

# FORM 10-Q

## Thomson StreetEvents<sup>SM</sup>

### SEC Filing

#### TASTY BAKING CO - TSTY

**Filing Date:** November 05, 2008

**Filing Period:** September 27, 2008

#### DESCRIPTION

Quarterly report which provides a continuing view of a company's financial position

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the thirteen weeks ended September 27, 2008

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  
(State of Incorporation)

23-1145880  
(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  NO

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

There were 8,308,646 shares of Common Stock outstanding as of October 31, 2008.

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Part I. FINANCIAL INFORMATION  
Item 1. Financial Statements

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

	September 27, 2008	December 29, 2007
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 45	\$ 57
Receivables, less allowance of \$2,594 and \$2,608, respectively	24,288	19,358
Inventories	7,401	7,719
Deferred income taxes	1,657	1,547
Prepayments and other	3,500	2,303
Total current assets	<u>36,891</u>	<u>30,984</u>
<b>Property, plant and equipment:</b>		
Land	1,433	1,433
Buildings and improvements	49,974	49,874
Machinery and equipment	130,754	126,132
Construction in progress	32,143	9,425
	<u>214,304</u>	<u>186,864</u>
Less accumulated depreciation	<u>122,217</u>	<u>112,774</u>
	<u>92,087</u>	<u>74,090</u>
<b>Other assets:</b>		
Long-term receivables from independent sales distributors	9,955	9,889
Deferred income taxes	8,075	6,396
Other	3,417	3,162
	<u>21,447</u>	<u>19,447</u>
<b>Total assets</b>	<u>\$ 150,425</u>	<u>\$ 124,521</u>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 6,196	\$ 6,210
Accrued payroll and employee benefits	2,732	4,080
Cash overdraft	3,853	890
Current obligations under capital leases	625	431
Current portion of long-term debt	1,000	-
Other accrued liabilities	4,427	5,343
Total current liabilities	<u>18,833</u>	<u>16,954</u>
Asset retirement obligation	6,954	6,676
Accrued pensions	14,823	16,502
Long-term obligations under capital leases, less current portion	1,087	1,003
Long-term debt, less current portion	53,364	25,697
Other accrued liabilities	2,844	2,888
Postretirement benefits other than pensions	7,460	7,365
Reserve for restructure	1,652	-
<b>Total liabilities</b>	<u>107,017</u>	<u>77,085</u>
<b>Shareholders' equity</b>		
Common stock, par value \$0.50 per share and entitled to one vote per share: Authorized 30,000 shares, issued 9,116 shares	4,558	4,558
Capital in excess of par value of stock	28,742	28,683
Retained earnings	21,639	25,119
Accumulated other comprehensive income	9	634
Treasury stock, at cost	(11,540)	(11,558)
<b>Total shareholders' equity</b>	<u>43,408</u>	<u>47,436</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 150,425</u>	<u>\$ 124,521</u>

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

**TASTY BAKING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(000's, except per share amounts)

	For the Thirteen Weeks Ended		For the Thirty-Nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
<b>Gross sales</b>	\$ 69,147	\$ 69,103	\$ 210,620	\$ 209,466
Less discounts and allowances	(26,342)	(26,584)	(80,401)	(78,817)
<b>Net sales</b>	<u>42,805</u>	<u>42,519</u>	<u>130,219</u>	<u>130,649</u>
<b>Costs and expenses:</b>				
Cost of sales, exclusive of depreciation shown below	28,367	27,457	86,353	82,494
Depreciation	3,484	2,866	9,583	6,909
Selling, general and administrative	11,168	11,745	35,172	37,946
Interest expense	545	467	1,509	907
Other (income) expense, net	1,484	(164)	1,091	(596)
	<u>45,048</u>	<u>42,371</u>	<u>133,708</u>	<u>127,660</u>
Income (loss) before provision for income taxes	(2,243)	148	(3,489)	2,989
Provision for (benefit from) income taxes	(891)	(62)	(1,253)	960
<b>Net income (loss)</b>	<u>\$ (1,352)</u>	<u>\$ 210</u>	<u>\$ (2,236)</u>	<u>\$ 2,029</u>
<b>Average common shares outstanding:</b>				
Basic	8,034	8,034	8,034	8,034
Diluted	8,034	8,173	8,034	8,148
<b>Per share of common stock:</b>				
Net income (loss):				
Basic	<u>\$ (0.17)</u>	<u>\$ 0.03</u>	<u>\$ (0.28)</u>	<u>\$ 0.25</u>
Diluted	<u>\$ (0.17)</u>	<u>\$ 0.03</u>	<u>\$ (0.28)</u>	<u>\$ 0.25</u>
Cash dividend	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>

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

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

	<b>For the Thirty-Nine Weeks Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>
<b>Cash flows from (used for) operating activities</b>		
Net income (loss)	\$ (2,236)	\$ 2,029
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	9,583	6,909
Amortization	253	239
Asset retirement obligation interest	278	-
Gain (loss) on sale of routes	(7)	57
Reserve for restructure	1,652	-
Defined benefit pension benefit	(282)	(377)
Pension contributions	(1,360)	(500)
Increase deferred taxes	(1,250)	(889)
Post retirement medical	(1,277)	(458)
Other	(1,159)	691
Changes in assets and liabilities:		
Increase in receivables	(4,866)	(2,999)
Decrease (increase) in inventories	318	(1,166)
Increase in prepayments and other	(1,450)	(1,685)
(Decrease) increase in accrued taxes	(26)	1,166
Decrease in accounts payable, accrued payroll and other current liabilities	(2,057)	(865)
<b>Net cash (used for) from operating activities</b>	<b>(3,886)</b>	<b>2,152</b>
<b>Cash flows from (used for) investing activities</b>		
Purchase of property, plant and equipment	(27,392)	(7,098)
Proceeds from independent sales distributor loan repayments	2,266	2,789
Loans to independent sales distributors	(2,484)	(2,123)
Other	(138)	(242)
<b>Net cash used for investing activities</b>	<b>(27,748)</b>	<b>(6,674)</b>
<b>Cash flows from (used for) financing activities</b>		
Dividends paid	(1,244)	(1,237)
Borrowings on long-term debt	98,729	40,768
Net increase (decrease) in notes-payable bank	1,000	(631)
Payment of long-term debt	(69,826)	(34,669)
Net increase in cash overdraft	2,963	391
<b>Net cash from financing activities</b>	<b>31,622</b>	<b>4,622</b>
<b>Net (decrease) increase in cash</b>	<b>(12)</b>	<b>100</b>
Cash, beginning of year	57	12
Cash, end of period	\$ 45	\$ 112
<b>Supplemental Cash Flow Information</b>		
Cash paid during the period for:		
Interest	\$ 610	\$ 940
Income taxes	\$ 84	\$ 5

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(000's, except share, per share and square footage amounts, unless otherwise noted)

All disclosures are pre-tax, unless otherwise noted.

**1. Summary of Significant Accounting Policies**

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***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 two manufacturing facilities, one in Philadelphia, PA, and a second 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 2008 is a 52-week year. Fiscal year 2007 was a 52-week year.

***Basis of Presentation***

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant 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 the Company, the accompanying unaudited condensed consolidated interim 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.

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 on-going basis, the Company evaluates its estimates, including those related to customer sales, discounts and allowances, long-lived asset impairment, pension and postretirement 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 area 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 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. Any potential impairment of net carrying value is reserved as identified. The Company recognizes gains or losses 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 the sale. 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.

### **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. 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 estimated useful lives of the assets. Buildings and improvements, machinery and equipment, and vehicles are depreciated over thirty-nine years, seven to fifteen years, and five to ten years, respectively, except where a shorter useful life is necessitated by the Company's decision to relocate its Philadelphia operations. 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. Capitalized computer hardware and software is depreciated over five years.

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.

In accordance with Statement of Financial Accounting Standards No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, ("FAS 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 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 Philadelphia manufacturing facility. As a result of the Company's decision in May 2007 to relocate its Philadelphia operations, it was able to estimate a settlement date for the asset retirement obligation and in accordance with FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, recorded an obligation of \$6.6 million which was the present value of the future 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 June 2010, while the capitalized asset retirement cost is depreciated through December 2044, the remaining useful life of the Philadelphia manufacturing facility. For the thirteen weeks and thirty-nine weeks ended September 27, 2008, the Company recorded \$0.1 million and \$0.3 million, respectively, in interest associated with the asset retirement obligation. As of September 27, 2008 and December 29, 2007, the asset retirement obligation totaled \$7.0 million and \$6.7 million, respectively.

