TASTY BAKING CO
Form 10-Q
May 06, 2010

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 March 27, 2010

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)

Navy Yard Corporate Center, Three Crescent Drive, Suite 200, Philadelphia, Pennsylvania 19112
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES o NOo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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 8,621,847 shares of Common Stock outstanding as of May 5, 2010.

TASTY BAKING COMPANY AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	For the Thirteen Weeks Ended	
	March 27, 2010	March 28, 2009
Gross sales	$ 72,287	$ 76,930
Less discounts and allowances	(29,152)	(30,767)
Net sales	43,135	46,163
Costs and expenses:		
Cost of sales, exclusive of depreciation shown below	30,058	29,921
Depreciation	4,705	3,240
Selling, general and administrative	12,914	12,695
Interest expense	1,319	604
Other (income)/expense, net	237	(208)
	49,233	46,252
Loss before provision for income taxes	(6,098)	(89)
Benefit from income taxes	2,178	19
Net Loss	$ (3,920)	$ (70)
Average common shares outstanding:		
Basic	8,129	8,059
Diluted	8,129	8,059
Per share of common stock:		
Net income:		
Basic	$ (0.48)	$ (0.01)
Diluted	$ (0.48)	$ (0.01)
Cash dividend	$ 0.05	$ 0.05

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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TASTY BAKING COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(000's)

	For the Thirteen Weeks Ended	
	March 27, 2010	March 28, 2009
Cash flows from (used for) operating activities		
Net loss	$ (3,920)	$ (70)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,705	3,240
Amortization	133	91
Accretion of asset retirement obligation	102	97
Gain on sale of property, plant and equipment	(2)	-
Gain on sale of route	(21)	-
Defined benefit pension expense	79	209
Pension contributions	(581)	(630)
Increase in deferred taxes	(2,336)	(270)
Prepaid rent	1,555	-
Increase in reserve for restructure	322	-
Share-based compensation	454	289
Postretirement benefit income	-	(156)
Other	(131)	(164)
Changes in assets and liabilities:		
Increase in receivables	(2,987)	(1,379)
Increase in inventories	(2,186)	(693)
Increase in prepayments, deferred taxes and other	(1,296)	(875)
Increase in accrued taxes	185	-
Increase in accounts payable, accrued payroll and other current liabilities	1,106	4,303
Net cash from (used for) operating activities	$ (4,819)	$ 3,992
Cash flows from (used for) investing activities		
Independent sales distributor loan repayments	682	666
Proceeds from sale of property, plant and equipment	4	-
Purchase of property, plant and equipment	(5,662)	(14,274)
Loans to independent sales distributors	(564)	(790)
Other	118	2
Net cash used for investing activities	$ (5,422)	$ (14,396)
Cash flows from (used for) financing activities		
Dividends paid	(426)	(423)
Repurchase of treasury shares	(106)	-

Payment on long-term debt		(504	)		(9,425	)
Increase in long-term debt		10,255			19,880	
Net increase in cash overdraft		1,022			390	
Net cash from financing activities	$	10,241		$	10,422	
Net increase in cash and cash equivalents		-			18	
Cash and cash equivalents, beginning of year		5			58	
Cash and cash equivalents, end of period	$	5		$	76	

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

		March 27, 2010		December 26, 2009
Assets				
Current assets:				
Cash and cash equivalents	$	5	$	5
Receivables, less allowance of $2,988 and $3,063 respectively		22,461		19,480
Inventories		8,953		6,767
Deferred income taxes		3,389		3,389
Prepayments and other		3,350		2,158
Total current assets		38,158		31,799
Property, plant and equipment:				
Land		1,433		1,433
Buildings and improvements		68,052		66,724
Machinery and equipment		172,420		151,327
Construction in progress		27,357		43,367
		269,262		262,851
Less accumulated depreciation		145,474		141,199
		123,788		121,652
Other assets:				
Route territories		2,012		2,102
Long-term receivables from independent sales distributors		9,193		9,286
Long-term prepaid rent, net		5,973		7,452
Deferred income taxes		17,814		16,085
Miscellaneous		1,018		1,094
		36,010		36,019
Total assets	$	197,956	$	189,470
Liabilities				
Current liabilities:				
Accounts payable	$	13,054	$	8,824
Accrued payroll and employee benefits		6,439		6,457
Cash overdraft		6,946		5,924
Current obligations under capital leases		1,005		919
Notes payable, banks and current portion of long-term debt		2,242		1,128
Reserve for restructure		1,399		1,078
Other current liabilities		5,874		7,535
Total current liabilities		36,959		31,865
Accrued pensions		22,867		25,257
Asset retirement obligations		7,547		7,444
Long-term debt		96,441		88,147

Long-term obligations under capital leases, less current portion		1,644		1,387
Other non-current liabilities		7,941		7,586
Total liabilities	$	173,399	$	161,686
Shareholders' equity				
Accumulated other comprehensive loss	$	(5,362)	$	(6,348)
Capital in excess of par value of stock		27,801		28,016
Common stock, par value $0.50 per share and entitled to one		4,558		4,558
vote per share: Authorized 30,000 shares, issued 9,116 shares				
Retained earnings		7,214		11,560
Treasury stock, at cost		(9,654)		(10,002)
Total shareholders' equity	$	24,557	$	27,784
Total liabilities and shareholders' equity	$	197,956	$	189,470

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
All disclosures are pre-tax, unless otherwise noted.

1. Summary of Significant Accounting Policies

Nature of the Business
Tasty Baking Company (the "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 three manufacturing facilities, two in Philadelphia, Pennsylvania, and a third facility in Oxford, Pennsylvania. The Company is in process of transitioning bakery operations from its Hunting Park, Philadelphia facility to the facility at the Philadelphia Navy Yard. The Company expects this transition to be complete in 2010.

Fiscal Year
The Company and its subsidiaries operate on a 52-53 week fiscal year, ending on the last Saturday of December. Fiscal year 2010 is a 52-week year. Fiscal year 2009 was a 52-week year.

Basis of Consolidation
The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring items, which are necessary for a fair statement of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future period.

Use of Estimates
The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to customer sales, discounts and allowances, long-lived asset impairment, indefinite-lived asset impairment, pension plan assumptions, workers' compensation expense and income taxes. Actual results may differ from these estimates.

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 sales, the Company sells to independent sales distributors who, in turn, sell to retailers. Revenue for sales to independent sales distributors is recognized upon receipt of the product by the distributor. For sales made directly to a customer or a third party distributor, revenue is recognized

upon receipt of the products by the retailer or third party distributor.

Sale of Routes

Sales distribution routes are primarily owned by independent sales distributors that purchase the exclusive right to sell and distribute Tastykake® products in defined geographic areas. 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 areas. Any gain or loss recorded by the Company is based on the difference between the sales price and the carrying value of the route. Any potential impairment of net carrying value is reserved as identified. The Company recognizes gains or losses on sales of routes when all material services or conditions related to the sale have been substantially performed or satisfied by the Company. In most cases, the Company will finance a portion of the purchase price with interest bearing notes, which are required to be repaid in full. Interest rates on the notes are based on Treasury or LIBOR yields plus a spread. The Company has no obligation to later repurchase a route but may choose to do so to facilitate a change in route ownership.

