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TASTY BAKING CO
Form 10-Q
November 04, 2004

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 25, 2004

() 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X

No

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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	8,077,006

(Title of Class)	(No. of Shares Outstanding as of October 25, 2004)

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TASTY BAKING COMPANY AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
 Item 1. Financial Statements

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

	September 25, 2004	December 2004

Assets		
Current assets:		
Cash	\$ 62	\$
Receivables, less allowance of \$4,435 and \$3,648, respectively	19,937	19,
Inventories	5,751	5,
Deferred income taxes	3,222	3,
Prepayments and other	3,654	3,
	-----	-----
Total current assets	32,626	32,
	-----	-----
Property, plant and equipment:		
Land	1,033	1,
Buildings and improvements	40,274	40,
Machinery and equipment	165,163	158,
	-----	-----
	206,470	199,
Less accumulated depreciation	141,685	136,
	-----	-----
	64,785	63,
	-----	-----
Other assets:		
Long-term receivables from sales distributors	11,528	11,
Deferred income taxes	9,215	9,
Other	1,815	
	-----	-----
	22,558	21,
	-----	-----
Total assets	\$119,969	\$117,

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=====		
Liabilities		
Current liabilities:		
Current obligations under capital leases	\$ 697	\$
Notes payable, banks	5,000	4,
Accounts payable	8,176	9,
Accrued payroll and employee benefits	7,691	6,
Reserve for restructures	689	1,
Other	2,169	2,

Total current liabilities	24,422	24,
Long-term debt	10,000	8,
Long-term obligations under capital leases, less current portion	4,308	4,
Reserve for restructures, less current portion	563	1,
Accrued pensions and other liabilities	21,224	19,
Postretirement benefits other than pensions	16,881	16,

Total liabilities	77,398	74,

Shareholders' equity		
Common stock	4,558	4,
Capital in excess of par value of stock	29,304	29,
Retained earnings	22,782	22,

	56,644	56,
Less:		
Accumulated other comprehensive loss	1,236	1,
Treasury stock, at cost	12,728	12,
Management Stock Purchase Plan receivables and deferrals	109	

	42,571	42,

Total liabilities and shareholders' equity	\$119,969	\$117,
	=====	

See Notes to Consolidated Financial Statements.

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

For the Thirteen Weeks Ended For the
September 25, 2004 September 27, 2003 (a) September

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Gross Sales	\$ 62,724	\$ 60,837	\$ 195,921
Less discounts and allowances	(23,414)	(21,889)	(76,077)
Net Sales	39,310	38,948	119,844
Costs and expenses:			
Cost of sales	25,452	26,397	77,363
Depreciation	1,975	1,772	5,531
Selling, general and administrative	11,456	13,026	34,646
Restructure charge net of reversals	--	(129)	--
Gain on sale of routes	--	--	(75)
Interest expense	301	223	930
Other income, net	(224)	(153)	(708)
	38,960	41,136	117,687
Income before provision for income taxes	350	(2,188)	2,157
Provision for (benefit from) income taxes	133	(755)	803
Net income (loss)	\$ 217	\$ (1,433)	\$ 1,354
Average common shares outstanding:			
Basic	8,080	8,098	8,089
Diluted	8,081	8,114	8,098
Per share of common stock:			
Net income (loss):			
Basic and Diluted	\$ 0.03	(\$ 0.18)	\$ 0.17
Cash dividend	\$ 0.05	\$ 0.05	\$ 0.15

(a) Amounts have been reclassified for comparative purposes.