### **Grants**

The Company receives grants from various government agencies for employee training purposes. Expenses for the training are recognized in the Company's income statement 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 is expected to be placed into service when the new manufacturing facility becomes fully operational in 2010.

In addition, in 2006, in conjunction with The Reinvestment Funds, Allegheny West Foundation and the DCED, the Company activated Project Fresh Start (the "Project"). The Project is an entrepreneurial development program that provides an opportunity for qualified minority entrepreneurs to purchase routes from independent sales distributors. 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 Statement of Operations impact 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 as required in accordance with Statement of Position 93-7, *Reporting on Advertising Costs*. 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 and handheld computer systems.

#### ***Freight, Shipping and Handling Costs***

Outbound freight, shipping and handling costs are included as a part of selling, general and administrative expense. 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. Effective January 1, 2008, the Company is required to make quarterly contributions under the Pension Protection Act of 2006. The Company will make three quarterly contributions in 2008. As of September 27, 2008, the Company had made two of the three required contributions. 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 accumulated 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 from its actuarial consultants. These estimates and assumptions include discount rate, rate of return on plan assets, 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 and have recently been very volatile. The use of the above estimates and assumptions, including 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.

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, the Company maintains a liability on its balance sheet equal to the under-funded status of its defined benefit and other postretirement benefit plans.

#### ***Accounting for Derivative Instruments***

The Company has entered into certain 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 in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"). 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 Statement of Operations.

The Company has also entered into foreign currency forward contracts to hedge the future purchase of certain assets for its new facilities, which are denominated in Australian Dollars. These contracts are accounted for as fair value foreign currency hedges in accordance with FAS 133. Accordingly, the changes in fair value of both the commitment and the derivative instruments are recorded currently in the Statement of Operations, with the corresponding asset and liability recorded on the Balance Sheet.

**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, in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. 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 Per Common Share**

Net income per common share is presented as basic and diluted earnings per share. Net income per common share – Basic is based on the weighted average number of common shares outstanding during the period. Net income per common share – Diluted is based on the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilution is the result of outstanding stock options and restricted shares. For the thirteen weeks ended September 27, 2008 and September 29, 2007, 491,804 options to purchase common stock and restricted shares and 339,996 options to purchase common stock, respectively, were excluded from the calculation, as they were anti-dilutive. For the thirty-nine weeks ended September 27, 2008 and September 29, 2007, approximately 538,591 options to purchase common stock and restricted shares and 367,263 options to purchase common stock, respectively, were excluded from the calculation, as they were anti-dilutive.

**Share-based Compensation**

The Company accounts for share-based compensation in accordance with FASB Statement No. 123(R), *Share-Based Payment* (“FAS 123(R)”). 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 equal to the closing market price of Tasty Baking Company shares on the date of grant. FAS 123(R) requires forfeitures 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 September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (“FAS 157”), which creates a single definition of fair value, along with a conceptual framework to measure fair value and to increase the consistency and the comparability in fair value measurements and in financial disclosure. The Company adopted the required provisions of FAS 157 effective December 30, 2007. The required provisions did not have a material impact on the Company’s financial statements. See Note 6 for additional information.

In February 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP permits a delay in the effective date of FAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the Board and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of FAS 157. The FASB also issued FSP FAS 157-1 to exclude SFAS 13, *Accounting for Leases*, and its related interpretive accounting pronouncements from the scope of FAS 157 in February 2008. The Company is currently assessing the potential impact that adoption of this statement would have on its financial statements.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FSP clarifies the application of FAS 157 in determining the fair values of assets or liabilities in a market that is not active. This FSP became effective upon issuance, including prior periods for which financial statements have not been issued. The Company adopted this FSP for the condensed consolidated financial statements contained within this Form 10-Q.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* ("FAS 159"). This statement permits, but does not require entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the fair value option has been elected would be reported as a cumulative adjustment to beginning retained earnings. Unrealized gains and losses due to changes in their fair value must be recognized in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. Although FAS 159 was adopted December 30, 2007, the Company has not yet elected the fair value option for any items permitted under FAS 159.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), *Business Combinations* ("FAS 141(R)"). FAS 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under FAS 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the extent to which its current practices, financial statements and disclosures may change as a result of the adoption of FAS 141(R).

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* ("FAS 160"), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the extent to which its current practices, financial statements and disclosures may change as a result of the adoption of FAS 160.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133* ("FAS 161"). FAS 161 applies to all derivative instruments and related hedged items accounted for under FAS 133. It requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Because FAS 161 applies only to financial statement disclosures, it will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 ("FAS 162"), *The Hierarchy of Generally Accepted Accounting Principles* ("FAS 162"). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. FAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of FAS 162 to have a material impact on the consolidated financial statements.

## **2. New Facilities**

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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 bakery lease agreement provides for a 26-year lease for a 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the facility is underway and is expected to be completed by the end of 2009. The Company expects the new facility to be fully operational in 2010. The lease 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.

As part of this initiative, 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 principal or interest payments in the first year of occupancy and then requires equal monthly payments of principal and interest aggregating to \$1.2 million annually over the remainder of the term.

The Company also entered into an agreement to relocate its corporate headquarters to the Philadelphia Navy Yard. This lease agreement provides for not less than 35,000 square feet of office space. It commences upon the later of substantial completion of the office space or April 2009, and ends coterminous with the new bakery lease. The lease provides for no rent payments in the first six months of occupancy. Rental payments increase from approximately \$0.9 million in the second year of occupancy to approximately \$1.6 million in the final year of the lease.

In connection with these agreements, the Company provided a \$1.1 million letter of credit, which increases to \$8.1 million by 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 September 27, 2008, the outstanding letter of credit under this arrangement totaled \$3.6 million.

In connection with these agreements, the Company provided an additional \$0.5 million letter of credit, which increases to \$1.9 million by the beginning of 2009. The outstanding amount of the letter of credit will be eliminated in August 2009. As of September 27, 2008, the outstanding letter of credit under this arrangement totaled \$1.0 million.

In addition to the facility leases, the Company is purchasing high-tech, modern baking equipment. This 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 \$75.0 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 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 anticipates that long-lived assets utilized in the Philadelphia operations with an aggregate net book value of approximately \$20.0 million at June 30, 2007 would not be relocated to the new facilities or sold as a result of the relocation. The Company accounts for disposal and exit activities in accordance with FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("FAS 146") and FAS 144. To date, the Company has not incurred any material obligations related to one-time termination benefits, contract termination costs or other associated costs as described in FAS 146.

The Company has evaluated the long-lived assets utilized in its Philadelphia operations for potential impairment or other treatment in accordance with FAS 144. 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. With respect to the group of assets not expected to be relocated or sold, certain of the assets included in the group had previously estimated useful lives that extended beyond the expected project completion in 2010. As such, in the quarter ended June 30, 2007, the Company changed its estimate of the remaining useful lives of such assets to be consistent with the time remaining until the end of the project, and accounted for such change in estimate in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3*. For the thirteen and thirty-nine week periods ended September 27, 2008, the change in estimated useful lives of these assets resulted in incremental depreciation of \$1.3 million and \$3.9 million, respectively. The after-tax impact of the incremental depreciation on net income, net income per common share-basic and net income per common share-diluted was \$0.8 million, \$0.10 per share, and \$0.10 per share, respectively, for the thirteen weeks ended September 27, 2008 and \$2.4 million, \$0.30 per share, and \$0.30 per share, respectively for the thirty-nine weeks ended September 27, 2008. For the thirteen and thirty-nine week periods ended September 29, 2007, the change in estimated useful lives of these assets resulted in incremental depreciation of \$1.3 million and \$2.0 million, respectively. The after-tax impact of the incremental depreciation on net income, net income per common share-basic, and net income per common share-diluted was \$0.9 million, \$0.11 per share, and \$0.11 per share, respectively, for the thirteen weeks ended September 29, 2007 and \$1.3 million, \$0.16 per share and \$0.16 per share, respectively, for the thirty-nine weeks ended September 29, 2007. The Company expects that the future pre-tax impact of incremental depreciation resulting from the change in useful lives will be approximately \$1.3 million per quarter through June 2010, when the new bakery is expected to be fully operational.

