TASTY BAKING CO
Form 10-Q
August 14, 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 twenty-six weeks ended June 30, 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	8,048,199
(Title of Class)	(No. of Shares Outstanding at August 8, 2001)

INDEX OF EXHIBITS IS LOCATED ON PAGE 9 OF 10.

TASTY BAKING COMPANY AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2001
Current assets:	
Cash	$ 305,369
Accounts and notes receivable, net of	

allowance for doubtful accounts	26,159,018
Inventories:	
Raw materials	3,977,810
Work in progress	737,173
Finished goods	2,721,419
	7,436,402
Deferred income taxes, prepayments and other	3,105,367
Total current assets	37,006,156
Property, plant and equipment:	182,304,697
Less accumulated depreciation	122,039,596
	60,265,101
Long-term receivables	9,820,778
Deferred income taxes	8,533,257
Spare parts inventory and miscellaneous assets	3,959,098
Total assets	$ 119,584,390
Current liabilities:	
Current obligations under capital leases	$ 206,256
Notes payable, banks	3,350,000
Accounts payable	7,363,330
Accrued liabilities	6,479,750
Total current liabilities	17,399,336
Long-term debt, less current portion	13,000,000
Long-term obligations under capital leases, less current portion	3,812,246
Accrued pensions and other liabilities	11,652,883
Postretirement benefits other than pensions	18,677,031
Shareholders' equity:	
Common stock	4,558,243
Capital in excess of par value of stock	29,279,673
Retained earnings	35,071,215
	68,909,131
Less:	
Treasury stock, at cost	13,344,785
Management Stock Purchase Plan receivables and deferrals	521,452
	55,042,894
Total liabilities and shareholders' equity	$ 119,584,390

See accompanying notes to consolidated condensed financial st

TASTY BAKING COMPANY AND SUBSIDIA
CONSOLIDATED CONDENSED STATEMENTS OF C
(unaudited)

	For the Thirteen Weeks Ended June 30, 2001	June 24, 2000	Ju
Gross Sales	$66,520,073	$ 62,899,396	$
Less discounts and allowances	(23,495,955)	(21,181,024)	
Net Sales	43,024,118	41,718,372	
Costs and expenses:			
Cost of sales	27,095,930	26,379,584	
Depreciation	1,703,058	1,819,469	
Selling, general and administrative	10,258,751	9,984,356	
Interest expense	320,355	390,499	
Other income, net	(303,078)	(318,397)	
	39,075,016	38,255,511	
Income before provision for income taxes	3,949,102	3,462,861	
Provision for income taxes	1,450,570	1,238,468	
Net income	$ 2,498,532	$2,224,393	
Average common shares outstanding:			
Basic	7,998,041	7,831,331	
Diluted	8,137,241	7,847,203	
Per share of common stock:			
Net income: Basic	$0.31	$0.28	
Diluted	$0.31	$0.28	
Cash dividend	$0.12	$0.12	

See accompanying notes to consolidated condensed financial stat

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

	For the T June 30, 20
Cash flows from (used for) operating activities	
Net income	$ 4,617,983
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,552,088
Amortization	32,988
Other	707,806
Changes in assets and liabilities affecting operations	(5,278,006
Net cash from operating activities	3,632,859
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(4,002,650
Proceeds from owner/operators' loan repayments	2,050,497
Loans to owner/operators	(2,218,842
Other	14,383
Net cash used for investing activities	(4,156,612
Cash flows from (used for) financing activities	
Additional long-term debt	1,000,000
Dividends paid	(1,898,662
Payment of long-term debt	(1,041,222
Net increase in short-term debt	1,150,000
Net proceeds from sale of common stock	1,307,764
Net cash from (used for) financing activities	517,880
Net decrease in cash	(5,873
Cash, beginning of year	311,242
Cash, end of period	$ 305,369

Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	$ 523,439
Income taxes	$ 1,958,642
Noncash financing activities:	
Issuance of common stock for services	$ 804,759

See accompanying notes to consolidated condensed financial statem

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 June 30, 2001 and December 30, 2000, the results of its operations for the twenty-six weeks ended June 30, 2001 and June 24, 2000 and cash flows for the twenty-six weeks ended June 30, 2001 and June 24, 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 twenty-six weeks ended June 30, 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 twenty-six weeks ended June 30, 2001 and June 24, 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.