Sales distribution routes owned by the Company are considered to have an indefinite life and are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any potential impairment is recognized when the fair value of the route is less than the net carrying value. As of March 27, 2010 and December 26, 2009, the net carrying value of sales distribution routes owned by the Company was $2.0 million and $2.1 million, respectively.

Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less on its acquisition date to be cash equivalents. Cash overdrafts are recorded within current liabilities. Cash flows associated with cash overdrafts are classified as financing activities.

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, as necessary, based on the forecast of product demand and production requirements.

Property and Depreciation

Property, plant and equipment are carried at cost. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets, except where a shorter useful life is necessitated by the Company’s decision to relocate its Hunting Park, Philadelphia manufacturing facility.

Asset Category	Estimated Useful Life
Buildings and improvements	26-39 years
Machinery and equipment	7-15 years
Vehicles	5-10 years
Capitalized hardware and software	5 years
Construction in progress	Not applicable

Spare parts are capitalized as part of machinery and equipment and are expensed as utilized or capitalized as part of the relevant fixed asset. Spare parts are valued using a moving average method and are reviewed for potential obsolescence on a regular basis. Reserves are established for all spare parts that are no longer usable and have no fair market value. As of March 27, 2010 and December 26, 2009, the Company had a reserve for excess and obsolete spare parts of $1.5 million.

Costs of major additions, replacements and betterments 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.

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 value of the asset, which is based on the best information available. These assets are recorded at the lower of their book value or fair value.

The Company has a conditional asset retirement obligation related to asbestos in its Hunting Park, Philadelphia manufacturing facility. As a result of the Company's decision to relocate its Philadelphia operations, it was able to estimate a settlement date for the asset retirement obligation and recognized a liability for this obligation. This obligation will continue to accrete to the full value of the future obligation over the remaining period until settlement of the obligation which is expected to occur in 2010, while the capitalized asset retirement cost is depreciated over the remaining useful life of the Hunting Park, Philadelphia manufacturing facility. During the thirteen weeks ended March 27, 2010 and March 28, 2009, the Company recorded $0.1 million in interest associated with the asset retirement obligation and as of March 27, 2010 and December 26, 2009, the asset retirement obligation totaled $7.6 million and $7.5 million, respectively.

Grants

The Company receives grants from various government agencies for employee training purposes. Expenses for the training are recognized in the condensed consolidated Statements of Operations at the time the training takes place. When the proper approvals are given and funds are received from the government agencies, the Company records an offset to the training expense already recognized.

In 2007, in connection with the decision to relocate its Philadelphia manufacturing operations, the Company received a $0.6 million grant from the Department of Community and Economic Development of the Commonwealth of Pennsylvania ("DCED"). The opportunity grant has certain spending, job retention and nondiscrimination conditions with which the Company must comply. The Company accounted for this grant under the deferred income approach and will amortize the deferred income over the same period as the useful life of the asset acquired with the grant. The asset acquired with the grant was placed into service in the first quarter of 2010, and likewise the amortization of the grant also commenced in the first quarter of 2010.

Additionally, in conjunction with The Reinvestment Funds, Allegheny West Foundation and the DCED, the Company participates in Project Fresh Start (the "Project"). The Project is an entrepreneurial development program that provides an opportunity for qualified minority entrepreneurs to purchase independent sales distribution routes. The source of grant monies for this program is the DCED. The grants are used by minority applicants to partially fund their purchase of an independent sales distribution route.

Because the Project's grant funds merely pass through the Company in its role as an intermediary, the Company records an offsetting asset and liability for the total amount of grants as they relate to the Project. There is no impact to the Statements of Operations related to the establishment of, or subsequent change to, the asset and liability amounts.

Marketing Costs

The Company expenses marketing costs, which include advertising and consumer promotions, as incurred or over the period in which future benefits are expected to be received. Marketing costs are included as a part of selling, general and administrative expense. Total marketing costs, including direct marketing and marketing overhead costs, totaled $0.9 million and $0.8 million, for the thirteen weeks ended March 27, 2010 and March 28, 2009, respectively.

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. The majority of the Company's capitalized software relates to the implementation of enterprise resource planning and handheld computer systems. The Company's unamortized capitalized computer software costs totaled $4.9 million and $5.0 million as of March 27, 2010 and December 26, 2009, respectively. The Company recognized $0.4 million and $0.6 million of amortization expense related to its capitalized computer software costs for the thirteen weeks ended March 27, 2010 and March 28, 2009, respectively.

Freight, Shipping and Handling Costs

Outbound freight, shipping and handling costs are included as a part of selling, general and administrative expense. Total outbound freight, shipping and handling costs totaled $2.9 million and $2.7 million, for the thirteen weeks ended March 27, 2010 and March 28, 2009, respectively. Inbound freight, shipping and handling costs are capitalized with inventory and expensed with cost of sales.

Pension Plan

The Company's funding policy for the 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. In

1987 the Company elected to immediately recognize all gains and losses in excess of the pension corridor, which is equal to the greater of ten percent of the projected pension benefit obligation or ten percent of the market-related value of plan assets.

The Company accrues normal periodic pension expense or income during the year based upon certain assumptions and estimates. 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. Expense or income that falls outside the corridor is recognized only in the fourth quarter of each year.

Accounting for Derivative Instruments
The Company has entered into variable-to-fixed rate interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. These contracts are accounted for as cash flow hedges. Accordingly, these derivatives are marked to market and the resulting gains or losses are recorded in other comprehensive income as an offset to the related hedged asset or liability. The actual interest expense incurred, inclusive of the effect of the hedge in the current period, is recorded in the condensed consolidated Statements of Operations.

The Company has also entered into foreign currency forward contracts to hedge against fluctuations in foreign currency exchange rates. These contracts are accounted for as fair value foreign currency hedges. Accordingly, the changes in fair value of both the commitment and the derivative instruments are recorded in the condensed consolidated Statements of Operations, with the corresponding asset and liability recorded on the balance sheets.

Treasury Stock
Treasury stock is stated at cost. Cost is determined by the FIFO method.

Accounting for Income Taxes
The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to be recovered or settled.

Net Income (Loss) Per Common Share
Net income (loss) per common share is presented as basic and diluted earnings per share. Net income (loss) per common share – basic represents the earnings for the period available to each share of common stock outstanding during the reporting period. Net income (loss) per common share – diluted represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the thirteen weeks ended March 27, 2010 and March 28, 2009 options to purchase common stock totaling 314,125 and 499,798 shares, respectively, were not included in the calculation of net income (loss) per common share – diluted since the exercise price per share exceeded the actual price per share during the periods presented.

	Thirteen Weeks Ended			
	March 27, 2010		March 28, 2009	
	Net Loss	Shares	Net Loss	Shares
Net loss	$ (3,920)		$ (70)	
Less:				
Income attributable to participating securities	(16)		(20)	
Net loss available for common shareholders	$ (3,936)		$ (90)	
Net loss per common share - basic	(0.48)	8,129	(0.01)	8,059
Net loss per common share - diluted	(0.48)	8,129	(0.01)	8,059

The Company has determined that the calculation of net income (loss) per common share – basic includes all securities that are also required by the calculation of net income (loss) per common share – diluted, and therefore are the same for the respective periods presented.