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

For the Third
September 25, 2004

Cash flows from (used for) operating activities	
Net income	\$ 1,354
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	5,531
Gain on sale of route	(75)
Restructure charge net of reversals	--
Restructure payments	(1,123)
Pension expense	1,607
Deferred taxes	733
Other	(90)
Changes in assets and liabilities:	
Increase in receivables	(900)
Decrease (increase) in inventories	(21)
Decrease (increase) in prepayments and other	(1,380)
Increase in accrued payroll, accrued income taxes, accounts payable and other current liabilities	481
Net cash from operating activities	6,117
Cash flows from (used for) investing activities	
Proceeds from sale of property, plant and equipment	67
Purchase of property, plant and equipment	(6,905)
Proceeds from independent sales distributor loan repayments	2,792
Loans to independent sales distributors	(2,526)
Other	(68)
Net cash used for investing activities	(6,640)
Cash flows from (used for) financing activities	
Dividends paid	(1,213)
Payment of long-term debt	(335)
Net increase (decrease) in short-term debt	100
Additional long-term debt	2,000
Net cash from (used for) financing activities	552
Net increase (decrease) in cash	29
Cash, beginning of year	33
Cash, end of period	\$ 62

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Supplemental Cash Flow Information Cash paid during the period for:	
Interest	\$ 933
Income taxes	\$ 90
Noncash investing and financing activities:	
Capital leases	\$ 155
Loans to independent sales distributors for new routes	\$ (73)

(a) Amounts have been reclassified for comparative purposes

See Notes to Consolidated Financial Statements.

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1. Significant Accounting Policies

Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the financial position of the company as of September 25, 2004, and December 27, 2003, the results of its operations for the thirteen and thirty-nine weeks ended September 25, 2004, and September 27, 2003, and cash flows for the thirty-nine week periods ended September 25, 2004, and September 27, 2003, respectively. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2003 Annual Report to Shareholders. In addition, the results of operations for the thirteen and thirty-nine weeks ended September 25, 2004, are not necessarily indicative of the results to be expected for the full year.

Property and Depreciation

During the first quarter of 2004, the company performed a comprehensive review of the estimated useful lives of all asset classes. As a result, the company evaluated the utilization of certain machinery and equipment and determined that its useful lives should be extended to 15 years from 7 years, consistent with similar assets already being depreciated over 15 years. The useful lives of buildings and improvements were standardized at 39 years from 15 to 35 years. A decrease in depreciation expense of \$1,206 for the thirty-nine weeks ended September 25, 2004 resulted from these changes in estimates. Also, depreciation expense increased by \$1,143 during the thirty-nine weeks ended September 25, 2004, due to a change in estimated useful lives of certain machinery, leasehold improvements and the current Enterprise Resource Planning (ERP) system which is being replaced in the fourth quarter of 2004 when the new ERP system will be implemented.

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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. Dilution is the result of outstanding stock options.

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Stock-Based Compensation

In December of 2002, the FASB issued Statement No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123 (FAS 148)." The provisions of this statement are effective for fiscal years beginning after December 15, 2003. The company measures stock-based compensation and reports the calculated differences between the reported and pro forma impact of the fair-value method on the interim and annual financial reports as required.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	9/25/04	9/27/03	9/25/04	9/27/03
Net income as reported	\$ 217	\$ (1,433)	\$ 1,354	\$ (561)
Deduct: Total stock-based employee compensation expense determined under fair-value net of related tax effects	(49)	(41)	(176)	(86)
Pro forma net income	\$ 168	\$ (1,474)	\$ 1,178	\$ (647)
Earnings per share:				
Basic and Diluted - as reported	\$ 0.03	\$ (0.18)	\$ 0.17	\$ 0.07
Basic and Diluted - pro forma	\$ 0.02	\$ (0.18)	\$ 0.15	\$ (0.08)

Pension Plan

The company's funding policy for its 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. The company accrues normal periodic pension expense or income during the year based upon certain assumptions and estimates from its actuarial consultants in accordance with Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions." These

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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 very volatile. The use of the above 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. Expenses or income that fall outside the corridor are recognized only in the fourth quarter of each year.