TASTY BAKING COMPANY AND SUBSIDIARIES

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

Results of Operations

For the second quarter of 2001, the company realized net income of $2,498,532 versus $2,224,393 for the second quarter of 2000. Net income per share increased to $.31 from $.28 per share for the comparable quarter of 2000.

Net income for the twenty-six weeks ended June 30, 2001 was $4,617,983 versus $4,246,909 for the twenty-six weeks ended June 24, 2000. Net income per share increased to $.57 in 2001 from $.54 per share for 2000.

For the second quarter, gross sales increased 5.8% to $66,520,073, compared to $62,899,396 last year. The increase in gross sales for the second 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 3.1% to $43,024,118, compared to $41,718,372 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 40.7% and 41.9% for the second quarters of 2001 and 2000, respectively. The improvement in 2001 over 2000 can be attributed to the price increases.

The company has evaluated the utilization of certain fixed assets and has determined that their useful lives should be extended to seven years from five years. As a result, depreciation expense decreased by $161,000 for the second quarter of 2001.

Selling, general and administrative expenses for the second quarter of 2001 increased by $274,395 or 2.7% compared to the second quarter of 2000 generally as the result of expenses associated with market expansion.

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

The effective tax rate was 36.7% for the quarter ended June 30, 2001 and 35.8% for the quarter ended June 24, 2000, which compares to a federal statutory rate of 34%. The difference between the effective rate and the statutory rate in the second quarter of 2001 was the effect of state taxes. The difference between the effective rate and the statutory rate in the second 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 twenty-six weeks ended June 30, 2001, net cash from operating activities increased by $195,937 to $3,632,859 from $3,436,922 for the same period in 2000. The increase in 2001 compared to 2000 was due to an increase in net income and favorable non-cash adjustments to net income. These increases to cash from operating activities were offset by a negative change in assets and liabilities affecting operations consisting of an increase in accounts receivable and inventory offset by a decrease in cash paid for income taxes and an increase in accounts payable.

Net cash used for investing activities for the twenty-six weeks ended June 30, 2001 increased by $644,438 relative to the same period in 2000. The increase was principally due to an increase in loans to owner/operators offset by a decrease in the purchase of equipment compared to the prior year.

Net cash from financing activities for the twenty-six weeks ended June 30, 2001 increased by $1,028,261 relative to the same twenty-six weeks in 2000. The increase is primarily the result of proceeds from the sale of treasury stock through the exercise of executive stock options.

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 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.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

During the quarter, the company sold 50,575 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 $558,987.50. 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 4. Submission of Matters to a Vote of Security Holders

(a) The company's annual meeting of shareholders was held on April 27, 2001.

(b) The directors elected at the meeting were:

	For	Against	Withheld
Philip J. Baur, Jr.	6,538,159	---	29,579
Judith M. Von Seldeneck	6,536,498	---	31,240

Other directors whose terms of office continued after the meeting are as follows: Carl S. Watts, Fred C. Aldridge, Jr., Esq., G. Fred DiBona, Jr., Ronald J. Kozich and John M. Pettine.

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

	For	Against	Abstain
Adoption of the Tasty Baking Company Restricted Stock Incentive Plan	5,367,862	1,158,828	41,039
Approval of PricewaterhouseCoopers LLP, as independent certified public accountants	6,535,829	12,606	19,299

The foregoing matters are described in detail in the company's proxy statement dated March 30, 2001.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: Exhibit 10 - Tasty Baking Company Restricted Stock Incentive Plan

(b) Reports on Form 8-K

The company did not file a report on Form 8-K during the twenty-six weeks ended June 30, 2001.

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 13, 2001
(Date)

/S/ John M. Pettine
JOHN M. PETTINE
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

August 13, 2001
(Date)

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