Share-based Compensation

Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. The total value of compensation expense for restricted stock is based on the closing market price of Tasty Baking Company shares on the date of grant. Forfeitures are required to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on the Company's historical forfeiture experience. The Company calculated its historical pool of windfall tax benefits.

Recent Accounting Statements

In June 2009, the FASB issued guidance on the accounting for variable interest entities (formerly referred to as "Statement No. 167, Amendments to FASB Interpretation No. 46(R)"), amending the consolidation guidance for variable-interest entities under FIN 46(R), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities; (2) a new approach for determining who should consolidate a variable-interest entity; and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This guidance was effective January 1, 2010. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which provides additional disclosure requirements and clarifies existing disclosure requirements for fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-12, Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts, which contains an SEC staff announcement addressing a potential accounting issue specific to companies with period ends between March 23 and March 30, 2010. On March 30, 2010, the President signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010 (collectively the "Acts"). Recently, questions have arisen about the effect, if any, that the different signing dates might have on the accounting for these two Acts. The FASB staff and the Office of the Chief Accountant have concluded that they would not object to a view that the two Acts should be considered together for accounting purposes. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

2. New Facilities

In May 2007, the Company announced that as part of its comprehensive operational review of strategic manufacturing alternatives, it entered into an agreement to relocate its Hunting Park, Philadelphia operations to the Philadelphia Navy Yard. The term of the bakery lease provides for a 26-year lease term, with renewal options for two additional 10 year terms, for a 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the new bakery, warehouse and distribution center is complete and the Company has commenced production of pies, snack bars, certain cupcakes and krimpets. The equipment commissioning process has begun for the remaining production lines and the Company expects production to be fully transitioned to the new facility in the spring of 2010. The term of the bakery lease commenced in October 2009, and provides for no rent payments in the first year of occupancy. Rental payments increase from $3.5 million in the second year of occupancy to $7.2 million in the final year of the lease. The Company also entered into a 16-year agreement for $9.5 million in financing at a fixed rate of 8.54% to be used for leasehold improvements. This agreement provides for no payments in the first year of occupancy and then requires monthly payments totaling $1.2 million annually over the remainder of the term. The Company accounts for both agreements as a single unit of account and as an operating lease and recognizes rental expense associated with this operating lease on a straight-line basis over 26 years.

During April 2009, the Company relocated its corporate headquarters to 36,000 square feet of leased office space in the Philadelphia Navy Yard. The office lease term, which commenced in April 2009, will end at the same time as the new bakery lease. The office lease provides for no rent payments during the first six months of occupancy. Annual rental payments increase from approximately $0.9 million after the first six months of occupancy to approximately $1.6 million in the final year of the lease. The Company recognizes rental expense associated with the operating lease on a straight-line basis over the term of the agreement.

In connection with these agreements, the Company provided a $1.1 million letter of credit, which increased to $8.1 million in the beginning of 2009. The outstanding amount of the letter of credit will be reduced starting in 2026 and will be eliminated by the end of the lease term. As of March 27, 2010 and December 26, 2009, the outstanding letter of credit under this arrangement totaled $8.1 million.

In connection with these agreements and the related construction of the new facilities, the Company provided an additional $0.5 million letter of credit. There were no outstanding amounts as of March 27, 2010 or December 26, 2009 and this letter of credit will be eliminated in June 2010.

In addition to the facility leases, the Company purchased high-tech, modern baking equipment. The equipment is designed to increase product development flexibility and efficiency, while maintaining existing taste and quality standards. The investment for this project, in addition to any costs associated with the agreements described above, is projected to be approximately $78.0 million through 2010. In September 2007, the Company closed on a multi-bank credit facility and low-interest development loans provided in part by the Commonwealth of Pennsylvania and the Philadelphia Industrial Development Corporation ("PIDC") to finance this investment and refinance the Company's existing revolving credit facilities, as well as to provide for financial flexibility in running the ongoing operations and working capital needs.

The Company has evaluated the long-lived assets utilized in its Philadelphia operations for potential impairment. Based on the commitment to the planned relocation, neither the assets to be relocated nor the assets to be left in place at the Philadelphia operations have suffered impairment. Therefore the estimated fair value of the asset groups continues to exceed the carrying amount of such asset groups. The remaining useful lives of these assets have been updated to be consistent with the time remaining until the completion of the relocation of the Company's operations.

3. Restructure

As part of the relocation of its Hunting Park, Philadelphia operations the Company expects approximately 215 positions to be eliminated over the course of the transition. While the Company expects to achieve much of this result through normal attrition and the reduction of contract labor, it is probable that the Company will incur obligations related to postemployment benefits. Amounts associated with the initial recognition of the restructuring liability and subsequent changes to the estimated liability are recorded in the other (income) expense, net line of the condensed consolidated Statements of Operations. The Company expects the restructuring liability to settle and likewise the majority of payments to be made in connection with the restructuring program to be paid during 2010.

As of March 27, 2010, the Company had not incurred any material obligations related to one-time termination benefits, contract termination costs or other associated costs.

The following table provides a roll forward of the estimated future obligations related to postemployment benefits associated with the relocation of the Company's Philadelphia operations from December 26, 2009 to March 27, 2010 (in thousands):

Restructure reserve, December 26, 2009	$ 1,078
Additions	482
Payments	(161)
Restructure reserve, March 27, 2010	$ 1,399

During the first quarter of 2010, the Company recognized an additional liability related to the estimated postemployment costs incurred with the restructuring of its sales organization.

4. Inventories

Inventories are classified as follows (in thousands):

	March 27, 2010	December 26, 2009
Finished goods	$ 2,892	$ 1,939
Work in progress	119	116
Raw materials and supplies	5,942	4,712
	$ 8,953	$ 6,767

The inventory balance has been reduced by reserves for obsolete and slow-moving inventories of $22 thousand and $42 thousand as of March 27, 2010 and December 26, 2009, respectively.

5. Credit Facilities

In September 2007, the Company entered into a 5 year, $100.0 million secured credit facility with 4 banks (the "Bank Credit Facility"), consisting of a $55.0 million fixed asset line of credit, a $35.0 million working capital revolver and a $10.0 million low-interest loan from the agent bank with the Commonwealth of Pennsylvania. The Bank Credit Facility is secured by a blanket lien on the Company's assets and contains various non-financial and financial covenants, including a fixed charge coverage covenant, a funded debt covenant, a minimum liquidity ratio covenant and minimum level of earnings before interest, taxes, depreciation and amortization ("Bank EBITDA") covenant. Bank EBITDA is fully defined as consolidated net income excluding option proceeds and extraordinary gains and losses, plus income tax expense, interest expense, depreciation and amortization, non-cash pension charges subject to certain limitations and any other allowable non-cash gains to or non-cash charges against net income (including a non-cash charge against net income in connection with stock-based compensation), less any non-cash pension gains, in each case to the extent deducted in determining net income. For purposes of this definition of Bank EBITDA, transition costs, restructure charges and any other allowable gains or losses that result from the execution of the strategic manufacturing initiative at the Philadelphia Navy Yard project are excluded.

Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and include a spread above that index ranging from 125 to 325 basis points based upon the Company's ratio of debt to Bank EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees ranging from 20 to 50 basis points based upon the Company's ratio of debt to Bank EBITDA. The $10.0 million low-interest loan bears interest at a fixed rate of 5.5% per annum. In December 2009, the Company amended its Bank Credit Facility to provide for additional flexibility and to change certain financial covenants, including the maximum operating leverage ratio as of March 27, 2010 and June 26, 2010. As of March 27, 2010 and December 26, 2009, the outstanding balances under the Bank Credit Facility were $76.7 million and $67.3 million, respectively.

In September 2007, the Company entered into a 10 year, $12.0 million secured credit agreement with the PIDC Local Development Corporation ("PIDC Credit Facility"). This credit facility bears interest at a blended fixed rate of 4.5% per annum, participates in the blanket lien on the Company's assets and contains customary representations and warranties as well as customary affirmative and negative covenants essentially similar to those in the Bank Credit Facility, as amended. As of March 27, 2010 and December 26, 2009, the outstanding balance under the PIDC Credit Facility was $12.0 million.

In September 2007, the Company entered into a 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania (“MELF Loan 1”). This loan bears interest at a fixed rate of 5.0% per annum and contains customary representations and warranties as well as customary affirmative and negative covenants similar to those in the Bank Credit Facility, as amended. In September 2008, the Company entered into a second 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania (“MELF Loan 2”). The terms and conditions of MELF Loan 2 are substantially the same as MELF Loan 1. As of March 27, 2010 and December 26, 2009, the aggregate outstanding balance under the MELF Loan 1 and MELF Loan 2 was $10.0 million.

As of March 27, 2010, the Company was in compliance with the various nonfinancial and financial covenants associated with the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2.

In September 2007, the Company entered into an agreement which governs the shared collateral positions under the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2 (the "Intercreditor Agreement"), and establishes the priorities and procedures that each lender has in enforcing the terms and conditions of each of their respective agreements. The Intercreditor Agreement permits the group of banks and their agent bank in the Bank Credit Facility to have the initial responsibility to enforce the terms and conditions of the various credit agreements, subject to certain specific limitations, and allows such bank group to negotiate amendments and waivers on behalf of all lenders, subject to the approval of each lender.

The Company has used and expects to continue to utilize proceeds from the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2 to finance the Company's move of its corporate headquarters to the Philadelphia Navy Yard and its move of the Philadelphia manufacturing and distribution facilities to a new facility at the Philadelphia Navy Yard, along with working capital needs.

6. Derivative Instruments

In order to hedge a portion of the Company's exposure to changes in interest rates on debt incurred under its Bank Credit Facility, the Company enters into variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. These contracts are accounted for as cash flow hedges. Accordingly, these derivatives are marked to market and the resulting gains or losses are recorded in other comprehensive income as an offset to the related hedged asset or liability. The actual interest expense incurred, inclusive of the effect of the hedge in the current period, is recorded in the condensed consolidated Statements of Operations.

In January 2008, the Company entered into an $8.5 million notional value interest rate swap contract that increases to $35.0 million by April 2010 with a fixed LIBOR rate of 3.835% that expires on September 5, 2012. As of March 27, 2010, the notional value of the swap was $28.5 million. The LIBOR rates were subject to an additional credit spread ranging from 125 to 325 basis points and were equal to 325 basis points as of March 27, 2010. The cumulative change in the fair market value of the derivative instrument is reflected as a liability totaling $2.3 million and $2.1 million as of March 27, 2010 and December 26, 2009, respectively.

In May 2008, the Company entered into an $8.0 million notional value interest rate swap with a fixed LIBOR rate of 2.97% that expires on May 1, 2011. The LIBOR rates were subject to an additional credit spread ranging from 125 to 325 basis points and were equal to 325 basis points as of March 27, 2010. The Company records an asset or a liability for the cumulative change in the fair market value of the derivative instrument, and as of March 27, 2010 and December 26, 2009, the Company recorded a liability of $0.2 million and $0.3 million, respectively.

As part of the construction of its new manufacturing facility, the Company entered into firm commitments to acquire machinery and equipment denominated in a foreign currency. In order to hedge the exposure resulting from changes in foreign currency rates, the Company entered into foreign currency forward contracts denominated in Australian Dollars ("AUD"). These contracts are accounted for as foreign currency fair value hedges. Accordingly, the changes in fair value of both the firm commitments and the derivative instruments are recorded in the condensed consolidated Statements of Operations, with the corresponding asset and liability recorded on the balance sheets.

As of March 27, 2010 and December 26, 2009, the notional principle of outstanding foreign currency forward contracts designated as hedges was 1.1 million AUD ($1.0 million USD) and 1.4 million AUD ($1.2 million USD), respectively.

The following table provides the location and amounts of gains and losses associated with the Company's derivative instruments (in thousands):

	Income Statement Location	Thirteen Weeks Ended March 27, 2010	Thirteen Weeks Ended March 28, 2009
Cash Flow Hedges			
Interest Rate Swaps			
Net loss recognized in accumulated other comprehensive income		$ (168)	$ (157)
Net loss reclassified from accumulated other comprehensive income to interest expense	Interest expense	(309)	(98)
Fair Value Hedges			
Foreign currency forward contracts			
Net gain recognized in other income, net	Other (income) expense, net	7	461

Amounts are reclassified from accumulated other comprehensive income to interest expense for the interest rate swaps on the scheduled maturity dates defined by the agreements.

Foreign currency fair value hedges are entered into against foreign currency fluctuations of firm commitments. Amounts recognized in other (income) expense, net associated with these fair value hedges are fully offset by foreign currency fluctuations of the firm commitments also recognized in other (income) expense, net.

Derivative instruments are reflected in the condensed consolidated Balance Sheets as follows (in thousands):

	Balance Sheet Location	March 27, 2010	December 26, 2009
Hedging derivative instruments			
Interest rate swaps	Other non-current liabilities	$ (2,510)	$ (2,342)
Foreign currency hedges	Prepayments and other	139	133

Counterparties to the foreign currency forward contracts and interest rate swaps are primarily major banking institutions with credit ratings of investment grade or better and no collateral is required. There are no significant risk concentrations. The Company believes the risk of incurring losses on derivative contracts related to credit risk is remote.

7. Fair Value Measurements

The Company discloses certain fair value measurements based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
Level 2. Inputs, other than quoted prices included within Level 1, that are observable either directly or indirectly; and
Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents assets / (liabilities) measured at fair value on a recurring basis as of March 27, 2010 (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	Balance as of March 27, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial instruments owned:				
Interest rate swaps	$ (2,510)	$ —	$ (2,510)	$ —
Foreign currency hedges	139	—	139	—
Total financial instruments owned	$ (2,371)	$ —	$ (2,371)	$ —

The following table presents assets / (liabilities) measured at fair value on a recurring basis at December 26, 2009 (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	Balance as of December 26, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial instruments owned:				
Interest rate swaps	$ (2,342)	$ —	$ (2,342)	$ —
Foreign currency hedges	133	—	133	—
Total financial instruments owned	$ (2,209)	$ —	$ (2,209)	$ —

As of March 27, 2010 and December 26, 2009, the carrying values of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities are representative of fair value due to the short-term nature of the instruments. The Company's carrying value of long-term debt approximates fair value.

