TASTY BAKING CO
Form 10-Q
August 08, 2003

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 28, 2003

( ) 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 ________

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 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	8,098,250
(Title of Class)	(No. of Shares Outstanding as of August 1, 2003)

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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)

	June 28, 2003
Current assets:	
Cash	$ 82
Receivables, less allowance of $3,541 and $3,606 respectively	21,365
Inventories	5,945
Deferred income taxes	4,786
Prepayments and other	1,099
Total current assets	33,277
Property, plant and equipment:	
Land	1,098
Buildings and improvements	37,889
Machinery and equipment	151,112
	190,099
Less accumulated depreciation	132,844
	57,255
Long-term receivables from owner/operators	10,195
Deferred income taxes	8,319
Spare parts inventory	3,961
Other	50
	22,525
Total assets	$113,057

Current liabilities:	
Current obligations under capital leases	$ 177
Notes payable, banks	1,900
Accounts payable	7,949
Accrued payroll and employee benefits	5,510
Reserve for restructures	1,774
Other	138
Total current liabilities	17,448
Long-term debt	8,000
Long-term obligations under capital leases, less current portion	3,393
Reserve for restructures-less current portion	2,160
Accrued pensions and other liabilities	16,564
Postretirement benefits other than pensions	17,832
Total liabilities	65,397
Shareholders' equity:	
Common stock	4,558
Capital in excess of par value of stock	29,400
Retained earnings	26,684
	60,642
Less:	
Treasury stock, at cost	12,540
Management Stock Purchase Plan receivables and deferrals	442
	47,660
Total liabilities and shareholders' equity	$113,057

See accompanying notes to consolidated financial statements.

TASTY BAKING COMPANY AND SUBSIDIA
CONSOLIDATED STATEMENTS OF OPERAT
(unaudited)
(000's, except per share amount

	For the Thirteen Weeks Ended		
	June 28, 2003	June 29, 2002 (a)	June
Gross Sales	$ 62,944	$ 65,617	
Less discounts and allowances	(22,753)	(23,531)	
Net Sales	40,191	42,086	
Costs and expenses:			

Cost of sales	26,970	27,047
Depreciation	1,738	1,640
Selling, general and administrative	11,010	10,769
Restructure charge (reversal)	(95)	1,405
Interest expense	220	188
Other income, net	(241)	(295)
	39,602	40,754
Income before provision for income taxes	589	1,332
Provision for income taxes	199	453
Net income	$ 390	$ 879
Average common shares outstanding:		
Basic	8,098	8,070
Diluted	8,101	8,181
Per share of common stock:		
Net income:		
Basic	$0.05	$0.11
Diluted	$0.05	$0.11
Cash dividend	$0.05	$0.12

See accompanying notes to consolidated financial statements.

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

	For the Twenty-six Week June 28, 2003
Cash flows from (used for) operating activities	
Net income	$ 872
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,477

Restructure charge (reversal)	(314)
Pension expense	741
Deferred taxes	(89)
Restructure payments and other	(1,628)
Changes in assets and liabilities:	
Increase in receivables	(479)
Decrease in inventories	833
Decrease (increase) in prepayments and other	2,270
Increase in accrued payroll, accrued income taxes, accounts payable and other current liabilities	1,054
Net cash from operating activities	6,737
Cash flows from (used for) investing activities	
Purchase of property, plant and equipment	(2,343)
Proceeds from owner/operators' loan repayments	1,747
Loans to owner/operators	(1,847)
Other	8
Net cash used for investing activities	(2,435)
Cash flows from (used for) financing activities	
Dividends paid	(810)
Payment of long-term debt	(1,092)
Net decrease in short-term debt	(2,600)
Net proceeds from sale of common stock	-
Net cash used for financing activities	(4,502)
Net increase (decrease) in cash	(200)
Cash, beginning of year	282
Cash, end of period	$ 82

Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	$ 363
Income taxes	$ 55

See accompanying notes to consolidated financial statements.

