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TASTY BAKING CO  
Form 10-Q  
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the thirteen weeks ended March 31, 2001  
-----

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-5084  
-----

TASTY BAKING COMPANY

-----  
(Exact name of company as specified in its charter)

Pennsylvania

23-1145880

-----  
(State of Incorporation)

(IRS Employer Identification Number)

2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129

-----  
(Address of Principal Executive Offices) (Zip Code)

(215) 221-8500

-----  
(Company's Telephone Number, including area code)

Indicate by check mark whether the company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes

No

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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 7,974,769

-----  
(Title of Class) (No. of Shares Outstanding  
at May 14, 2001)

## TASTY BAKING COMPANY AND SUBSIDIARIES

### INDEX

|          | Page  |
|----------|---|
| PART I.  | FINANCIAL INFORMATION   |
| Item 1.  | Financial Statements  |
|          | Consolidated Condensed Balance Sheets<br>March 31, 2001 and December 30, 2000.....3                             |
|          | Consolidated Condensed Statements of Operations<br>Thirteen weeks ended March 31, 2001 and March 25, 2000.....4 |
|          | Consolidated Condensed Statements of Cash Flows<br>Thirteen weeks ended March 31, 2001 and March 25, 2000.....5 |
|          | Notes to Consolidated Condensed Financial Statements.....6  |
| Item 2.  | Management's Discussion and Analysis of Financial<br>Condition and Results of Operations.....7-8                |
| Item 3.  | Quantitative and Qualitative Disclosure<br>About Market Risk.....8  |
| PART II. | OTHER INFORMATION   |
| Item 2.  | Changes in Securities and Use of Proceeds.....9   |
| Item 6.  | Exhibits and Reports on Form 8-K.....9  |
|          | Signature.....10  |

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Page 2 of 10

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements

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

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

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

See accompanying notes to consolidated condensed financial statements

3 of 10

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

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

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|                                    |           |
|------------------------------------|-----------|
| Average common shares outstanding: |           |
| Basic                              | 7,902,402 |
| Diluted                            | 8,022,865 |

Per share of common stock:

|               |        |
|---------------|--------|
| Net income:   |        |
| Basic         | \$0.27 |
|               | =====  |
| Diluted       | \$0.26 |
|               | =====  |
| Cash dividend | \$0.12 |
|               | =====  |

See accompanying notes to consolidated condensed financial statements.

4 of 10

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

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

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

See accompanying notes to consolidated condensed financial statements.

5 of 10

TASTY BAKING COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Interim Financial Information

-----  
In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the company as of March 31, 2001 and December 30, 2000, the results of its operations for the thirteen weeks ended March 31, 2001 and March 25, 2000 and cash flows for the thirteen weeks ended March 31, 2001 and March 25, 2000. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2000 Annual Report to Shareholders. In addition, the results of operations for the thirteen weeks ended March 31, 2001 are not necessarily indicative of the results

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to be expected for the full year.

Certain expense items are charged to operations in the year incurred. However, for interim reporting purposes the expenses are charged to operations on a pro-rata basis over the company's accounting periods. For the thirteen weeks ended March 31, 2001 and March 25, 2000, the difference between the actual expenses incurred and the expenses charged to operations was not material.

### 2. Net Income Per Common Share

Net income per common share is presented as basic and diluted earnings per share. Net income per common share - Basic is based on the weighted average number of common shares outstanding during the year. Net income per common share - Diluted is based on the weighted average number of common shares and dilutive potential common shares outstanding during the year. The company's dilutive potential common shares outstanding during the year result entirely from dilutive stock options. Potential common shares, which would result from the exercise of stock options, are not included in the computation of diluted per share amounts when the options' exercise price is greater than the average market price of the common shares.

### 3. New Accounting Standards

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

6 of 10

## TASTY BAKING COMPANY AND SUBSIDIARIES

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

#### Results of Operations

Net income for the first quarter of 2001 was \$2,119,451 or \$.26 per share. Net income for the first quarter of 2000 was \$2,022,516 or \$.26 per share. However, during the first quarter of 2001, the \$14.00 and \$16.00 stock price targets pertaining to the 1999 conditional stock grant were achieved and a resulting pre-tax charge of \$805,000 of compensation expense was recorded. While the company anticipated achieving the \$14.00 per share price target in the first quarter, it did not anticipate achieving the \$16.00 per share price target in the same quarter, and as a result the first quarter 2001 was impacted by \$.03 per share. Therefore, without the additional expense related to the \$16.00 per share price target, net income per share would have been \$.29. The achievement of the \$16.00 target completes the 1999 conditional stock grant.

For the first quarter, gross sales increased 7.4% to \$65,655,374, compared to \$61,147,760 last year. The increase in gross sales was primarily the result of

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price increases instituted at the end of the fourth quarter of 2000. Gross sales, less discounts and allowances, resulted in an increase in net sales of 5.1% to \$42,394,089, compared to \$40,343,346 reported last year. The percentage increase in net sales was lower than the percentage increase in gross sales due to the effect of returns and commissions.

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

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

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

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

7 of 10

### Financial Condition

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

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

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

Net cash from financing activities for the thirteen weeks ended March 31, 2001 decreased by \$26,363 relative to the same thirteen weeks in 2000. The proceeds



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from the sale of common stock from the exercise of stock options were offset by a net decrease in short and long-term debt relative to the prior year.

For the remainder of 2001 the company anticipates that cash flow from operations, along with the continued availability of bank lines of credit, the revolving credit agreement and other long-term financing, will provide sufficient cash to meet operating and financing requirements.

### Forward-Looking Statements

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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.

8 of 10

## TASTY BAKING COMPANY AND SUBSIDIARIES

### PART II. OTHER INFORMATION

#### Item 2. Changes in Securities and Use of Proceeds

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During the quarter, the company sold 86,846 shares of its common stock to various officers and one former director of the company pursuant to the exercise of outstanding stock options. All shares were sold for cash and the aggregate price paid for the shares sold was \$999,768.50. The options were originally granted under the terms and conditions of the company's various stock option plans and the stock option awards made from time to time to directors. The original stock option awards and the subsequent sale of common stock by the company are exempt from registration as transactions by the issuer not involving a public offering as provided under Section 4(2) of the Securities Act of 1933, as

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amended, and the regulations and rulings thereunder. All proceeds from the sale of the common stock will be used for general corporate purposes.

Item 6. Exhibits and Reports on Form 8-K  
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(a) Reports on Form 8-K

The company did not file a report on Form 8-K during the thirteen weeks ended March 31, 2001.

9 of 10

TASTY BAKING COMPANY AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TASTY BAKING COMPANY  
-----

(Company)

May 14, 2001  
-----

(Date)

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

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May 14, 2001

/S/ Daniel J. Decina

-----  
(Date)

-----  
DANIEL J. DECINA  
VICE PRESIDENT, FINANCE AND  
CHIEF ACCOUNTING OFFICER  
(PRINCIPAL ACCOUNTING OFFICER)

10 of 10