The Company also has nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis. These include long-lived assets, asset retirement obligations and sales distribution routes owned by the Company. These items are recognized at fair value when they are considered to be other than temporarily impaired. As of March 27, 2010, no material adjustments were made to assets and liabilities measured at fair value on a nonrecurring basis during the first quarter of fiscal 2010.

8. Defined Benefit Retirement Plans

The Company maintains a partially funded noncontributory Defined Benefit ("DB") Retirement Plan (the "DB Plan") providing retirement benefits. Benefits under this DB Plan generally are based on the employees' years of service and compensation during the years preceding retirement. In December 2004, the Company announced to its employees that it was amending the DB Plan to freeze benefit accruals effective March 26, 2005. The Company maintains a DB Supplemental Executive Retirement Plan ("SERP") for key employees designated by the Board of Directors (the "Board"), however, there are no current employees earning benefits under this plan. The Company also maintains a frozen unfunded Retirement Plan for Directors (the "Director Plan"). The benefit amount is the annual cash retainer in the year of retirement, but not less than $16 thousand for Directors serving on December 31, 1993.

Effective February 15, 2007, benefit accruals under the Directors' Retirement Plan were frozen for current directors and future directors were precluded from participating in the plan. Participants are credited for service under the Director Retirement Plan after February 15, 2007 solely for vesting purposes. On February 15, 2007, the Board approved a Deferred Stock Unit Plan (the "DSU Plan"). The DSU Plan provides that for each fiscal quarter, the Company will credit DSUs to the director's account equivalent in value to $4 thousand on the last day of such quarter, provided that he or she is a director on the last day of such quarter. Directors will be entitled to be paid in shares upon termination of Board service provided the director has at least five years of continuous service on the Board. The shares may be paid out in a lump sum or at the director's election, over a period of five years.

The components of the DB Plan, DB SERP, and DB Director Plan's costs are summarized as follows (in thousands):

	ThirteenWeeks Ended March 27, 2010	March 28, 2009
Service cost	$ -	$ -
Interest cost on projected benefit obligation	1,156	1,246
Expected return on plan assets	(1,092)	(959)
Amortization of prior service cost	-	(4)
Actuarial loss recognition	15	13
Net amount recorded in income	$ 79	$ 296

The Company made cash contributions totaling $0.6 million to the frozen DB Plan for the thirteen weeks ended March 27, 2010, in accordance with the Pension Protection Act of 2006. During 2010, the Company will make aggregate minimum required cash contributions to the DB Plan totaling $3.0 million.

9. Defined Contribution Retirement Plans

The Company maintains the Tasty Baking Company 401(k) and Company Funded Retirement Plan (the "DC Retirement Plan") which has two separate benefits. The first benefit in the DC Retirement Plan is a funded Defined Contribution Retirement Plan (the "DC Plan"), which is offered in lieu of the benefits previously provided in the now frozen DB Plan. Under the DC Plan, the Company makes weekly cash contributions into individual accounts for all eligible employees. These contributions are based on employees' point values which are the sum of age and years of service as of January 1 each year. All employees receive contributions that range from 2.0% to 5.0% of covered compensation relative to their point totals. Employees at March 27, 2005 who had 20 years of service or 10 years of service and 60 points received an additional "grandfathered" contribution between 1.5% and 3.5% of salary. The "grandfathered" contribution percentage is paid weekly with the regular contribution until those covered employees retire or separate from the Company. These "grandfathered" contributions are being made to compensate older employees for the shorter earnings period that their accounts will have to appreciate in value relative to their normal retirement dates.

The second benefit in the DC Retirement Plan is a 401(k) Plan ("401(k) Plan"). Under the 401(k) Plan, all participants receive a discretionary Company match of their elective deferrals. Historically, the Company matching contribution has been 50% of their elective deferrals that do not exceed 4.0% of their covered compensation as defined in the 401(k) Plan.

The Company also maintains an unfunded defined contribution SERP ("DC SERP") for one eligible active employee. The total DC SERP liability as of March 27, 2010 and December 26, 2009, was $1.8 million and $1.7 million, respectively.

Components of deferred contribution retirement plan amounts charged to income are summarized as follows (in thousands):

	Thirteen Weeks Ended March 27, 2010	March 28, 2009
DC Plan expense	$ 459	$ 443
DC SERP expense	110	72
401(k) matching contribution	178	173
Net defined contribution retirement plan amount charged to income	$ 747	$ 688

10. Postretirement Benefits Other than Pensions

With the implementation of Medicare Part D in January 2006, the Company stopped providing medical benefits for most of its post-65 retirees and began requiring incumbent retirees to pay age-based rates for life insurance benefits in excess of $20 thousand. In December 2008, the Company made the decision to terminate its retiree medical benefit plan, which offered medical insurance to pre-65 retirees at a subsidized rate. The decision to terminate the plan was made prior to December 27, 2008 and the Company set the benefits' cessation date as December 1, 2009.

Life insurance for individuals retiring before January 1, 2006 was capped at $20 thousand of coverage. Incumbent retirees who purchase coverage in excess of $20 thousand and all new retirees after January 1, 2006 pay age based rates for their life insurance benefit for which the Company incurs no liability. In June 2009, the Company made a decision to cease providing life insurance benefits for its retirees and terminated the plan.

Components of net periodic postretirement benefit cost (benefit) are summarized as follows (in thousands):

	Thirteen Weeks Ended March 27, 2010	March 28, 2009
Service cost	$ -	$ -
Interest cost	-	43
Amortization of unrecognized prior service cost	-	(199)
Amortization of unrecognized gain	-	-
Total net postretirement benefit	$ -	$ (156)

There were no payments made in connection with the terminated other postretirement plans in 2010. Payments made in connection with the other postretirement plans totaled $0.4 million for the thirteen weeks ended March 28, 2009.

11. Income Taxes

The Company's effective tax rate was 35.7% and 20.8% for the thirteen weeks ended March 27, 2010 and March 28, 2009, respectively. The Company's effective tax rate can differ from the composite federal and state statutory tax rate due to certain expenses which are not deductible for income tax purposes and non-recurring discrete items. Non-deductible expense items and discrete items tend to increase the effective tax rate when pre-tax income is reported and tend to decrease the effective tax rate when a pre-tax loss is reported.

12. Accumulated Other Comprehensive Income (Loss)

Total comprehensive income (loss), net of taxes, is comprised as follows (in thousands):

	Thirteen Weeks Ended March 27, 2010	March 28, 2009
Net loss	$ (3,920)	$ (70)
Other comprehensive income (loss)		
Change in pension plan	1,056	5
Change in other postretirement benefits	-	(251)

Change in unrealized loss						
on derivative instruments designated as cash flow hedges		(71	)		(75	)
Total other comprehensive income (loss)		985			(321	)
Total comprehensive loss	$	(2,935	)	$	(391	)

The following table summarizes the components of accumulated other comprehensive income (loss), net of tax (in thousands):

	March 27, 2010			December 26, 2009		
Pension plan	$	(3,856	)	$	(4,913	)
Unrealized loss on derivative instruments designated as cash flow hedges		(1,506	)		(1,435	)
Total accumulated other comprehensive loss	$	(5,362	)	$	(6,348	)

13. Facility Fire

In February 2010, the Company had a fire at its Hunting Park, Philadelphia manufacturing facility, which damaged certain of its bakery equipment. As a result of the fire, the Company incurred approximately $1.1 million in total losses, net of the deductible associated with the Company's insurance policies. As of March 27, 2010, the Company had recorded a receivable of $0.9 million, net of a $0.2 million advance provided by the insurance company. For the thirteen weeks ended March 27, 2010, losses related to the fire and the benefit associated with expected insurance recoveries were primarily recorded in cost of sales.

