311,242
Cash, end of period	$ 109,058
Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	$ 716,220
Income taxes	$ 3,058,642
Noncash financing activities:	
Issuance of common stock for services	$ 804,759

See accompanying notes to consolidated condensed financial statement

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 September 29, 2001 and December 30, 2000, the results of its operations for the thirteen and thirty-nine weeks ended September 29, 2001 and September 23, 2000 and cash flows for the thirty-nine weeks ended September 29, 2001 and September 23, 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 thirty-nine weeks ended September 29, 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 and thirty-nine weeks ended September 29, 2001 and September 23, 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. Debt Refinancing
On September 28, 2001, management chose not to extend the company's $30 million Revolving Credit Agreement (Revolver) with the current lender. On November 9, 2001, a proposal was signed and accepted by the company and two banks to enter into a new Credit Facility (Facility) for $40 million to replace the Revolver and its current short-term lines of credit. The Facility will provide $15 million in short-term borrowings and $25 million in long-term borrowings with options to extend the maturity of the Facility indefinitely, upon approval of the banks. Based on these commitments accepted by the company and the banks, the Revolver continues to be classified as long-term.

4. Subsequent Event
On October 19, 2001 the company's wholly-owned subsidiary, Dutch Mill Baking Company, Inc., closed its manufacturing facility in Wyckoff, New Jersey. The company is currently evaluating the costs related to the plant closing. This charge will be recognized in the fourth quarter of 2001.

TASTY BAKING COMPANY AND SUBSIDIARIES

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

Results of Operations

For the third quarter of 2001, net income decreased to $1,050,077 compared to $1,391,057 for the third quarter of 2000. Net income per share decreased to $.13 from $.18 per share for the comparable quarter of 2000.

Net income for the thirty-nine weeks ended September 29, 2001 was $5,668,060 or $.70 per share. Net income for the thirty-nine weeks ended September 23, 2000 was $5,637,966 or $.72 per share.

For the third quarter, gross sales increased 3.2% to $62,531,791, compared to $60,571,793 last year. The increase in gross sales for the third quarter of 2001 is primarily due to price increases instituted in the fourth quarter of 2000. Gross sales, less discounts and allowances, resulted in an increase in net sales of 1.2% to $40,340,646, compared to $39,855,783 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 43.1% and 43.2% for the third quarters of 2001 and 2000, respectively. The slight improvement in 2001 over 2000 can be attributed to the price increases offset by an increase in labor and utility costs.

Depreciation expense decreased by $187,350 for the third quarter of 2001 compared to 2000. The majority of the decrease was the result of the evaluation in the second quarter of 2001 of the utilization of certain fixed assets and a determination that their useful lives should be extended to seven years from five years.

Selling, general and administrative expenses for the third quarter of 2001 increased by $447,314 or 4.7% compared to the third quarter of 2000 generally as the result of an increase in certain administrative expenses including utilities and temporary labor.

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

The effective tax rate was 38.5% for the quarter ended September 29, 2001 and 35.0% for the quarter ended September 23, 2000, which compares to a federal statutory rate of 34%. The difference between the effective rate and the statutory rate in the third quarter of 2001 was the effect of state taxes. The difference between the effective rate and the statutory rate in the third 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 thirty-nine weeks ended September 29, 2001, net cash from operating activities increased by $1,882,857 to $7,401,956 from $5,519,099 for the same period in 2000. The increase in 2001 compared to 2000 was due to a number of factors. Favorable non-cash adjustments to 2001 net income resulted from stock bonuses, and for the same period in 2000 an unfavorable non-cash adjustment resulted from a decrease in accrued pension expense. There was also a decrease in the negative change in assets and liabilities when comparing 2001 to 2000, most of which can be attributed to an increase in income tax payments.

Net cash used for investing activities for the thirty-nine weeks ended September 29, 2001 increased by $767,155 relative to the same period in 2000. The increase was principally due to an increase in loans to owner/operators compared to the prior year.

Net cash used for financing activities for the thirty-nine weeks ended September 29, 2001 increased by $643,578 relative to the same thirty-nine weeks in 2000. The increase is primarily the result of a reduction of net borrowings relative to the prior year through the use of excess cash from operating activities and proceeds from the sales of treasury stock through the exercise of executive stock options.

On September 28, 2001, management chose not to extend the company's $30 million Revolving Credit Agreement (Revolver) with the current lender. On November 9, 2001, a proposal was signed and accepted by the company and two banks to enter into a new Credit Facility (Facility) for $40 million to replace the Revolver and its current short-term lines of credit. The Facility will provide $15 million in short-term borrowings and $25 million in long-term borrowings with options to extend the maturity of the Facility indefinitely, upon approval of the banks.

For the remainder of 2001 the company anticipates that cash flow from operations, along with the continued availability of the existing bank lines of credit, the new credit facility 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 46,500 shares of its common stock to one officer of the company pursuant to the exercise of outstanding stock options. The options were purchased through the exchange of existing shares owned by the officer with an aggregate fair market value of $513,188 representing the total price paid for the exercised options. 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. 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. In addition, the sale of common stock by the company pursuant to its long-term incentive plans has been registered on Form S-8, filed July 27, 2001, registration no. 33-66020.

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

On October 19, 2001, the company furnished a report on Form 8-K under Item 9, Regulation FD Disclosure, attaching a press release announcing its anticipated results for the quarter ended September 29, 2001 and supplemental information regarding Dutch Mill Baking Company, Inc., a wholly-owned subsidiary, closing its bakery in Wyckoff, New Jersey.

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)

November 13, 2001	/S/ John M. Pettine
(Date)	JOHN M. PETTINE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER)
November 13, 2001	/S/ Daniel J. Decina
(Date)	DANIEL J. DECINA VICE PRESIDENT, FINANCE AND CHIEF ACCOUNTING OFFICER

(PRINCIPAL ACCOUNTING OFFICER)

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