TASTY BAKING CO
Form 10-Q
May 11, 2006

UNITED STATES
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 April 1, 2006

o 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 including Zip Code)

215-221-8500
(Company's telephone number, including area code)

Indicate by check mark whether the registrant (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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NOo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated Filer o Accelerated Filer x Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

There were 8,264,626 shares of Common Stock outstanding as of May 6, 2006.

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)

	April 1, 2006	December 31, 2005
Assets		
Current assets:		
Cash	$ 207	$ 251
Receivables, less allowance of $3,154 and $3,272, respectively	20,396	18,389
Inventories	6,262	6,472
Deferred income taxes	2,127	2,127
Prepayments and other	1,686	1,769
Total current assets	30,678	29,008
Property, plant and equipment:		
Land	1,433	1,433
Buildings and improvements	42,785	42,282
Machinery and equipment	138,292	136,392
	182,510	180,107
Less accumulated depreciation	115,369	113,859
	67,141	66,248
Other assets:		
Long-term receivables from independent sales distributors	10,999	10,700
Deferred income taxes	13,223	13,251
Other	2,202	2,100
	26,424	26,051
Total assets	$ 124,243	$ 121,307
Liabilities		
Current liabilities:		
Current obligations under capital leases	$ 542	$ 534
Notes payable, banks	631	631
Book overdraft	3,620	3,482
Accounts payable	3,967	3,934
Accrued payroll and employee benefits	6,865	6,810
Reserve for restructures	102	247
Other	3,453	3,734
Total current liabilities	19,180	19,372
Long-term obligations under capital leases, less current portion	396	534
Long-term debt	25,550	22,558
Accrued pensions and other liabilities	24,493	24,599
Postretirement benefits other than pensions	16,601	16,955
Total liabilities	86,220	84,018
Shareholders' equity		
Common stock	4,558	4,558

Capital in excess of par value of stock		29,002		28,910
Retained earnings		23,019		22,472
		56,579		55,940
Less:				
Accumulated other comprehensive loss		6,179		6,287
Treasury stock, at cost		12,377		11,912
Stock compensation arrangements, receivables and deferrals				452
		38,023		37,289
Total liabilities and shareholders' equity	$	124,243	$	121,307

See Notes to Consolidated Financial Statements.

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

	For the Thirteen Weeks Ended April 1, 2006	March 26, 2005
Gross sales	$ 69,333	$ 65,946
Less discounts and allowances	(26,423)	(24,792)
Net sales	42,910	41,154
Costs and expenses:		
Cost of sales	26,820	26,024
Depreciation	1,543	1,801
Selling, general and administrative	12,944	12,654
Interest expense	375	321
Other income, net	(300)	(238)
	41,382	40,562
Income before provision for income taxes	1,528	592
Provision for income taxes	574	113
Net income	$ 954	$ 479
Average common shares outstanding:		
Basic	8,051	8,064
Diluted	8,265	8,167
Per share of common stock:		
Net income:		
Basic and Diluted	$ 0.12	$ 0.06
Cash dividend	$ 0.05	$ 0.05

See Notes to Consolidated Financial Statements.

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

	For the Thirteen Weeks Ended	
	April 1, 2006	March 26, 2005 (a)
Cash flows from (used for) operating activities		
Net income	954	479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,543	1,801
Gain on sale of routes	(48)	-
Restructure payments	(145)	(186)
Pension expense	5	84
Deferred taxes	(52)	(87)
Post retirement medical	(354)	(73)
Other	37	337
Changes in assets and liabilities:		
Increase in receivables	(2,104)	(2,778)
(Increase) decrease in inventories	210	(347)
(Increase) decrease in prepayments and other	140	(24)
Increase in accrued taxes	296	-
Decrease in accounts payable, accrued payroll and other current liabilities	(489)	(3,586)
Net cash used for operating activities	(7)	(4,380)
Cash flows from (used for) investing activities		
Purchase of property, plant and equipment	(2,392)	(392)
Proceeds from independent sales distributor loan repayments	1,236	1,814
Loans to independent sales distributors	(1,417)	(2,142)
Other	(57)	1
Net cash used for investing activities	(2,630)	(719)
Cash flows from (used for) financing activities		
Dividends paid	(407)	(409)
Payment of long-term debt	(288)	(177)
Net increase in short-term debt	-	4,100
Additional long-term debt	3,150	1,000
Net increase in book overdraft	138	600
Purchase of treasury stock	-	(38)
Net cash from financing activities	2,593	5,076

Net decrease in cash	(44)	(23)
Cash, beginning of year	251	208
Cash, end of period	207	185
Supplemental Cash Flow Information		
Cash paid (refunded) during the period for:		
Interest	396	320
Income taxes	4	(47)

(a) Amounts have been reclassified for comparative purposes.

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(000's, except share and per share amounts)
All disclosures are pre-tax, unless otherwise noted.

1. Summary of Significant Accounting Policies

Nature of the Business
Tasty Baking Company is a leading producer of sweet baked goods and one of the nation's oldest and largest independent baking companies, in operation since 1914. It has two manufacturing facilities, one in Philadelphia, PA, and a second facility in Oxford, PA.

Fiscal Year
The company and its subsidiaries operate on a 52-53 week fiscal year, ending on the last Saturday of December. Fiscal year 2006 is a 52-week year. Fiscal 2005 was a 53-week year.

Basis of Consolidation
The consolidated financial statements include the accounts of the company and its subsidiaries. Inter-company transactions are eliminated.