14. Subsequent Events

On April 5, 2010, the Company entered into a Purchase and Sale Agreement (the "Agreement") with TKMG Associates, L.P. ("Buyer") pursuant to which the Company will sell to Buyer (i) the Company's former corporate office and distribution center located on Fox Street in Philadelphia, PA (the "Fox Street Property") and (ii) the bakery property located on Hunting Park Avenue in Philadelphia, PA that the Company is vacating (the "Hunting Park Property" and together with the Fox Street Property, the "Properties"). The purchase price for the Properties is $6.0 million. Buyer paid a refundable initial deposit ("Initial Deposit") of $0.1 million in the form of an unconditional irrevocable letter of credit which will be held in escrow. This sale is being made in connection with the relocation of the Company's Philadelphia, Pennsylvania operations to new leased facilities at the Philadelphia Navy Yard.

The closing of the transaction contemplated by the Agreement is subject to completion of due diligence by the Buyer and the Company receiving a zoning change for the Properties from the City of Philadelphia. The Agreement provides Buyer an initial due diligence period ending July 4, 2010. Buyer may terminate the Agreement at any time during the due diligence period. If the Buyer terminates the Agreement during the initial due diligence period, the Initial Deposit will be refunded to Buyer. If Buyer has not terminated the Agreement, at the end of the due diligence period Buyer shall pay an additional deposit ("Additional Deposit") of $0.5 million in the form of an unconditional irrevocable letter of credit which will be held in escrow. Once the due diligence period expires, the Initial Deposit and the Additional Deposit will be non-refundable to the Buyer. The Properties are being sold "as is where is" and the Agreement includes customary representations, warranties, and closing conditions.

Unless the Agreement is terminated, the closing of the sale transaction will occur within sixty (60) days after the end of the due diligence period provided an agreed upon zoning change has been made. In the event the zoning has not been changed as required within a period ending 60 days after the due diligence period, the Company can extend the period to obtain the zoning for up to 6 months.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation
All disclosures are pre-tax, unless otherwise noted.

Results of Operations

For the Thirteen Weeks ended March 27, 2010 and March 28, 2009

Overview
Net loss for the first quarter of 2010 was $3.9 million or $0.48 per fully-diluted share as compared to a net loss of $0.1 million or $0.01 per fully-diluted share in the first quarter of 2009. Earnings for the first quarter of 2010 were negatively impacted by various production and distribution limitations in the quarter stemming from an oven fire at the Hunting Park manufacturing facility, severe winter weather, and production transition issues at the Philadelphia Navy Yard facility, as well as $2.9 million in pre-tax costs associated with the transition of production, most of which are not expected to fully recur after the transition and optimization of the new facility is complete. Net loss for the first quarter of 2010 and 2009 also included $2.7 million and $1.3 million, respectively, of incremental pre-tax depreciation resulting from the change in estimated useful lives of certain assets at the Company's Philadelphia operations in the second quarter of fiscal 2007. The change in estimated useful lives resulted from the Company's plans to move from its Hunting Park, Philadelphia manufacturing and distribution facilities.

Sales
Gross sales in the first quarter of 2010 decreased $4.6 million, or 6.0%, versus the comparable period in 2009. The reduction in gross sales was driven by a 5.5% decline in total volumes, due almost entirely to production and distribution limitations stemming from an oven fire at the Hunting Park manufacturing facility, severe winter weather, and production and distribution transition issues at the Philadelphia Navy Yard facility. The Company estimates that unfulfilled demand from these issues accounted for $4.6 million of lost gross sales, which includes approximately $2.7 million related to production issues resulting from the transition to the new manufacturing and distribution facility at the Philadelphia Navy Yard. Total net sales declined 6.6% in the first quarter of 2010 compared to the prior year period driven by the volume declines for the reasons mentioned above as well as lower net sales realization from higher promotional costs and a shift in sales mix.

Cost of Sales
Total cost of sales, excluding depreciation, rose 0.5%, or $0.1 million, on a unit volume decrease of 5.5% in the first quarter of 2010 as compared to the same period a year ago. The increase in costs of sales was driven by the impact of the transition related costs, $2.4 million of which were classified as a component of costs of sales with the remainder classified as a component of selling, general and administrative costs. Also driving the increase was $1.5 million in rental expense associated with the new manufacturing and distribution facility, $1.4 million of which was non-cash. Partially offsetting these increases was the impact on cost of sales from lower sales volumes, along with changes in product mix and moderately lower costs for key ingredients and packaging. Additionally, the Company achieved various operating efficiency improvements at its Oxford manufacturing facility, which helped to lower cost of sales as compared to the first quarter of 2009.

Depreciation
Depreciation expense increased $1.5 million to $4.7 million in the first quarter of fiscal 2010 from $3.2 million in the first quarter of fiscal 2009. Included in depreciation expense for the first quarter of fiscal 2010 and 2009 is approximately $2.7 million and $1.3 million, respectively, of depreciation related to changes in the useful lives of certain assets at the Company's Philadelphia operations which will not be relocated to the new facility. The Company expects incremental depreciation resulting from the change in useful lives to continue through the second quarter of 2010, when the new facility is expected to be fully operational.

Gross Profit

Gross profit declined $4.6 million, or 35.6%, in the first quarter of 2010 as compared to the first quarter of 2009. This decline was driven by $1.5 million in higher depreciation expense compared to the same period last year as well the various changes in cost of sales, as mentioned above. In addition, the profit impact from lower sales volumes resulting from transition related production and distribution issues as well as extreme weather conditions negatively affected gross profit in the first quarter of 2010. With regards to the effect of the unfulfilled demand stemming from transition related production and distribution issues, the Company estimates the gross profit impact in the first quarter of 2010 at approximately $1.1 million. Finally, the loss of sales resulting from the fire at the Hunting Park manufacturing facility did not significantly impact gross profit during the first quarter of 2010 as the estimated insurance proceeds almost fully offset the gross profit impact of the fire.

Selling, General and Administrative Expenses
Selling, general and administrative expense in the first quarter of 2010 increased 1.7%, or $0.2 million, versus the comparable period in 2009. This increase was primarily attributed to $0.3 million in building rentals related to the Company's corporate offices combined with approximately $0.5 million in costs related to the transition of production and the move of the Company's distribution center to the new facility at the Philadelphia Navy Yard. Partially offsetting these increases were declines in bad debt expense and other employee related costs including incentive compensation and pension expenses.