Recent Accounting Statements

In April 2004, the FASB released FASB Staff Position (FSP) No. FAS 106-2 to address the accounting and disclosure requirements of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), which was signed into law on December 8, 2003. The Act established a prescription drug benefit under Medicare Part D, and a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The company sponsors medical programs for certain of its retirees and expects that this legislation may reduce the costs for some of these programs. The FSP is effective for interim or annual periods beginning after June 15, 2004. The expected effects of the Act will be factored into the company's 2004 year-end measurement of postretirement medical obligations and related expense calculation for 2005. The company is currently evaluating the impact of FSP 106-2, but does not expect a material impact on the financial statements.

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2. Restructure Charges

During the fourth quarter of 2003, the company incurred a \$429 pre-tax restructure charge related to specific arrangements made with senior executives who departed the company.

During the fourth quarter of 2002, the company incurred a \$4,936 pre-tax restructure charge related to the closing of twelve thrift stores and the specific arrangements made with senior executives who departed the company in the fourth quarter of 2002. There were 29 employees terminated as a result of this restructure, of which 25 were thrift store employees and 4 were corporate executives.

During the second quarter of 2002, the company closed six thrift stores and eliminated certain manufacturing and administrative positions. There were 67 employees terminated as a result of this 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 pre-tax restructure charge of \$1,405.

During the fourth quarter of 2001, the company closed its Dutch Mill Baking Company production facility. In addition, the company closed two thrift stores. Costs related to these events were included in a pre-tax restructure charge of \$1,728.

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Restructure Reserve Activity

	Lease Obligations	Severance	Fixed Assets	Other
	-----	-----	-----	-----
Balance Dec. 28, 2002	\$ 2,078	\$ 3,403	\$326	\$178
Q1 2003 Reclass of PP&E	-	-	(326)	-
Q1 2003 Reversal of Reserve	(220)	-	-	-
Q1 2003 Payments	(165)	(475)	-	(41)
	-----	-----	-----	-----
Balance March 29, 2003	1,693	2,928	-	137
Q2 2003 Reversal of Reserve	(95)	-	-	-
Q2 2003 Payments	(229)	(460)	-	(40)
	-----	-----	-----	-----
Balance Sept. 27, 2003	1,369	2,468	-	97
Q3 2003 Reversal of Reserve	(129)	-	-	-
Q3 2003 Payments	(154)	(363)	-	(18)
	-----	-----	-----	-----
Balance Sept. 27, 2003	1,086	2,105	-	79
Q4 2003 Restructure Charges	-	429	-	-
Q4 2003 Reclass of SERP	-	(683)	-	-
Q4 2003 Reversal of Reserve	(56)	-	-	-
Q4 2003 Payments	(217)	(366)	-	(2)
	-----	-----	-----	-----
Balance Dec. 27, 2003	813	1,485	-	77
Q1 2004 Payments	(125)	(387)	-	(16)
	-----	-----	-----	-----
Balance March 27, 2004	688	1,098	-	61
Q2 2004 Payments	(112)	(187)	-	(16)
	-----	-----	-----	-----
Balance June 26, 2004	576	911	-	45
Q3 2004 Payments	(88)	(176)	-	(16)
	-----	-----	-----	-----
Balance Sept. 25, 2004	\$ 488	\$ 735	\$ -	\$ 29
	=====	=====	=====	=====

The balance of the severance charges is expected to be paid as of December 2005 and the balance of the lease obligations and other charges is expected to be paid as of November 2006.

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3. Inventories

Inventories are classified as follows:

	9/25/04	12/27/03
	-----	-----
Finished goods	\$ 1,612	\$ 2,397
Work in progress	807	740
Raw materials and supplies	3,332	2,593
	-----	-----
	\$ 5,751	\$ 5,730
	=====	=====

4. Stock Option Plans

On October 29, 2004, 8,000 options were granted to employees of the company under the 2003 Long Term Incentive Plan. Under this grant, the options vest in three equal installments beginning on the first anniversary date with a five year retention period from the date of grant. The option price is determined by the Compensation Committee of the Board and, in the case of incentive stock options, will be no less than the fair market value of the shares on the date of grant. Options lapse at the earlier of the expiration date of the option term specified by the Compensation Committee of the Board (not more than ten years from the date of grant in the case of incentive stock options) or three months following the date on which employment with the company terminates.