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 April 1, 2006 and December 31, 2005, the results of its operations for the thirteen weeks ended April 1, 2006 and March 26, 2005, and cash flows for the thirteen week period ended April 1, 2006 and March 26, 2005, respectively. These Unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto in the company's 2005 Form 10-K. In addition, the results of operations for the thirteen weeks ended April 1, 2006 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates
Certain amounts included in the accompanying consolidated financial statements and related footnotes reflect the use of estimates based on assumptions made by management. These estimates are made using all information available to management, and management believes that these estimates are as accurate as possible as of the dates and for the periods that the financial statements are presented. Actual amounts could differ from these estimates. Significant estimates for the company include customer discounts and allowances, collections, long-lived asset impairment, pension and postretirement plan assumptions, workers' compensation expense and income tax valuation.

Concentration of Credit
The company encounters, in the normal course of business, exposure to concentrations of credit risk with respect to trade receivables. Ongoing credit evaluations of customers' financial conditions are performed and, generally, no collateral is required. The company maintains reserves for potential credit losses and such losses have not exceeded management's expectations.

Revenue Recognition
Revenue is recognized when title and risk of loss pass, which is upon receipt of goods by the independent sales distributors, retailers or third-party distributors. For route area sales, the company sells to independent sales distributors who, in turn, sell to retail customers. Revenue for sales to independent sales distributors is recognized upon receipt of the product by the distributor. For sales made directly to a retail customer or a third-party distributor, revenue is recognized upon receipt of the products by the retail customer or third-party distributor.

Sale of Routes
Sales distribution routes are owned by independent sales distributors who purchase the exclusive right to sell and distribute Tastykake products in defined geographical territories. When the company sells routes to independent sales distributors, it recognizes a gain or loss on the sale. Routes sold by the company are either existing routes that the company has previously purchased from an independent sales distributor, or newly established routes in new geographies. Any gain or loss recorded by the company is based on the difference between the sales price and the carrying value of the route, and is recorded as a separate line item in the consolidated statements of operations. The company recognizes gains on sales of routes because all material services or conditions related to the sale have been substantially performed or satisfied by the company as of the date of sale. In most cases, the company will finance a portion of the purchase price with interest bearing notes. Interest rates on the notes are based on treasury yields plus a spread. The notes require full repayment of the loan amount. The company has no obligation to later repurchase a route but may choose to do so to facilitate a change in route ownership.

Cash and Cash Equivalents

The company considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents. Book overdrafts are recorded within current liabilities. Cash flows associated with book overdrafts are classified as financing activities. During 2005, the company revised the classification for book overdrafts in the Consolidated Balance Sheet and the Consolidated Statements of Cash Flows. They were previously reported as an operating activity. The revised classifications have also been reflected in the comparative prior year amounts for purposes of consistency.

Inventory Valuation

Inventories, which include material, labor and manufacturing overhead, are stated at the lower of cost or market, cost being determined using the first-in, first-out ("FIFO") method. Inventory balances for raw materials, work in progress, and finished goods are regularly analyzed and provisions for excess and obsolete inventory are recorded, if necessary, based on the forecast of product demand and production requirements.

Spare parts, which are recorded as property, plant and equipment, are reviewed for potential obsolescence on a quarterly basis. Reserves are established for all spare parts that are no longer usable and have no fair market value.

Property and Depreciation

Property, plant and equipment are carried at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over thirty-nine years. Machinery and equipment are depreciated over a range of seven to fifteen years. Spare parts are capitalized as part of machinery and equipment and are expensed as utilized. The enterprise resource planning ("ERP") system is being depreciated over five years.

Costs of major additions, replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred.

For significant projects, the company capitalizes interest and labor costs associated with the construction and installation of plant and equipment and significant information technology development projects.

In accordance with SFAS No.144, long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In instances where the carrying amount may not be recoverable, the review for potential impairment utilizes estimates and assumptions of future cash flows directly related to the asset. For assets where there is no plan for future use, the review for impairment includes estimates and assumptions of the fair market value of the asset, which is based on the best information available to the company. These assets are recorded at the lower of their book value or market value.

In accordance with FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations", the company must recognize liabilities for obligations related to asset retirement activities in which the timing and (or) method of settlement are conditional on a future event when it can reasonably estimate the fair value of each conditional asset retirement obligation. In December 2005, the company purchased from its Pension Plan the Philadelphia production facility ("Hunting Park Bakery"), which contains asbestos. The Company is not under any current obligation to remove the asbestos since it is encased and in compliance with current regulatory codes. The company may have an obligation to remove the asbestos if the facility were to undergo a major renovation or to be demolished. The company has no current plans to demolish or perform any major renovations. The fair value cannot be determined because the company has not made any decision to retire the facility, but in the future, it would have options including selling, demolishing or abandonment. The company cannot recognize a liability for the potential removal of asbestos because it cannot reasonably estimate the fair value of the obligation. The company does not have sufficient information because the settlement date or range of potential settlement dates is not estimable at this time and therefore sufficient information is not available to apply an expected present value technique.

Training Grants

The company receives grants from various Commonwealth of Pennsylvania agencies which reimburse the company for specific training expenses. The company records receipt of these grants as an offset to the related expense.

Marketing Costs
The company expenses marketing costs, which include advertising and consumer promotions, as incurred. Marketing costs are included as a part of selling, general and administrative expense.

Computer Software Costs
The company capitalizes certain costs, such as software coding, installation and testing that are incurred to purchase or create and implement internal use computer software in accordance with Statement of Position 98-1, "*Accounting for Costs of Computer Software Development or Obtained for Internal Use*." The majority of the company's capitalized software relates to the implementation of the enterprise resource planning ("ERP") and handheld computer systems.

Shipping and Handling Costs
Shipping and handling costs are included as a part of selling, general and administrative expense.

Pension Plan
The company's funding policy for the defined benefit pension plan (the "DB 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. In 1987 the company elected to immediately recognize all gains and losses in excess of the pension corridor.