Interest Expense
Interest expense increased by $0.7 million to $1.3 million in the first quarter of 2010 from $0.6 million in the first quarter of 2009, primarily due to increased interest expense associated with borrowings related to expenditures for the Company's new manufacturing facility. The Company is exposed to market risk relative to its interest expense as certain of its notes payable and long-term debt have floating interest rates that vary with the conditions of the credit market.

Other (Income) Expense, Net
Other expense, net, totaled $0.2 million in the first quarter of 2010 compared to other income, net of $0.2 million in the first quarter of 2009. The increase in other expense, net in the first quarter of 2010 is primarily driven by a charge of $0.5 million related to an increase in the estimated postemployment costs incurred with the restructuring of the Company's sales organization.

Taxes
The effective income tax rate for state and federal taxes was 35.7% and 20.8% for the thirteen weeks ended March 27, 2010 and March 28, 2009, respectively.

Liquidity and Capital Resources

Current assets at March 27, 2010 were $38.2 million compared to $31.8 million at December 26, 2009, and current liabilities at March 27, 2010 were $37.0 million compared to $31.9 million at December 26, 2009. The increase in current assets was driven by an increase in accounts receivable of $3.0 million and a $1.2 million increase in prepayments, combined with a $2.2 million increase in inventories resulting from the process of commissioning new production lines. The $5.1 million increase in current liabilities was due to an increase in accounts payable of $4.2 million resulting primarily from an increase in obligations related to the construction of the Company's new manufacturing and distribution facility.

During the first quarter of 2010, the Company made payments of $0.5 million on the long-term debt incurred in connection with the Company's new manufacturing and distribution facility and capital lease obligations related to computer and handheld equipment. In addition, during fiscal 2010 the Company is required, under the Pension Protection Act of 2006, to make cash contributions totaling $3.0 million to its defined benefit pension plan.

In May 2007, the Company announced that as part of its comprehensive operational review of strategic manufacturing alternatives, it entered into an agreement to relocate its Philadelphia operations to the Philadelphia Navy Yard. The term of the bakery lease provides for a 26-year lease term, with renewal options for two additional 10 year terms, for a 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the new bakery, warehouse and distribution center is complete and the Company has commenced production of pies, snack bars, certain cupcakes and krimpets. The equipment commissioning process has begun for the remaining production lines and the Company expects the new facility to be fully operational in the spring of 2010. The term of the bakery lease commenced in October 2009, and provides for no rent payments in the first year of occupancy. Rental payments increase from $3.5 million in the second year of occupancy to $7.2 million in the final year of the lease. The Company also entered into a 16-year agreement for $9.5 million in financing at a fixed rate of 8.54% to be used for leasehold improvements. This agreement provides for no payments in the first year of occupancy and then requires monthly payments totaling $1.2 million annually over the remainder of the term. The Company accounts for both agreements as a single unit of account and as an operating lease and recognizes rental expense associated with this operating lease on a straight-line basis over 26 years.

During April 2009, the Company relocated its corporate headquarters to 36,000 square feet of leased office space in the Philadelphia Navy Yard. The office lease term, which commenced in April 2009, will end at the same time as the new bakery lease. The office lease provides for no rent payments during the first six months of occupancy. Annual rental payments increase from approximately $0.9 million after the first six months of occupancy to approximately $1.6 million in the final year of the lease. The Company recognizes rental expense associated with the operating lease on a straight-line basis over the term of the agreement.

In connection with these agreements, the Company provided a $1.1 million letter of credit, which increased to $8.1 million in the beginning of 2009. The outstanding amount of the letter of credit will be reduced starting in 2026 and will be eliminated by the end of the lease term. As of March 27, 2010 and December 26, 2009, the outstanding letter of credit under this arrangement totaled $8.1 million.

In connection with these agreements and the related construction of the new facilities, the Company provided an additional $0.5 million letter of credit. There were no outstanding amounts as of March 27, 2010 and this letter of credit will be eliminated in June 2010.

In addition to the facility leases, the Company purchased high-tech, modern baking equipment. The equipment is designed to increase product development flexibility and efficiency, while maintaining existing taste and quality standards. The investment for this project, in addition to any costs associated with the agreements described above, is projected to be approximately $78.0 million through 2010. The Company anticipates that this project, when completed, will generate approximately $13.0 million to $15.0 million in annual pre-tax savings, after taking into account the impact of the new leases, but before any debt service requirements resulting from the investment in the project. In September 2007, the Company closed on a multi-bank credit facility and low-interest development loans provided in part by the Commonwealth of Pennsylvania and the Philadelphia Industrial Development Corporation ("PIDC") to finance this investment and refinance the Company's existing revolving credit facilities, as well as to provide for financial flexibility in running the ongoing operations and working capital needs.

The Company will incur obligations related to postemployment benefits. As of March 27, 2010 and December 26, 2009, the Company had a restructuring liability for these costs totaling $1.4 million and $1.1 million, respectively. The Company expects the restructuring liability to settle the majority of payments to be made in connection with the restructuring program to be paid during 2010.

As of March 27, 2010, the Company had not incurred any material obligations related to one-time termination benefits, contract termination costs or other associated costs.

Cash and Cash Equivalents

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. The Company maintains a Bank Credit Facility, a PIDC Credit Facility, a MELF Loan 1 and a MELF Loan 2, as defined below, and utilizes certain capital and operating leases.

Cash overdrafts are recorded within current liabilities. Cash flows associated with cash overdrafts are classified as financing activities.

In September 2007, the Company entered into a 5 year, $100.0 million secured credit facility with 4 banks (the "Bank Credit Facility"), consisting of a $55.0 million fixed asset line of credit, a $35.0 million working capital revolver and a $10.0 million low-interest loan from the agent bank with the Commonwealth of Pennsylvania. The Bank Credit Facility is secured by a blanket lien on the Company's assets and contains various non-financial and financial covenants, including a fixed charge coverage covenant, a funded debt covenant, a minimum liquidity ratio covenant and minimum level of earnings before interest, taxes, depreciation and amortization ("Bank EBITDA") covenant. Bank EBITDA is fully defined as consolidated net income excluding option proceeds and extraordinary gains and losses, plus income tax expense, interest expense, depreciation and amortization, non-cash pension charges subject to certain limitations and any other allowable non-cash gains to or non-cash charges against net income (including a non-cash charge against net income in connection with stock-based compensation), less any non-cash pension gains, in each case to the extent deducted in determining net income. For purposes of this definition of Bank EBITDA, transition costs, restructure charges and any other allowable gains or losses that result from the execution of the strategic manufacturing initiative at the Philadelphia Navy Yard project are excluded.

Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and include a spread above that index ranging from 125 to 325 basis points based upon the Company's ratio of debt to Bank EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees ranging from 20 to 50 basis points based upon the Company's ratio of debt to Bank EBITDA. The $10.0 million low-interest loan bears interest at a fixed rate of 5.5% per annum. In December 2009, the Company amended its Bank Credit Facility to provide for additional flexibility and to change certain financial covenants, including the maximum operating leverage ratio as of March 27, 2010 and June 26, 2010. As of March 27, 2010 and December 26, 2009, the outstanding balances under the Bank Credit Facility were $76.7 million and $67.3 million, respectively.