TASTY BAKING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts are in (000's)

1. Significant Accounting Policies

Interim Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position of the company as of June 28, 2003 and December 28, 2002, the results of its operations for the thirteen and twenty-six weeks ended June 28, 2003 and June 29, 2002 and cash flows for the twenty-six weeks ended June 28, 2003 and June 29, 2002. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2002 Annual Report to Shareholders. In addition, the results of operations for the thirteen and twenty-six weeks ended June 28, 2003 are not necessarily indicative of the results to be expected for the full year.

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.

Stock-Based Compensation

The company measures stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and has calculated the pro-forma impact of the fair-value method in accordance with Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation." The calculated difference between the reported and pro-forma net income amounts is not material for the second quarter of 2003 and the second quarter of 2002.

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. 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 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.

2. Restructure Charges

The company recognized a net restructure charge reversal of $95 in the second quarter of 2003 and $220 in the first quarter of 2003. This reversal resulted from favorable settlements of certain thrift store lease contracts. These settlements relate to the restructure charges taken during 2002 and 2001.

During the fourth quarter of 2002, the company incurred a $4,936 restructure charge related to the closing of twelve thrift stores which represented the remaining company owned thrift stores. This restructure charge also included 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 restructure charge of $1,405.

During the fourth quarter of 2001, the company closed its Dutch Mill plant in Wyckoff, New Jersey. In addition, the company closed two thrift stores. Costs related to these events were included in a restructure charge of $1,728.

RESTRUCTURE RESERVE ACTIVITY (000's)

	Balance 3/29/03	Payments	Reversal of Reserve	
Lease obligations	$ 1,693	$ 229	$ 95	$
Severance	2,928	460	-	
Other	137	40	-	
Total	$ 4,758	$ 729	$ 95	$

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.

3. Inventories

Inventories are classified as follows (000's):

	June 28, 2003	Decembe
Finished Goods	$ 2,227	$
Work in progress	707	
Raw materials and supplies	3,011	
	$ 5,945	$

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 second quarter of 2003 was $390 or $.05 per diluted share which included a $95 pre-tax restructure charge reversal due to the favorable settlement of certain thrift store lease contracts. Net income for the second quarter of 2002 was $879 or $.11 per diluted share. Included in the net income for 2002 was a pre-tax restructure charge in the amount of $1,405.

Net income for the twenty-six weeks ended June 28, 2003 was $872 or $.11 per diluted share which included a $314 pre-tax restructure charge reversal due to the favorable settlement of certain thrift store lease contracts. Net income for the twenty-six weeks ended June 29, 2002 was $2,084 or $.25 per diluted share. Included in the net income for 2002 was a pre-tax restructure charge in the amount of $1,405.

Gross sales decreased by 4.1% in the second quarter of 2003 relative to the comparable quarter in 2002. Gross sales in the core routes in the second quarter of 2003 were equal to gross sales in the same period last year. During the second quarter of 2003, price increases instituted on certain product lines were offset by the effect of decreases in promotional spending, the discontinuation of certain Classic Baked Goods varieties and an increase in the mix of products sold at lower wholesale selling prices. Gross sales outside the core routes decreased by 14% in the second quarter of 2003 versus 2002. Most of the decline in the sales outside the core routes was related to the company's decision to discontinue sales to certain west coast accounts that were deemed unprofitable. The company continues to examine margins on all lines of business and is focused on improving profitability.

In the second quarter of 2003, net sales decreased by 4.5% compared to the same period last year. This decrease resulted primarily from the decrease in gross sales. Discounts and allowances decreased by 3.4%. The difference between the percentage change in discounts and allowances and gross sales was due to the effect of the thrift store sales in 2002 partially offset by a favorable shift in the sales markets toward our core routes in 2003. Cost of sales for the second quarter of 2003 was equal to cost of sales for the same quarter in 2002. As a percentage of gross sales, cost of sales increased to 42.8% in the second quarter from 41.2% in the same quarter last year. Case volume sold in the second quarter of 2003 was equal to the volume sold in the same period last year although gross sales dollars decreased by 4.1%. The decrease in gross sales dollars was due to an increase in the mix of products sold at lower wholesale selling prices relative to the prior year's quarter. The 42.8% for the current quarter represents a .7 percentage point improvement over the first quarter of 2003 because of price increases on certain products instituted in the last two months of the second quarter of 2003.