As part of the relocation of its Philadelphia operations, the Company expects to eliminate approximately 215 positions. While the Company hopes to achieve this result through normal attrition and the reduction of contract labor, it is probable that the Company will incur obligations related to postemployment benefits accounted for under FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43*. During the quarter ended September 27, 2008, the Company recorded a reserve of \$1.7 million, for estimated future obligations related to postemployment benefits associated with the relocation of its Philadelphia operations. The cost associated with this reserve was recorded in other (income)/expense.

### 3. Inventories

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Inventories are classified as follows:

	Sep. 27, 2008	Dec. 29, 2007
Finished goods	\$ 2,448	2,852
Work in progress	133	161
Raw materials and supplies	4,820	4,706
	<u>\$ 7,401</u>	<u>\$ 7,719</u>

The inventory balance has been reduced by reserves for obsolete and slow-moving inventories of \$56 and \$95 as of September 27, 2008 and December 29, 2007, respectively.

### 4. Credit Facilities

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On September 6, 2007, the Company entered into a 5 year, \$100.0 million secured credit facility with four banks, 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"). 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 maximum operating leverage ratio covenant, a minimum liquidity ratio covenant and minimum level of earnings before interest, taxes, depreciation and amortization ("EBITDA") covenant. Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and as of September 27, 2008 included a spread above that index from 75 to 275 basis points based upon the Company's ratio of debt to EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees from 20 to 50 basis points based upon the Company's ratio of debt to EBITDA. The \$10.0 million low-interest loan bears interest at a fixed rate of 5.5% per annum. In October 2008, the Company amended its Bank Credit Facility to provide for additional flexibility and to change certain financial covenants, including the minimum EBITDA requirement as of December 27, 2008 and the maximum operating leverage ratio as of September 27, 2008 and December 27, 2008, which was necessary to eliminate an instance of non-compliance. As part of this amendment, the interest rates for the fixed asset line of credit and working capital revolver were changed to be indexed to LIBOR plus a credit spread from 125 to 325 basis points based upon the Company's ratio of debt to EBITDA.

On September 6, 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 in October 2008. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company and/or its subsidiaries, other than in connection with the Bank Credit Facility, the MELF Loan 1 and the MELF Loan 2, as defined below.

On September 6, 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"). The Company borrowed \$5.0 million under the MELF Loan 1 in September 2008. 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, essentially similar to those in the Bank Credit Facility, as amended in October 2008. Negative covenants include among others, limitations on incurrence of liens and secured indebtedness by the Company, other than in connection with the Bank Credit Facility and the PIDC Credit Facility. 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 the MELF Loan 2 are the same as the MELF Loan 1. The Company expects to borrow the \$5.0 million under the MELF Loan 2 in the fourth quarter of 2008.

On September 6, 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 used a portion of the proceeds received under the Bank Credit Facility to terminate and repay outstanding indebtedness. The Company is currently utilizing proceeds from the Bank Credit Facility and MELF Loan 1 to finance the Company's relocation of its Philadelphia manufacturing facility and corporate headquarters to new facilities under construction at the Philadelphia Navy Yard, along with working capital needs. The Company will further utilize the proceeds from MELF Loan 2 and the PIDC Credit Facility, along with proceeds under the Bank Credit Facility for continued funding of its relocation to the Philadelphia Navy Yard.

## 5. Derivative Instruments

In order to hedge a portion of the Company's exposure to changes in interest rates on debt associated with the Company's new manufacturing facilities, the Company entered into certain variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. 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 September 27, 2008, the notional value of the swap was \$8.5 million. As of September 27, 2008, the LIBOR rates were subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 225 basis points as of that date. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of September 27, 2008, the Company recorded an asset of \$0.3 million.

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. As of September 27, 2008, the LIBOR rates were subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 225 basis points as of that date. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of September 27, 2008, the Company recorded an asset of \$0.1 million.

During the third quarter of 2007, the Company entered into commitments to acquire assets denominated in a foreign currency. In order to hedge the Company's exposure to changes in foreign currency rates, the Company entered into foreign currency forward contracts with maturity dates ranging from July 2007 to April 2010. As of September 27, 2008, the notional principle of outstanding foreign currency forward contracts was \$5.3 million Australian Dollar (\$4.3 million USD). As of September 27, 2008, the change in fair value of both the commitment and the forward currency contracts was \$0.1 million.

## 6. Fair Value Measurements

As described in Note 1, the Company adopted FAS 157 on December 30, 2007. FAS 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FAS 157 establishes 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 at September 27, 2008:

Description	Balance as of Sep. 27, 2008	Fair Value Measurement at Reporting Date Using		
		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	\$ 370	\$ —	\$ 370	\$ —
Foreign currency hedges	107	—	107	—
Total financial instruments owned	\$ 477	\$ —	\$ 477	\$ —

## 7. 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. See Note 8 for more information. The Company also maintains a frozen unfunded Retirement Plan for Directors (the “Director Plan”). The benefit amount is the annual retainer in the year of retirement.

Effective February 15, 2007, benefit accruals under the Director Plan were frozen for current directors and future directors were precluded from participating in the plan. Participants are credited for service under the Director 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 deferred stock units to the director’s account equivalent in value to \$4 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 / (benefits) are summarized as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	9/27/08	9/29/07	9/27/08	9/29/07
Service cost-benefits earned during the quarter	\$ -	\$ -	\$ -	\$ 10
Interest cost on projected benefit obligation	1,252	1,247	3,757	3,735
Expected return on plan assets	(1,268)	(1,302)	(3,804)	(3,906)
Prior service cost amortization	(4)	(4)	(12)	(13)
Actuarial loss recognition	16	16	48	49
Net DB pension amount credited to income	\$ (4)	\$ (43)	\$ (11)	\$ (125)

Under the Pension Protection Act of 2006, the Company made a \$0.7 million and \$1.4 million cash contribution to the previously frozen DB Plan for the thirteen weeks and thirty-nine weeks ended September 27, 2008, respectively. There is a minimum required cash contribution to the DB Plan in fiscal 2008 of \$2.0 million. The Company made a \$0.5 million voluntary cash contribution in July 2007.

## 8. Defined Contribution Retirement Plans

The Company maintains a funded Defined Contribution (“DC”) Retirement Plan (the “DC Plan”), which replaced the benefits provided in the 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% to 5% 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 of between 1.5% and 3.5% of salary. The “grandfathered” contribution percentage was fixed as of March 27, 2005, and 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 Company also maintains the Tasty Baking Company 401(k) and Company Funded Retirement Plan (the “Retirement Plan”). In the Retirement Plan, all participants receive a company match of 50% of their elective deferrals that do not exceed 4% of their compensation as defined in the Retirement Plan. Under the Retirement Plan, the waiting period for participation has been eliminated and participants are offered a broad array of investment choices.

The Company also maintains an unfunded defined contribution SERP (“DC SERP”) for one eligible active employee.

Components of DC pension amounts charged to income:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	9/27/08	9/29/07	9/27/08	9/29/07
Funded retirement plan	\$ 419	\$ 465	\$ 1,223	\$ 1,445
Defined contribution SERP	97	90	290	270
Net DC pension amount charged to income	\$ 516	\$ 555	\$ 1,513	\$ 1,715

#### 9. Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Company also provides certain unfunded health care and life insurance programs for substantially all retired employees, or other postretirement benefits. These benefits are provided through contracts with insurance companies and health service providers. Coverage is maintained for all pre-65 retirees and for certain post-65 retirees who have qualifying dependents that are pre-65. Life insurance for incumbent retirees, as of January 1, 2006, at company group rates is capped at \$20 of coverage. Incumbent retirees who purchase coverage in excess of \$20 and all new retirees after January 1, 2006 pay age-based rates for their life insurance benefit.

Components of net periodic postretirement benefit cost / (benefit) are as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	9/27/08	9/29/07	9/27/08	9/29/07
Service cost	\$ 91	\$ 67	\$ 272	\$ 201
Interest cost	115	92	347	277
Amortization of unrecognized prior service cost	(458)	(457)	(1,373)	(1,373)
Amortization of unrecognized gain	-	(29)	-	(87)
Total FAS 106 net postretirement benefit	\$ (252)	\$ (327)	\$ (754)	\$ (982)

Estimated company contributions for the thirty-nine weeks ended September 27, 2008 and September 29, 2007 were \$524 and \$453, respectively.