On October 29, 2004, 112,000 shares of restricted common stock were granted to certain executives of the company under the 2003 Long Term Incentive Plan. Under this grant, the restricted stock will vest in equal one-fifth increments on each anniversary of the date of grant. The grant also includes a performance target which, if achieved, will accelerate the vesting schedule. If the closing price of the company's common stock equals or exceeds \$14 per share for 10 consecutive trading days during the five-year vesting period, then any unvested restricted shares will become fully vested on the later of (i) the day on which the performance target has been achieved or (ii) the third anniversary of the date of grant.

5. Pension and Supplemental Retirement Costs

In December 2003, the FASB issued a revised SFAS No. 132 R, "Employers' Disclosure about Pensions and Other Postretirement Benefits," which requires additional disclosures for benefits plans. The standard requires interim disclosure of the various components of net periodic pension cost and expanded annual disclosures, such as describing the types of plan assets, investment strategy and plan obligations. The required interim disclosure is included below. Annual disclosures will be provided in the 2004 Form 10-K.

Components of Net Periodic Cost

	Thirty-nine Weeks Ended	
	9/25/04	9/27/03
	-----	-----
Service cost	\$ 1,058	\$ 1,002
Interest cost	3,861	3,645

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Expected return on plan assets	(3,372)	(3,129)
Amortization of prior service costs	(3)	(5)
Amortization of net (gain) loss	39	48
	-----	-----
Net periodic benefit cost	\$ 1,583	\$ 1,561
	=====	=====

Employer Contributions

The company previously disclosed in its financial statements for the year ended December 27, 2003, that it was not required to make contributions to its pension plan in 2004. As of September 25, 2004, no contributions have been made.

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6. Postretirement Benefits Other than Pensions

Components of Net Periodic Postretirement Benefit Cost

	Thirty-nine Weeks Ended	
	9/25/04	9/27/03
	-----	-----
Service cost	\$ 312	\$ 252
Interest cost	707	741
Net amortization and deferral	-	(98)
	-----	-----
Net periodic benefit cost	\$ 1,019	\$ 895
	=====	=====

Employer Contributions

Estimated company contributions for the thirty-nine weeks ended September 25, 2004, are \$869.

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TASTY BAKING COMPANY AND SUBSIDIARIES
(000's, except share and per share amounts)

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

Results of Operations

Overview

Net income for the third quarter of 2004 was \$217 or \$.03 per diluted share. Net loss for the third quarter of 2003 was \$1,433 or \$.18 per diluted share, which included a \$129 pre-tax restructure charge reversal due to the favorable settlement of certain thrift store lease contracts.

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Net income for the thirty-nine weeks ended September 25, 2004, was \$1,354 or \$.17 per diluted share, which included a \$75 pre-tax gain from the sale of one route to an independent sales distributor in Maryland. Net loss for the thirty-nine weeks ended September 27, 2003, was \$561 or \$.07 per diluted share, which included a \$444 pre-tax restructure charge reversal due to the favorable settlement of certain thrift store lease contracts.

Sales

Gross sales increased by 3.1% in the third quarter of 2004 compared to the same quarter in 2003. Route sales increased by 4.7% in the third quarter of 2004, primarily driven by the impact of the new route territories added in Pittsburgh and Cleveland in 2004, list price increases instituted on the Family Pack product line and the new Tastykake Sensables product line launched in August 2004. Without the increase from the new route territories, same route sales increased 1.4% compared to the third quarter of 2003. Gross sales in non-route areas decreased in the third quarter of 2004 by 1.4% compared to the third quarter of 2003. This decrease was primarily driven by the timing of certain promotional events with key customers versus the same quarter a year ago. In addition, sales to certain third party distributors in the southeast region declined in the quarter due to weather related distribution issues.