In September 2007, the Company entered into a 10 year, $12.0 million secured credit agreement with the PIDC Local Development Corporation ("PIDC Credit Facility"). This credit facility bears interest at a blended fixed rate of 4.5% per annum, participates in the blanket lien on the Company's assets and contains customary representations and warranties as well as customary affirmative and negative covenants essentially similar to those in the Bank Credit Facility, as amended. As of March 27, 2010 and December 26, 2009, the outstanding balances under the PIDC Credit Facility were $12.0 million.

In September 2007, the Company entered into a 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania ("MELF Loan 1"). This loan bears interest at a fixed rate of 5.0% per annum and contains customary representations and warranties as well as customary affirmative and negative covenants similar to those in the Bank Credit Facility, as amended. In September 2008, the Company entered into a second 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania ("MELF Loan 2"). The terms and conditions of MELF Loan 2 are substantially the same as MELF Loan 1. As of March 27, 2010 and December 26, 2009, the aggregate outstanding balance under the MELF Loan 1 and MELF Loan 2 was $10.0 million.

As of March 27, 2010, the Company was in compliance with the various nonfinancial and financial covenants associated with the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2.

Certain of our covenants become more restrictive over the term of the agreement. Our most restrictive covenants, Bank EBITDA and maximum debt to Bank EBITDA, as amended, have the following requirements for the next year as follows:

	Bank EBITDA	Maximum Debt to Bank EBITDA
Fiscal 2010 First Quarter	$15,250,000	5.75 to 1.0
Fiscal 2010 Second Quarter	$15,250,000	5.50 to 1.0
Fiscal 2010 Third Quarter	$15,250,000	4.75 to 1.0
Fiscal 2010 Fourth Quarter	$21,000,000	4.75 to 1.0
Fiscal 2011 First Quarter	$21,000,000	3.75 to 1.0

As of March 27, 2010 Bank EBITDA was approximately $20.2 million and the ratio of debt to Bank EBITDA was approximately 5.5 to 1.0. As of December 26, 2009, the Company was in compliance with the various non-financial and financial covenants associated with the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1, and the MELF Loan 2 and is currently projecting compliance with its debt covenants through 2010.

In September 2007, the Company entered into an agreement which governs the shared collateral positions under the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2 (the "Intercreditor

Agreement”), and establishes the priorities and procedures that each lender has in enforcing the terms and conditions of each of their respective agreements. The Intercreditor Agreement permits the group of banks and their agent bank in the Bank Credit Facility to have the initial responsibility to enforce the terms and conditions of the various credit agreements, subject to certain specific limitations, and allows such bank group to negotiate amendments and waivers on behalf of all lenders, subject to the approval of each lender.

The Company has used and expects to continue to utilize proceeds from the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2 to finance the Company’s move of its corporate headquarters to the Philadelphia Navy Yard and its move of the Philadelphia manufacturing and distribution facilities to a new facility at the Philadelphia Navy Yard, along with working capital needs.

Net cash used for operating activities for the thirteen weeks ended March 27, 2010, was $4.8 million, primarily attributed to the combined effect of the net loss for the quarter as well as the year over year changes in the Company's inventories, accounts receivable and prepayments and other.

Net cash used for investing activities for the thirteen weeks ended March 27, 2010 was $5.4 million attributed to capital expenditures primarily related to investments in the Company’s new manufacturing and distribution facility.

Net cash from financing activities for the thirteen weeks ended March 27, 2010 totaled $10.2 million, driven by an increase in long-term debt primarily due to investments in the Company’s new manufacturing and distribution facility.

The Company currently anticipates that cash flow from operations, along with the continued availability under the Bank Credit Facility, the PIDC Credit Facility, the MELF Loan 1 and the MELF Loan 2, all as described above, will provide sufficient cash to meet the short-term and long-term operating, capital expenditure and financing requirements of the Company. In the event that cash flows from the sources detailed above are insufficient, the Company believes that it has other funding options available, which would provide sufficient cash to meet the Company’s operating, capital expenditure and financing requirements.

New Accounting Pronouncements

Refer to Note 1 of the Notes to condensed consolidated financial statements, included herein, for a discussion of new accounting pronouncements.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based on the condensed consolidated financial statements and accompanying notes that have been prepared in conformity with GAAP. The preparation of such condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Included in the Company’s Annual Report on Form 10-K for fiscal 2009 (“2009 Form 10-K”) are the significant accounting policies of the Company, which are described in Note 1 to the consolidated financial statements, and the critical accounting estimates, which are described in the Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2009 Form 10-K. Information concerning the Company’s implementation and impact of new accounting standards is included in Note 1 of the condensed consolidated financial statements included herein. Otherwise, there were no changes in the Company’s critical accounting policies and estimates in the first quarter of 2010 which had a material impact on the Company’s financial condition, change in financial condition, liquidity or results of operations.

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q, including but not limited to those under the heading “Management’s Discussion and Analysis,” 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. Such forward-looking statements are based upon assumptions by management, as of the date of this Report, including assumptions about risks and uncertainties faced by the Company. These forward-looking statements can be identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "would," "is likely to," or "is expected to" and other similar terms. They may include comments about relocating operations and the funding thereof, legal proceedings, competition within the baking industry, concentration of customers, commodity prices, consumer preferences, long-term receivables, inability to develop brand recognition in the Company’s expanded markets, production and inventory concerns, employee productivity, availability of capital, fluctuation in interest rates, pension expense and related assumptions, changes in long-term corporate bond rates or asset returns that could affect the pension corridor expense or income, governmental regulations, protection of the Company’s intellectual property and trade secrets 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, but not limited to, 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 pricing 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, the costs to complete a new facility and relocate thereto, the costs and availability of capital to fund improvements or new facilities and equipment, the retention of key employees, and the ability to develop and market in a timely and efficient manner new products which are accepted by consumers. If any of our assumptions prove incorrect or should unanticipated circumstances arise, our actual results could differ materially from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors, including, but not limited to, those factors described in the Company's 2009 Form 10-K, "Item 1A, Risk Factors." There can be no assurance that the new manufacturing facility described herein will be successful. The Company undertakes no obligation to publicly revise or update such forward-looking statements, except as required by law. Readers are advised, however, to consult any further public disclosures by the Company (such as in the Company's filings with the SEC or in Company press releases) on related subjects.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure at a reasonable assurance level that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of March 27, 2010. Based upon the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 27, 2010.

(b) Changes in Internal Control over Financial Reporting

During the thirteen weeks ended March 27, 2010, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TASTY BAKING COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

Exhibit 10 (a)	–	Form of Restricted Stock Award Agreement for the 2006 Long Term Incentive Plan.
Exhibit 10 (b)	–	Purchase and Sale Agreement between Tasty Baking Company and TKMG Associates, L.P. dated April 5, 2010 (filed herewith to correct typographical errors in the same agreement filed as Exhibit 99.1 to the Form 8-K report of Company, filed on or about April 6, 2010).
Exhibit 31 (a)	–	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31 (b)	–	Certification of Chief Financial 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.

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 6, 2010	/s/ Paul D. Ridder
(Date)	PAUL D. RIDDER
	SENIOR VICE PRESIDENT
	AND
	CHIEF FINANCIAL OFFICER
	(Principal Financial and
	Accounting Officer)