#### 10. Stock Compensation

At the 2006 Annual Meeting of Shareholders of the Company held on May 11, 2006, the Company's shareholders approved the Tasty Baking Company 2006 Long-Term Incentive Plan (the "2006 Plan") as adopted by the Board on March 24, 2006. The aggregate number of shares available for grant under the Plan is 220,600 shares of the Company's common stock as of September 27, 2008.

The 2006 Plan authorizes the Compensation Committee (the "Committee") of the Board to grant awards of stock options, stock appreciation rights, unrestricted stock, restricted stock ("RSA") (including performance restricted stock) and performance shares to employees, directors and consultants or advisors of the Company. The option price is determined by the Committee and, in the case of incentive stock options, will be no less than the fair market value of the shares on the date of grant. Options lapse at the earlier of the expiration of the option term specified by the Committee (not more than ten years in the case of incentive stock options) or three months following the date on which employment with the Company terminates.

The Company also has active 2003 and 1997 Long-Term Incentive Plans (the "2003 Plan" and "1997 Plan," respectively). The aggregate number of shares available for grant under the 2003 Plan is 50,466 and under the 1997 Plan is 143,891 as of September 27, 2008. The terms and conditions of the 2003 and 1997 plans are generally the same as the 2006 Plan. A notable difference is that the 1997 Plan can award shares only to employees of the Company while the 2003 Plan can only award shares to employees and directors of the Company. The Company also has options outstanding under the 1994 Long-Term Incentive Plan, the terms and conditions of which are similar to the 1997 Plan.

Notwithstanding the vesting and termination provisions described above, under the terms of the Change of Control Agreements and Employment Agreements that the Company entered into with certain executive officers, upon a change of control, the shares granted as RSAs vest and any restrictions on outstanding stock options lapse immediately. Additionally, under the terms of those agreements, in certain change of control circumstances, shares granted as RSAs may vest after termination of employment.

A summary of stock options as of September 27, 2008 is presented below:

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at Dec. 29, 2007	439	\$ 10.44		
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding at Mar. 29, 2008	439	\$ 10.44	4.67	\$ 1,055
Granted	-	-		
Forfeited	(2)	8.64		
Exercised	-	-		
Outstanding at Jun. 28, 2008	437	\$ 10.45	4.44	\$ 1,051
Granted	-	-		
Forfeited	(68)	10.32		
Exercised	-	-		
Outstanding at Sep. 28, 2008	369	10.48	4.11	\$ 892
Options exercisable at Mar. 29, 2008	439	\$ 10.44	4.67	\$ 1,055
Options exercisable at Jun. 28, 2008	437	10.45	4.44	1,051
Options exercisable at Sep. 27, 2008	369	10.48	4.11	892

As of September 27, 2008, there was no unrecognized compensation related to nonvested stock options, as all options are fully vested. For the thirty-nine weeks ended September 27, 2008, there were no options granted and there was no cash received from option exercises. There was no compensation expense recognized in the Condensed Consolidated Statements of Operations for stock options in the thirty-nine weeks ended September 27, 2008 or September 29, 2007.

The Company recognizes expense for restricted stock using the straight-line method over the requisite service period. A summary of the restricted stock as of September 27, 2008 is presented below:

	Shares (000's)	Weighted Average Fair Value
Nonvested at Dec. 29, 2007	230	\$ 7.88
Granted	100	6.76
Forfeited	(55)	7.65
Exercised	-	-
Nonvested at Sep. 27, 2008	275	\$ 7.52

As of September 27, 2008, there was \$1.2 million of unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted average period of approximately 2.03 years.

## 11. Income Taxes

The Company's effective tax rate was 39.7 percent and (42.2) percent for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and 35.9 percent and 32.1 percent for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. For the thirteen and thirty-nine weeks ended September 27, 2008, the Company recorded \$0.1 million and \$0.2 million, respectively, in non-recurring discrete income items related to charitable contribution carryforwards. For the thirteen and thirty-nine weeks ended September 29, 2007, the Company recorded \$0.1 million in non-recurring discrete income items related to changes in cumulative temporary timing differences. 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.

## 12. Accumulated Other Comprehensive Income / (Loss)

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Total accumulated other comprehensive income, net of taxes, is comprised as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	9/27/08	9/29/07	9/27/08	9/29/07
Net income / (loss)	\$ (1,352)	\$ 210	\$ (2,236)	\$ 2,029
Other comprehensive income / (loss)				
Pension plan	7	16	(43)	31
Other postretirement benefits	(256)	(584)	(805)	(1,130)
Change in unrealized gain / (loss) on derivative instruments	(214)	(34)	222	(65)
Total other comprehensive income / (loss)	(463)	(602)	(626)	(1,164)
Total comprehensive income / (loss)	\$ (1,815)	\$ (392)	\$ (2,862)	\$ 865

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

	Sep. 27, 2008	Dec. 29, 2007
Pension plan	\$ (2,924)	\$ (2,881)
Unrealized gain on derivative instruments	222	-
Other postretirement benefits	2,711	3,515
Total accumulated other comprehensive income	\$ 9	\$ 634

## 13. Facility Fire

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In September 2008, the Company had a fire at its Philadelphia bakery facility, which damaged certain of its bakery equipment. As a result of the fire the Company incurred approximately \$1.1 million in total losses, including \$0.2 million in losses related to the interruption of the Company's normal operations. As of September 27, 2008 normal operations were restored and the Company had recorded a receivable of \$1.0 million, net of the deductible under the Company's insurance policies. For the thirteen and thirty-nine weeks ended September 27, 2008, losses related to the fire and the benefit associated with expected insurance recoveries were recorded in cost of sales.

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

(000's, except share, per share and square footage amounts, unless otherwise noted)

All disclosures are pre-tax, unless otherwise noted.

### **Results of Operations**

#### **For the Thirteen Weeks ended September 27, 2008 and September 29, 2007**

##### **Overview**

Net loss for the third quarter of 2008 was \$1.4 million or \$0.17 per fully-diluted share. This net loss included \$0.8 million or \$0.10 per fully-diluted share of after-tax accelerated depreciation resulting from the change in the estimated useful lives of certain assets at the Company's Philadelphia operations in the second quarter of fiscal 2007, as well as \$1.0 million or \$0.13 per fully diluted share of after-tax severance costs related to the Company's planned move to a new bakery beginning at the end of 2009. Net income for the third quarter of 2007 was \$0.2 million or \$0.03 per fully-diluted share, which included \$0.9 million, or \$0.11 per fully diluted share of after-tax accelerated depreciation.

##### **Sales**

Total gross sales and net sales increased 0.1% and 0.7%, respectively, in the third quarter of 2008 compared to the same period in 2007, driven primarily by strength in Route sales, which benefited from continued growth in Single Serve product sales, combined with the impact of increased selling prices for both Family Pack and Single Serve products. Route net sales grew 1.3% in the third quarter of 2008 compared to the same period in 2007. Non-Route net sales declined 1.2% in the third quarter of 2008 compared to the same period a year ago due to planned product rationalization in the direct sales channel.

##### **Cost of Sales**

Cost of sales for the third quarter of 2008 increased 3.3% versus the third quarter of 2007, on a unit volume decline of 4.2%. This was primarily driven by a \$2.3 million increase in ingredient and packaging costs, which was partially offset by \$1.1 million in net benefit from increased product selling prices. Fixed manufacturing expenses decreased 6.6% in the third quarter of 2008 versus the third quarter of 2007. This decrease was driven primarily by lower employee related expenses when compared to the same period a year ago. In the third quarter of 2008, the Company had a fire at its Philadelphia bakery operations, which damaged certain of its bakery equipment. As a result of the fire the Company incurred approximately \$1.1 million in total losses, including \$0.2 million in losses related to the interruption of the Company's normal operations. As of September 27, 2008, normal operations were restored and the Company had recorded a receivable of \$1.0 million, net of the deductible under the Company's insurance policies. For the thirteen weeks ended September 27, 2008, losses related to the fire and the benefit associated with the expected insurance recoveries were recorded in cost of sales.