Gross sales increased by 4.1% in the thirty-nine weeks ended September 25, 2004, compared to the same period in 2003. Year to date route sales increased by 6.5% compared to the same period in 2003, primarily driven by the impact of the new route territories, list price increases and the new Tastykake Sensables product line launched in August 2004. Without the increase from the new route territories, year to date same route sales increased 3.5% compared to the same period of 2003. Year to date gross sales in non-route areas decreased during the thirty-nine weeks ended September 25, 2004, by 2.2% compared to the same period in 2003, because the first quarter of 2003 includes sales from the West Coast, a territory the company exited after that quarter.

In the third quarter of 2004, net sales increased by 0.9% compared to the third quarter of 2003. This increase in net sales was less than the increase in gross sales due to higher percentage increases in price promotion spending and product returns.

For the thirty-nine weeks ended September 25, 2004, net sales decreased by 0.2% compared to the same period in 2003. The decrease in net sales versus the increase in gross sales resulted from higher percentage increases in price promotion spending and product returns.

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Cost of Sales

Cost of sales, excluding depreciation, for the third quarter of 2004 decreased by 3.6%. As a percentage of gross sales, cost of sales decreased 2.8 percentage points to 40.6% in the third quarter from 43.4% in the third quarter of 2003. Cost of sales for the thirty-nine weeks ended September 25, 2004, decreased by 4.9%. As a percentage of gross sales, cost of sales year to date decreased 3.7 percentage points to 39.5% from 43.2% in the same period in 2003. These decreases are primarily the result of sales volume reductions along with packaging and productivity initiatives, partially offset by the increased costs associated with the new product line and the increased cost of eggs, oils, and

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butter.

Gross Margin

Gross margin after depreciation, as a percentage of net sales, was 30.2% and 27.7% for the third quarters of 2004 and 2003, respectively. The 2.5 percentage point improvement resulted from the combined effect of the Family Pack price increase, favorable sales mix and the decrease in cost of sales resulting from the company's productivity initiatives. These positive improvements were partially offset by increased price promotion spending and increased product returns.

Gross margin after depreciation, as a percentage of net sales, was 30.8% and 27.9% for the thirty-nine weeks ended September 25, 2004, and September 27, 2003, respectively. The 2.9 percentage point improvement resulted from the combined effect of the Family Pack price increase, favorable sales mix, and the decrease in cost of sales resulting from the company's productivity initiatives. These positive improvements were partially offset by increased price promotion spending and increased product returns.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter of 2004 decreased by \$1,570 or 12.1% compared to the third quarter of 2003. The decrease resulted from a reduction in marketing spending to fund an increase in price promotion spending, and lower freight costs. This was partially offset by an increase in administrative expenses related to the ERP system implementation and work required by section 404 of the Sarbanes Oxley Act (Sarbox). Selling, general and administrative expenses for the thirty-nine weeks ended September 25, 2004, decreased by \$178 or .5% compared to the same period in 2003. The decrease resulted from a reduction in marketing spending to fund an increase in price promotion spending, and lower freight costs. This was partially offset by an increase in administrative expenses related to the ERP system implementation and work required by section 404 of the Sarbox, as well as increased selling expense related to the Pittsburgh and Cleveland route expansion.

Depreciation

Depreciation expense in the third quarter of 2004 increased 11.5% compared to the third quarter of 2003. This increase is primarily due to the amortization of new handheld equipment implemented during the second quarter of 2004. Depreciation expense for the thirty-nine weeks ended September 25, 2004, increased 5.3% compared to the same period in 2003. During the first quarter, the company performed a comprehensive review of the estimated useful lives of all asset classes. As a result, the company evaluated the utilization of certain machinery and equipment and determined that its useful lives should be extended to 15 years from 7 years, consistent with similar assets already being depreciated over 15 years. The useful lives of buildings and improvements were standardized at 39 years from 15 to 35 years. These changes in estimates resulted in a decrease in depreciation expense of \$1,206 for the thirty-nine weeks ended September 25, 2004. Also, depreciation expense increased by \$1,143 during the thirty-nine weeks ended September 25, 2004, due to a change in estimated useful lives of certain machinery, leasehold improvements and the current ERP system which is being replaced in the fourth quarter of 2004 when the new ERP system will be implemented.