Selling, general and administrative expenses for the second quarter of 2003 increased by $240 or 2.2% compared to the second quarter of 2002. The increase was primarily due to investment in personnel to fill key positions in the company and increased marketing expenditures that offset the savings from the fourth quarter closing of the company's thrift stores and the departure of certain executives.

The effective tax rate was 33.8% for the quarter ended June 28, 2003 and 34.0% for the quarter ended June 29, 2002, which compares to a federal statutory rate of 34%. Differences between the effective rates and the statutory rate arise from the effect of state income taxes.

Financial Condition

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

Net cash from operating activities for the twenty-six weeks ended June 28, 2003 remained the same as the comparable period in 2002 despite a decrease in net income and the timing of restructure payments. Certain favorable changes resulted from working capital improvements by way of inventory utilization and accounts receivable turnover. In addition, there was a reduction in cash payments for income tax.

Net cash used for investing activities for the twenty-six weeks ended June 28, 2003 decreased by $986 relative to the same period in 2002 principally due to lower capital expenditures.

Net cash used for financing activities for the twenty-six weeks ended June 28, 2003 increased by $1,267 relative to the comparable period in 2002, due to a larger decrease in short-term debt and repayments of long-term debt in the current year partially offset by a reduction of dividends paid in the current year. The company reduced its quarterly dividend to $.05 per share in the first quarter of 2003. The dividend had been $.12 per share since 1997.

For the remainder of 2003, the company anticipates that cash flow from operations, along with the continued availability of credit under the credit facility, will provide sufficient cash to meet operating and financing requirements.

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, improvements in efficiency expected from plant modernization programs, sales growth by distribution through existing and other channels of distribution, the Registrant's business strategies and other statements contained herein that are not historical facts. Because such forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements which include changes in general economic or business conditions, the availability of capital upon terms acceptable to the Registrant, the availability and prices of raw materials, the level of demand for the Registrant's products, the outcome of legal proceedings to which the Registrant 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 plant modernization and business strategies implemented by the Registrant 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" in the company's annual report on Form 10-K for the year ended December 28, 2002 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 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 with rates that 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 notes payable.

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 established a disclosure controls committee, which consists of certain members of management. During the second quarter of 2003, the company hired a Director of Internal Control and Analysis who has been actively involved in the evaluation of the disclosure controls and procedures. Within 90 days prior to the date of filing of this report, 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. 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 for gathering, analyzing and disclosing the information the company is required to disclose in the reports it files pursuant to the Securities and Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in the company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

TASTY BAKING COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The company's annual meeting of shareholders was held on May 2, 2003.

(b) The directors elected at the meeting were:

	For	Against	Withheld
Ronald J. Kozich	6,612,793	---	128,691
James E. Ksansnak	6,615,174	---	126,310
Charles P. Pizzi	6,615,137	---	126,346

Other directors whose terms of office continued after the meeting are as follows: Fred C. Aldridge, Jr., Philip J. Baur Jr., G. Fred DiBona, Jr., John M. Pettine and Judith M. von Seldeneck.

(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 2003 Long Term Incentive Plan	4,468,052	1,961,748	311,683

	For	Against	Abstain
Approval of PricewaterhouseCoopers LLP, as independent certified public accountants	6,643,256	81,985	16,244

The foregoing matters are described in detail in the company's proxy statement dated March 31, 2003.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3 - By-Laws of the company as amended on May 2, 2003

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 June 28, 2003:

On April 4, 2003, the company furnished a report on Form 8-K under Item 9, Regulation FD Disclosure, attaching a press release announcing its new management team's first meeting with investors and analysts and anticipated earnings for the first quarter 2003.

On April 29, 2003, the company furnished a report on Form 8-K under Item 5, Other Events and Required FD Disclosure, attaching a press release announcing its first quarter 2003 financial results.

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)

August 8, 2003	/s/David S. Marberger
(Date)	DAVID S. MARBERGER SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (Principal Financial and Accounting Officer)