##### **Gross Margin**

Gross margin decreased 3.1 percentage points to 25.6% of net sales for the thirteen weeks ended September 27, 2008 as compared to the same period in 2007. The decline in gross margin was primarily attributable to the \$2.3 million increase in ingredient and packaging costs and a \$0.6 million increase in depreciation expense when compared to the same period in 2007. Offsetting much of this expense were the net benefits from increased product selling prices and lower fixed manufacturing costs in the third quarter of 2008 when compared to the third quarter of 2007.

##### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses declined by \$0.6 million in the third quarter of 2008 to 26.1% of net sales, compared to 27.6% of net sales in the third quarter of 2007. The decrease was driven by lower compensation and other employee related costs.

## **Interest**

Interest expense remained relatively constant at \$0.5 million in the third quarter of 2008 as compared to the third quarter of 2007. 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**

Other expense, net, increased by \$1.6 million in the thirteen weeks ended September 27, 2008 as compared to the thirteen weeks ended September 29, 2007, primarily due to the \$1.7 million in severance costs related to the Company's planned move to a new bakery beginning at the end of 2009.

## **Taxes**

The effective income tax rate for state and federal taxes was 39.7% and (42.2%) for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively. For the thirteen weeks ended September 27, 2008, the Company recorded \$0.1 million in non-recurring discrete income items related to charitable contribution carryforwards. For the thirteen weeks ended September 29, 2007, the Company recorded \$0.1 million in non-recurring discrete income items related to changes in the cumulative temporary timing differences.

## **For the Thirty-nine Weeks ended September 27, 2008 and September 29, 2007**

### **Overview**

Net loss for the thirty-nine weeks ended September 27, 2008, was \$2.2 million or \$0.28 per fully-diluted share. This net loss included \$2.4 million or \$0.30 per fully-diluted share of after-tax accelerated depreciation resulting from the change in the estimated useful lives of certain assets at the Company's Philadelphia operations in the second quarter of fiscal 2007, as well as \$1.0 million or \$0.13 per fully-diluted share of after-tax severance costs related to the Company's planned move to a new bakery beginning at the end of 2009. Net income for the thirty-nine weeks ended September 29, 2007 was \$2.0 million or \$0.25 per fully-diluted share, which included \$1.3 million, or \$0.16 per fully diluted share of after-tax accelerated depreciation.

### **Sales**

Gross sales increased 0.6% in the thirty-nine weeks ended September 27, 2008 compared to the same period in 2007, driven by 2.5% growth in Route gross sales. Route gross sales benefited from product price increases for both Family Pack and Single Serve products as well as from continued growth in Single Serve volumes. Total net sales declined 0.3% in the thirty-nine weeks ended September 27, 2008 compared to the same period last year. Route net sales increased 0.2% in the thirty-nine weeks ended September 27, 2008 compared to the same period last year. Route net sales grew at a lower rate than gross sales due to an increased level of product returns and promotional expense when compared to the same period last year. Non-Route net sales declined 2.0% in the thirty-nine weeks ended September 27, 2008 compared to the same period in the prior year due to fewer promotional events and planned product rationalization in the direct sales channel.

### **Cost of Sales**

Cost of sales for the thirty-nine weeks ended September 27, 2008 increased 4.7% versus the comparable period in 2007, on a unit volume decline of 4.0%. The increase in cost of sales primarily resulted from a \$6.8 million increase in ingredient and packaging costs, which was partially offset by the net benefits of higher product selling prices and the benefits of improved operating efficiency at the Company's manufacturing facilities. In the third quarter of 2008, the Company had a fire at its Philadelphia bakery operations, which damaged certain of its bakery equipment. As a result of the fire the Company incurred approximately \$1.1 million in total losses, including \$0.2 million in losses related to the interruption of the Company's normal operations. As of September 27, 2008, normal operations were restored and the Company had recorded a receivable of \$1.0 million, net of the deductible under the Company's insurance policies. For the thirty-nine weeks ended September 27, 2008, losses related to the fire and the benefit associated with the expected insurance recoveries were recorded in cost of sales.

### **Gross Margin**

Gross margin decreased 5.3 percentage points to 26.3% during the first thirty-nine weeks ended September 27, 2008 compared to the same period of 2007. This decline was primarily attributed to the \$6.8 million increase in ingredient and packaging costs and a \$2.7 million increase in depreciation expenses when compared to the same period in 2007. Partially offsetting these declines were the benefits from product price increases and continued cost containment efforts.

## **Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the thirty-nine weeks ended September 27, 2008 decreased to 27.0% of net sales, compared to 29.0% of net sales in the first thirty-nine weeks of fiscal 2007. This decrease was primarily due to reductions in employee related expenses, as well as lower marketing costs resulting from a shift in timing of advertising spending as compared to a year ago. Partially offsetting this was an increase in transportation and freight costs resulting from the increased cost of fuel.

## **Interest**

Interest expense increased \$0.6 million to \$1.5 million in the thirty-nine weeks ended September 27, 2008 from \$0.9 million in the same period in 2007. The increase was primarily due to higher deferred financing fee amortization related to the Company's new debt facilities as well as higher debt levels resulting from investments in equipment for the Company's new manufacturing and distribution facility.

## **Other (Income) / Expense**

For the thirty-nine weeks ended September 27, 2008, the Company had other expense, net, of \$1.1 million as compared to other income, net, of \$0.6 million for the thirty-nine weeks ended September 29, 2007. The increase in other expense, net, was primarily due to \$1.7 million in severance costs related to the Company's planned move to a new bakery beginning at the end of 2009.

## **Taxes**

The effective income tax rate for state and federal taxes was 35.9% and 32.1% for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. For the thirty-nine weeks ended September 27, 2008, the Company recorded \$0.2 million in non-recurring discrete income items related to charitable contribution carryforwards. For the thirty-nine weeks ended September 29, 2007, the Company recorded \$0.1 million in non-recurring discrete income items related to changes in the cumulative temporary timing differences.

## **Liquidity and Capital Resources**

Current assets at September 27, 2008 were \$36,891 compared to \$30,984 at December 29, 2007, and current liabilities at September 27, 2008 were \$18,833 compared to \$16,954 at December 29, 2007. The increase in current assets was driven by an increase in receivables of \$4.9 million, due in part to higher sales at the end of the third quarter as well as the \$1.0 million receivable related to the fire claim. The \$1.9 million increase in current liabilities was primarily due to an increase in cash overdraft of \$3.0 million due to the timing of disbursements, which was partially offset by a \$1.3 million decrease in accrued employee related costs.

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 bakery lease agreement provides for a 26-year lease for a 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the facility is underway and is expected to be completed by the end of 2009. The Company expects the new facility to be fully operational in 2010. The lease 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.

As part of this initiative, 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. The bakery lease agreement provides for no principal or interest payments in the first year of occupancy and then requires equal monthly payments of principal and interest aggregating to \$1.2 million annually over the remainder of the term.

The Company also entered into an agreement to relocate its corporate headquarters to the Philadelphia Navy Yard. The bakery lease agreement provides for not less than 35,000 square feet of office space and commences upon the later of substantial completion of the office space or April 2009, and which ends coterminous with the new bakery lease. The lease provides for no rent payment in the first six months of occupancy. Rental payments increase from approximately \$0.9 million in the second year of occupancy to approximately \$1.6 million in the final year of the lease.

In connection with these agreements, the Company provided a \$1.1 million letter of credit, which increases to \$8.1 million by 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 September 27, 2008, the outstanding letter of credit under this arrangement totaled \$3.6 million.

In connection with these agreements, the Company provided an additional \$0.5 million letter of credit, which will increase to \$1.9 million by the beginning of 2009. The outstanding amount of the letter of credit will be eliminated in August 2009. As of September 27, 2008, the outstanding letter of credit under this arrangement totaled \$1.0 million.

In addition to the facility leases, the Company is purchasing high-tech, modern baking equipment. This equipment is designed to increase product development flexibility and efficiency, while maintaining existing taste and quality standards. The Company anticipates that this project, when completed, will generate approximately \$13.0 to \$15.0 million in pre-tax cash savings, after taking into account the impact of the new leases, but before any debt service requirements resulting from the investment in the project. The investment for this project, in addition to any costs associated with the agreements described above, is projected to be approximately \$75.0 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 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.