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Non-Operating Items

Interest expense increased by 35.4% in the third quarter of 2004 compared to the third quarter of 2003. Interest expense increased by 44.5% in the thirty-nine weeks ended September 25, 2004, compared to the same period in 2003. These increases are due to increased average borrowing levels and increased average interest rates. The company is exposed to market risk relative to its interest expense as its notes payable and long-term debt have floating interest rates that vary with the conditions in the credit market. It is expected that a one percentage point increase in interest rates would result in additional quarterly expense of approximately \$38, pre-tax.

Other income, net increased in the third quarter and the thirty-nine weeks ended September 25, 2004 compared to the same period in 2003 due to a loss on the disposition of certain equipment in 2003.

The effective income tax rate was 37% for the thirty-nine weeks ended September 25, 2004, and 35% for the same period in 2003, which compares to a federal statutory rate of 34%. Differences between the effective tax rates and the statutory tax rate arise from the effect of state income taxes.

Liquidity and Capital Resources

Historically, the company has been able to generate sufficient amounts of cash from operations. Bank borrowings are used to supplement cash flow from operations during periods of cyclical shortages. A credit facility is maintained with two banks and certain capital and operating leases are utilized. Details of the credit facility can be found in the company's Form 10-K for the year ended December 27, 2003. The company has been and expects to continue to be in compliance with its covenants under the credit facility this year.

Net cash from operating activities for the thirty-nine weeks ended September 25, 2004, decreased by \$2,394 compared to the same period in 2003. This decrease was driven by an unfavorable change in assets and liabilities in 2004 compared to 2003. The unfavorable change in assets and liabilities resulted primarily from a smaller increase in accounts payable during 2004 compared to 2003. Prepayments increased in 2004 compared to a decrease in 2003, due to the payment in 2004 of a long-term maintenance contract and costs for new package designs across the entire product line. These unfavorable changes were partially offset by an increase in net income for 2004 compared to a net loss in 2003.

Net cash used for investing activities for the thirty-nine weeks ended September 25, 2004, increased by \$2,078 relative to the same period in 2003 principally due to an increase of \$2,746 in capital expenditures for the new ERP system and a new production line at the company's Oxford manufacturing location.

Net cash from financing activities for the thirty-nine weeks ended September 25, 2004, increased by \$4,588 relative to the comparable period in 2003, due to a \$2,000 increase in long-term borrowing, a net increase in short-term borrowing of \$1,700 and a \$886 reduction in long-term repayments, relative to the prior year.

For the remainder of 2004, the company anticipates that cash flow from operations, along with the continued availability of credit under the company's credit facility, will provide sufficient cash to meet operating and financing requirements.

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Forward-Looking Statements

Certain matters discussed in this Report, including those under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to the safe harbor created by that Act. These forward-looking statements may include comments about legal proceedings, competition within the baking industry, availability and pricing of raw materials and capital, sales growth by distribution through direct sales programs, private label, institutional sales and other channels of distribution, changes in the company's business strategies and other statements contained herein that are not historical facts. Because such forward-looking statements involve risks and uncertainties, various factors could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including changes in general economic or business conditions nationally and in the company's primary markets, 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, the outcome of legal proceedings to which the company is or may become a party, the actions of competitors within the packaged food industry, changes in consumer tastes or eating habits, the success of business strategies implemented by the company to meet future challenges, and the ability to develop and market in a timely and efficient manner new products which are accepted by consumers. The reader should review "Management's Discussion and Analysis" and "Risk Factors" in the company's 2003 Annual Report to Shareholders and "Management's Discussion and Analysis" in the company's annual report on Form 10-K for the year ended December 27, 2003, for a more complete discussion of other risk factors which may affect the company's financial position or operating performance.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The company is exposed to market risk relative to its interest expense as its notes payable and long-term debt have floating interest rates that vary with the conditions in the credit markets and the company's financial performance. It is expected that a one percentage point increase in interest rates would result in additional quarterly expense of approximately \$38. 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 independent sales distributors whose rates adjust every three years, which 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 notes payable. For a more detailed explanation see the company's 2003 Annual Report on Form 10-K "Quantitative and Qualitative Disclosure about Market Risk," page 6.