#### **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.

On September 6, 2007, the Company entered into a 5 year, \$100.0 million secured credit facility with four banks, 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"). 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 maximum operating leverage ratio covenant, a minimum liquidity ratio covenant and a minimum level of earnings before interest, taxes, depreciation and amortization ("EBITDA") covenant. Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and included, as of September 27, 2008, a spread above that index from 75 to 275 basis points based upon the Company's ratio of debt to EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees from 20 to 50 basis points based upon the Company's ratio of debt to EBITDA. The \$10.0 million low-interest loan is at a fixed rate of 5.5% per annum. In October 2008, the Company amended its Bank Credit Facility to provide for additional flexibility and to change certain financial covenants, including the minimum EBITDA requirements as of December 27, 2008 and the maximum operating leverage ratio as of September 27, 2008 and December 27, 2008, which was necessary to eliminate an instance of non-compliance. As part of this amendment, the interest rates for the fixed asset line of credit and working capital revolver were changed to be indexed to LIBOR plus a credit spread from 125 to 325 basis points based upon the Company's ratio of debt to EBITDA.

On September 6, 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 in October 2008. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company and/or its subsidiaries, other than in connection with the Bank Credit Facility, the MELF Loan 1 and the MELF Loan 2, as defined below.

On September 6, 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"). The Company borrowed \$5.0 million under MELF Loan 1 in September 2008. 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 October 2008. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company, other than in connection with the Bank Credit Facility and the PIDC Credit Facility. 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 the same as MELF Loan 1. The Company expects to borrow the \$5.0 million under MELF Loan 2 in the fourth quarter of 2008.

On September 6, 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.

In order to hedge a portion of the Company's exposure to changes in interest rates on debt associated with the Company's new manufacturing facilities, the Company entered into certain variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. 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 September 27, 2008, the notional value of the swap was \$8.5 million. As of September 27, 2008, the LIBOR rates were subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 225 basis points as of that date. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of September 27, 2008, the Company recorded an asset of \$0.3 million. 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 are subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 225 basis points as of September 27, 2008. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of September 27, 2008, the Company recorded an asset of \$0.1 million.

Net cash used for investing activities for the thirty-nine weeks ended September 27, 2008 was \$27,748, comprised primarily of \$27,392 for capital expenditures related to the Company's new manufacturing facility.

Net cash from financing activities for the thirty-nine weeks ended September 27, 2008 totaled \$31,622 driven by increased borrowings of long-term debt of \$28,903 primarily related to the Company's new manufacturing facility.

The Company anticipates that the foreseeable future cash flow from operations, along with the continued availability under the Bank Credit Facility, the PIDC Credit Facility, MELF Loan 1 and MELF Loan 2 will be sufficient to meet operating and financing requirements. The Company anticipates total capital expenditures of approximately \$32.0 million for fiscal 2008, \$26.0 million of which are expenditures associated with the Company's new manufacturing facility.

### **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 2007 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 2007 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 third quarter of 2008 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 headings "Risk Factors" and "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 lease and fit-out 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 2007 Annual Report on Form 10-K ("2007 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 September 27, 2008. 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 September 27, 2008.

#### **(b) Changes in Internal Control over Financial Reporting**

During the thirteen weeks ended September 27, 2008, 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.

**PART II. OTHER INFORMATION**

**Item 5. Other Information**

By the Third Amendment to Credit Agreement dated October 29, 2008 the Company amended certain provisions of its Bank Credit Facility, including changes to the maximum operating leverage ratio as of September 27, 2008 and December 27, 2008, the minimum EBITDA requirement as of December 27, 2008, and the applicable borrowing rate spread. The full text of the agreement is included herein as Exhibit 10(b) under Item 6.

On October 31, 2008, the Company received \$5.0 million of funding under a Machinery and Equipment Loan Fund ("MELF") Agreement with The Commonwealth of Pennsylvania acting by and through the Department of Community and Economic Development, dated September 9, 2008. This MELF funding secured by (i) a first lien on certain equipment acquired with amounts advanced under the MELF Agreement, and (ii) a second lien on certain other equipment acquired with amounts advanced under the MELF Agreement. The MELF loan requires repayment over a ten year term with interest only during the first two years. Amounts advanced under the MELF Agreement will bear interest until repaid at a fixed rate of 5.0% per annum.

The MELF Agreement contains customary representations and warranties as well as customary affirmative and negative covenants. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company, other than in connection with the Company's Bank Credit Facility and PIDC Credit Facility. The MELF Agreement also contains customary events as default. Upon the occurrence and during the continuance of any event of default, MELF may declare the outstanding loans and all other obligations under the MELF Agreement immediately due and payable.

The description of the MELF Agreement contained herein is qualified in its entirety by reference to the MELF Agreement, a copy of which is filed herewith as Exhibit 10(c) and is incorporated herein by reference.

**Item 6. Exhibits**

(a) Exhibits:

- Exhibit 10 (a) – Second Amendment, effective as of July 16, 2008, to Credit Agreement, dated as of September 6, 2007, among Tasty Baking Company and its subsidiaries, as Borrowers; Citizens Bank of Pennsylvania, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer; and Bank of America, N.A., Sovereign Bank, and Manufacturers and Traders Trust Company, each as a Lender, is incorporated herein by reference to Exhibit 10(b) to Form 10-Q report of Company for the thirteen weeks ended June 28, 2008.
- Exhibit 10 (b) – Third Amendment, effective as of October 29, 2008, to Credit Agreement, dated as of September 6, 2007, among Tasty Baking Company and its subsidiaries, as Borrowers; Citizens Bank of Pennsylvania, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer; and Bank of America, N.A., Sovereign Bank, and Manufacturers and Traders Trust Company, each as a Lender.
- Exhibit 10 (c) Machinery and Equipment Loan Fund Loan Agreement, dated as of September 9, 2008, between Tasty Baking Company and The Commonwealth of Pennsylvania acting by and through the Department of Community and Economic Development.
- 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)

November 4, 2008  
\_\_\_\_\_  
(Date)

/s/ Paul D. Ridder  
\_\_\_\_\_  
PAUL D. RIDDER  
SENIOR VICE PRESIDENT  
AND  
CHIEF FINANCIAL OFFICER  
(Principal Financial Officer)

**SECOND AMENDMENT TO CREDIT AGREEMENT**

**THIS SECOND AMENDMENT TO CREDIT AGREEMENT** (the “**Amendment**”) is made effective as of the 16th day of July, 2008 by and among **TASTY BAKING COMPANY**, a Pennsylvania corporation (“**Company**”), the direct and indirect subsidiaries of the Company from time to time parties to the Credit Agreement (as defined below) (the “**Subsidiary Borrowers**” and with the Company, collectively, the “**Borrowers**”), each lender from time to time party to the Credit Agreement (collectively, the “**Lenders**” and individually, a “**Lender**”), and **CITIZENS BANK OF PENNSYLVANIA**, as Administrative Agent, Collateral Agent, Swing Line Lender and L/C Issuer (the “**Agent**”).

**BACKGROUND**

**A.** Borrowers, Lenders and Agent have previously entered into a certain Credit Agreement dated September 6, 2007, as amended by that certain First Amendment to Credit Agreement dated December 12, 2007 (as amended and as may be further amended, supplemented or restated from time to time, the “**Credit Agreement**”), pursuant to which, inter alia, Agent and Lenders agreed to extend to Borrowers certain credit facilities subject to the terms and conditions set forth therein.

**B.** Borrowers, Lenders and Agent have agreed to amend the terms of the Credit Agreement in accordance with the terms and conditions hereof.

**C.** Capitalized terms used herein and not otherwise defined in this Amendment shall have the meanings set forth therefor in the Credit Agreement.

**NOW THEREFORE**, the parties hereto, intending to be legally bound hereby, agree as follows:

**1. Fixed Asset Revolving Loans.** Notwithstanding anything to the contrary contained in the Credit Agreement, including without limitation Sections 2.05 and 4.04 thereof, subject to the terms and conditions set forth in this Amendment, each Lender severally agrees to make Fixed Asset Loans on a revolving basis to Borrowers from time to time, on any Business Day during the period from and including the date hereof to December 31, 2009 (the “Fixed Asset Revolving Loan Advance Period”), in an outstanding amount not to exceed such Lender’s Commitment of Fixed Asset Loans for an aggregate principal amount not to exceed Ten Million Dollars (\$10,000,000) at any time (the “Fixed Asset Revolving Loan Sublimit”). Borrowers acknowledge and agree that after giving effect to any Fixed Asset Loan made under the Fixed Asset Revolving Loan Sublimit, the aggregate outstanding amount of such loans shall reduce the Aggregate Commitments for Fixed Asset Loans to be made available to Borrowers on a dollar-for-dollar basis. Within the limits of each Lender’s Commitment for Fixed Asset Loans, and subject to the other terms and conditions hereof, Borrowers may borrow and reborrow under the Fixed Asset Revolving Loan Sublimit without payment of any penalty or premium until the expiration of the Fixed Asset Revolving Loan Advance Period. Upon expiration of the Fixed Asset Revolving Loan Advance Period, all Fixed Asset Loans will, at Borrowers’ option, be immediately due and payable or be deemed to be advanced as non-revolving Fixed Asset Loans and automatically reduce the Aggregate Commitments for Fixed Asset Loans to be made available to Borrowers on a dollar-for-dollar basis.

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2. **Conditions of Fixed Asset Loans under Fixed Asset Revolving Loan Sublimit.** The obligation of each Lender to honor any Request for Credit Extension of a Fixed Asset Loan to be made under the Fixed Asset Revolving Loan Sublimit is subject to the following conditions precedent:

2.1 Except as otherwise provided in the Credit Agreement, Agent shall have received and approved a Fixed Asset Loan Notice duly executed on behalf of Borrowers with such information and supporting documentation as Agent may require, including without limitation:

(a) a copy of the applicable invoices, purchase orders, certificates of delivery, certificates of installation and other documentation related to the particular items of Navy Yard Equipment as Agent may reasonably require and evidence, as necessary, that the requested Borrowing was not covered by prior requests for advances under the Fixed Asset Loans, the PIDC Financing, the MELF Financing, the Job Bank Term Loans or any grants received by Borrowers;

(b) a duly executed Certificate of Advance in the form of Exhibit L attached to the Credit Agreement;

(c) evidence that the amount to be funded under such Borrowing shall not exceed the installment amount then due under the applicable purchase order, invoice, or other documentation for the applicable item of Navy Yard Equipment; and

(d) if the Borrowing is to pay an installment due upon delivery or installation of an item of Navy Yard Equipment, evidence that the item is fully insured as required under Section 6.07 of the Credit Agreement.

2.2 Borrowers shall immediately apply the proceeds of any and all advances of the PIDC Financing and the MELF Financing to reduce the then outstanding principal balance of advances under the Fixed Asset Revolving Loan Sublimit.

2.3 Lenders shall have no obligation to make any Fixed Asset Loan advances under the Fixed Asset Revolving Loan Sublimit which would cause the aggregate outstanding amount of all advances of Fixed Asset Loans to exceed \$55,000,000.

2.4 Borrowers shall have paid all fees and expenses then due and payable and required to be paid by pursuant to the Credit Agreement.

2.5 Advances under the Fixed Asset Revolving Loan Sublimit will accrue interest on the same terms and conditions as Fixed Asset Loans under the Credit Agreement and be payable as provided thereunder.

2.6 Each Request for Credit Extension of a Fixed Asset Loan to be made under the Fixed Asset Revolving Loan Sublimit shall be subject to Agent's review and approval and the proceeds of all advances under the Fixed Asset Revolving Loan Sublimit shall be used by Borrowers in accordance with **Section 3** below.

3. **Use of Proceeds of Fixed Asset Revolving Loan Sublimit.** Borrowers shall use the proceeds of the Fixed Asset Loans made under the Fixed Asset Revolving Loan Sublimit as interim financing prior to the funding of the PIDC Financing and MELF Financing (i) to pay for certain costs related to the purchase and installation of bakery equipment (ovens and related equipment) at the Borrowers' Navy Yard Project in Philadelphia County, Pennsylvania in accordance with the Line Item Budget and Disbursement Schedule and (ii) to pay for the issuance of letters of credit in connection with the purchase of certain of the Navy Yard Equipment in accordance with the Line Item Budget and Disbursement Schedule.

4. **Other References.** All references in the Credit Agreement and all the Loan Documents to the term "Loan Documents" shall mean the Loan Documents as defined therein and this Amendment and any and all other documents executed and delivered by Borrowers pursuant to and in connection herewith.

5. **Covenants and Representations and Warranties.** Borrowers hereby:

5.1 ratify, confirm and agree that the Credit Agreement, as amended by this Amendment, and all other Loan Documents are valid, binding and in full force and effect as of the date of this Amendment, and enforceable in accordance with their terms.

5.2 agree that they have no defense, set-off, counterclaim or challenge against the payment of any sums owed or owing under the Loan Documents or the enforcement of any of the terms of the Loan Documents.

5.3 ratify, confirm and continue all liens, security interests, pledges, rights and remedies granted to Agent for the benefit of Lenders in the Loan Documents and agree that such liens, security interests and pledges shall secure all of the Obligations under the Loan Documents as amended by this Amendment.

5.4 represent and warrant that all representations and warranties in the Loan Documents are true and complete as of the date of this Amendment.

5.5 agree that their failure to comply with or perform any of their covenants or agreements in this Amendment will constitute a Default or an Event of Default under the Loan Documents subject to applicable notice and cure periods set forth in **Section 9.01** of the Credit Agreement.

5.6 represent and warrant that no condition or event exists after taking into account the terms of this Amendment which would constitute a Default or an Event of Default.

5.7 represent and warrant that the execution and delivery of this Amendment by Borrowers and all documents and agreements to be executed and delivered pursuant to this Amendment:

(a) have been duly authorized by all requisite action of Borrowers;

(b) will not conflict with or result in a breach of, or constitute a default (or with the passage of time or the giving of notice or both, will constitute a default) under, any of the terms, conditions, or provisions of any applicable statute, law, rule, regulation or ordinance or any Borrower's Articles of Incorporation or By-Laws or any indenture, mortgage, loan or credit agreement or instrument to which any Borrower is a party or by which it may be bound or affected, or any judgment or order of any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign; and

(c) will not result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Borrowers under the terms or provisions of any such agreement or instrument, except liens in favor of Lenders.

6. **No Novation or Waiver**. Nothing contained herein constitutes a novation of the Credit Agreement or any of the documents collateral thereto and shall not constitute a release, termination or waiver of any of the liens, security interests, rights or remedies granted to Agent and Lenders in the Credit Agreement or any of the other Loan Documents, which liens, security interests, rights or remedies are hereby ratified, confirmed, extended and continued as security for all obligations secured by the Credit Agreement. Nothing contained herein constitutes an agreement or obligation by Agent or Lenders to grant any further amendments to the Credit Agreement or any of the other Loan Documents.

7. **Inconsistencies**. To the extent of any inconsistency between the terms and conditions of this Amendment and the terms and conditions of the Credit Agreement or the other Loan Documents, the terms and conditions of this Amendment shall prevail. All terms and conditions of the Credit Agreement and the other Loan Documents not inconsistent herewith, shall remain in full force and effect and are hereby ratified and confirmed by Borrowers.

8. **Binding Effect**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

9. **No Third Party Beneficiaries**. The rights and benefits of this Amendment and the Loan Documents shall not inure to the benefit of any third party.

10. **Headings**. The headings of the Sections of this Amendment are inserted for convenience only and shall not be deemed to constitute a part of this Amendment.

11. **Severability**. The provisions of this Amendment and all other Loan Documents are deemed to be severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions which shall continue in full force and effect.

12. **Modifications.** No modifications of this Amendment or any of the Loan Documents shall be binding or enforceable unless done in accordance with **Section 11.01** of the Credit Agreement.

13. **Law Governing.** This Amendment has been made, executed and delivered in the Commonwealth of Pennsylvania and will be construed in accordance with and governed by the laws of such Commonwealth, without regard to any rules or principles regarding conflicts of law or any rule or canon of construction which interprets agreements against the draftsman.

14. **Waiver of Right to Trial by Jury.** EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

15. **Counterparts: Facsimile Signatures.** This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original without the production of any other counterpart. Any signature delivered via facsimile or other electronic means shall be deemed an original signature hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first above written.