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Item 4. Controls and Procedures

The company maintains a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of its consolidated financial statements and other disclosures included in this report. The company

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established a disclosure controls committee, which consists of certain members of management. The company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective at a reasonable level of assurance for gathering, analyzing and disclosing material information the company is required to disclose in the reports it files with the Securities and Exchange Commission (SEC) pursuant to the Securities and Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. In addition, the company reviewed its internal control over financial reporting and there have been no changes during the period covered by this report in the company's internal control over financial reporting, to the extent that elements of internal control over financial reporting are subsumed within disclosure controls and procedures, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

As has been previously disclosed, the company is implementing a new enterprise resource planning (ERP) system in the fourth quarter of 2004. The new ERP system will provide the company with an integrated planning, accounting and reporting system which will improve the company's business planning and financial reporting processes. As a result of this system implementation, certain changes to the company's internal control structure will be made in the fourth quarter of 2004 which management believes will maintain and strengthen the company's overall internal controls. Given the timing of the ERP system implementation with relation to the internal control testing required by section 404 of the Sarbanes Oxley Act, there is the risk that there may be insufficient time remaining before fiscal year end 2004 for the company to remediate any deficiencies identified. Management is diligently working to complete all testing and remediation within the Sarbanes Oxley Act deadline.

Item 5. Other Matters

On October 29, 2004, 112,000 shares of restricted common stock were granted to certain executives of the company under the 2003 Long Term Incentive Plan, including 30,000 shares to Charles P. Pizzi, President and Chief Executive Officer; 15,000 shares to David S. Marberger, Senior Vice President and Chief Financial Officer; 15,000 shares to Vincent A. Melchiorre, Senior Vice President and Chief Marketing Officer; 15,000 shares to Blake W. Thompson, Senior Vice President, Supply Chain; 10,000 shares to Autumn R. Bayles, Chief Information Officer; and 5,000 shares to Nancy K. O'Toole, Vice President, Human Resources. Under this grant, the restricted stock will vest in equal one-fifth increments on each anniversary of the date of grant. There is also a performance target which, if achieved, will accelerate the vesting schedule. If the closing price of the company's common stock equals or exceeds \$14 per share for 10 consecutive trading days during the five-year vesting period, then any unvested restricted shares will become fully vested on the later of (i) the day on which the performance target has been achieved or (ii) the third anniversary of the date of grant.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3 - Ammended and Restated Articles of Incorporation dated August 18, 2004

Exhibit 10.1 - Second Amendment to Employment Agreement for Charles P. Pizzi dated August 19, 2004

Exhibit 10.2 - Supplemental Executive Retirement Plan Agreement, Amended and Restated effective August 19, 2004 for Charles P. Pizzi

Exhibit 31.1 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 - 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 filed the following reports on Form 8-K during the thirteen weeks ended September 25, 2004:

On July 27, 2004, the company furnished a report on Form 8-K under Item 12, Results of Operation and Financial Condition, attaching a press release announcing its financial results for the second quarter ended June 26, 2004.

On July 30, 2004, the company furnished a report on Form 8-K under Item 5, Other Events. The report disclosed that on July 28, 2004, the Board of Directors declared a regular cash dividend of \$0.05 per share and renewed the company's stock repurchase program adopted in July 2003.

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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.

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TASTY BAKING COMPANY

(Company)

November 3, 2004

(Date)

/s/ David S. Marberger

DAVID S. MARBERGER
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(Principal Financial and
Accounting Officer)