**BORROWERS:  
TASTY BAKING COMPANY**

By: /s/Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Vice President and Corporate Treasurer

**TASTYKAKE INVESTMENT COMPANY**

By: /s/Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**TBC FINANCIAL SERVICES, INC.**

By: /s/Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**TASTY BAKING OXFORD, INC.**

By: /s/Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**AGENT:**

**CITIZENS BANK OF PENNSYLVANIA**, as Administrative Agent, Collateral Agent and L/C Issuer

By: /s/W. Anthony Watson  
Name: W. Anthony Watson  
Title: Senior Vice President

**CITIZENS BANK OF PENNSYLVANIA, as Lender**

By: /s/W. Anthony Watson  
Name: W. Anthony Watson  
Title: Senior Vice President

**BANK OF AMERICA, N.A., as Lender**

By: /s/Robert Fratta  
Name: Robert Fratta  
Title: Vice President

**SOVEREIGN BANK, as Lender**

By: /s/Dennis Wasilewski  
Name: Dennis Wasilewski  
Title: Senior Vice President

**MANUFACTURERS AND TRADERS TRUST COMPANY, as Lender**

By: /s/David W. Mills  
Name: David W. Mills  
Title: Vice President

**THIRD AMENDMENT TO CREDIT AGREEMENT**

**THIS THIRD AMENDMENT TO CREDIT AGREEMENT** (the “**Amendment**”) is made effective as of the 29<sup>th</sup> day of October, 2008 by and among **TASTY BAKING COMPANY**, a Pennsylvania corporation (“**Company**”), the direct and indirect subsidiaries of the Company from time to time parties to the Credit Agreement (as defined below) (the “**Subsidiary Borrowers**” and with the Company, collectively, the “**Borrowers**”), each lender from time to time party to the Credit Agreement (collectively, the “**Lenders**” and individually, a “**Lender**”), and **CITIZENS BANK OF PENNSYLVANIA**, as Administrative Agent, Collateral Agent, Swing Line Lender and L/C Issuer (the “**Agent**”).

**BACKGROUND**

**A.** Borrowers, Lenders and Agent have previously entered into a certain Credit Agreement dated September 6, 2007, amended by (i) that certain First Amendment to Credit Agreement dated December 12, 2007 and (ii) that certain Second Amendment to Credit Agreement dated July 16, 2008 (as amended and as may be further amended, supplemented or restated from time to time, the “**Credit Agreement**”), pursuant to which, inter alia, Agent and Lenders agreed to extend to Borrowers certain credit facilities subject to the terms and conditions set forth therein.

**B.** Borrowers, Lenders and Agent have agreed to amend the terms of the Credit Agreement in accordance with the terms and conditions hereof.

**C.** Capitalized terms used herein and not otherwise defined in this Amendment shall have the meanings set forth therefor in the Credit Agreement.

**NOW THEREFORE**, the parties hereto, intending to be legally bound hereby, agree as follows:

**1. Definitions.**

1.1 The pricing grid contained within the definition of “**Applicable Rate**” set forth in **Section 1.01** of the Credit Agreement is hereby amended to read, in its entirety, as follows:

**Applicable Rate**

Pricing Level	Operating Leverage Ratio	Unused Commitment Fee	LIBOR Rate + L/C Fee	Daily LIBOR Rate +
1	≤1.0x	0.20%	1.25%	1.25%
2	>1.0x ≤ 2.0x	0.25%	1.75%	1.75%
3	>2.0x ≤ 3.0	0.30%	2.25%	2.25%
4	>3.0x ≤ 4.0x	0.40%	2.75%	2.75%
5	>4.0 x	0.50%	3.25%	3.25%

entirety, as follows: 1.2 The definition of “**Daily LIBOR Loan**” set forth in Section 1.01 of the Credit Agreement is hereby amended to read, in its

““**Daily LIBOR Loan**” means any Fixed Asset Loan, Swing Line Loan or Working Capital Revolver Loan bearing interest based on the Daily LIBOR Rate plus the applicable basis points specified in the calculation of the Applicable Rate for a Daily LIBOR Loan.”

1.3 The following definitions are hereby added to Section 1.01 of the Credit Agreement in their proper alphabetical order and when used in this Amendment, such terms shall have the following meanings:

““**Daily LIBOR Fixed Asset Loan**” means a Fixed Asset Loan that is a Daily LIBOR Loan.”

““**Daily LIBOR Working Capital Revolver Loan**” means a Working Capital Revolver Loan that is a Daily LIBOR Loan.”

1.4 (a) The definition of “**Prime Rate**” set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and all references to the defined term “**Prime Rate**” contained in the Credit Agreement and Loan Documents are hereby deleted in their entirety and replaced with the defined term “**Daily LIBOR Rate**”; (b) the definition of “**Prime Rate Fixed Asset Loan**” set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and all references to the defined term “**Prime Rate Fixed Asset Loan**” contained in the Credit Agreement and Loan Documents are hereby deleted in their entirety and replaced with the defined term “**Daily LIBOR Fixed Asset Loan**”; (c) the definition of “**Prime Rate Loan**” set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and all references to the defined term “**Prime Rate Loan**” contained in the Credit Agreement and Loan Documents are hereby deleted in their entirety and replaced with the defined term “**Daily LIBOR Loan**”; and (d) the definition of “**Prime Rate Working Capital Revolver Loan**” set forth in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and all references to the defined term “**Prime Rate Working Capital Revolver Loan**” contained in the Credit Agreement and Loan Documents are hereby deleted in their entirety and replaced with the defined term “**Daily LIBOR Working Capital Revolver Loan**”.

2. Condition of Fixed Asset Loan; Maximum Funding Cap. Section 4.04(g) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“(g) Lenders shall have no obligation to make any Fixed Asset Loan advances which would cause the aggregate amount of all advances of Fixed Asset Loans, plus all advances under the Job Bank Term Loan, plus all advances under the MELF Financing, plus all advances under the PIDC Financing to exceed \$44,000,000 in total, unless and until Agent has received evidence reasonably satisfactory to Agent that fee simple title to the Navy Yard Property has been conveyed to Landlord pursuant to the terms of the PAID Agreement of Sale.”

2.1 **Minimum EBITDA.** Section 6.12(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“(a) **Minimum EBITDA.** Maintain on a consolidated basis EBITDA of at least the amount indicated for each period specified below:

<u>Period</u>	<u>Minimum Amount</u>
From the date hereof through the fiscal quarter ending on or about 09/30/08	\$13,000,000
For the fiscal quarter ending on or about 12/31/08	\$11,275,000
From the fiscal quarter ending on or about 3/31/09 through the fiscal quarter ending on or about 09/30/09	\$15,000,000
From the fiscal quarter ending on or about 12/31/09 through the fiscal quarter ending on or about 09/30/10	\$15,250,000
From the fiscal quarter ending on or about 12/31/10 through the fiscal quarter ending on or about 09/30/11	\$21,000,000
For the fiscal quarter ending on or about 12/31/11 and for all fiscal quarter thereafter	\$25,000,000

The amount will be calculated at the end of each fiscal quarter using the results of the twelve-month period then ended.”

3. **Maximum Operating Leverage Ratio.** Notwithstanding the effective date of this Amendment, effective as of September 27, 2008, Section 6.12(c) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“(c) **Maximum Operating Leverage Ratio.** Maintain on a consolidated basis an Operating Leverage Ratio not exceeding the ratios indicated for each period specified below:

<u>Period</u>	<u>Maximum Ratio</u>
From the date hereof through 12/29/07	3.75 to 1.0
From 12/30/07 through 6/28/08	4.25 to 1.0
From 6/29/08 through 9/28/08	4.90 to 1.0
From 9/29/08 through 12/27/08	6.0 to 1.0
From 12/28/08 through 12/26/09	6.0 to 1.0
From 12/27/09 through 12/25/10	4.75 to 1.0
From 12/26/11 and thereafter	3.75 to 1.0

This ratio will be calculated at the end of each fiscal quarter using the results of the twelve-month period then ended.”

4. **No Prime Rate Loans.** Notwithstanding anything to the contrary set forth in the Loan Agreement, Borrowers shall not request and Lenders shall have no obligation to make or continue any Prime Rate Loans.

5. **Amendment Fee.** As consideration for Agent and Lenders to enter into this Amendment, Borrowers shall pay to Agent, for the account of each Lender in accordance with their respective Applicable Percentages of the Loans, an amendment fee in an amount of \$150,000 (the “**Amendment Fee**”). The Amendment Fee is due and payable in full upon execution of this Amendment. Borrowers agree that the Amendment Fee has been fully earned by Agent and Lenders and is non-refundable.

6. **Other References.** All references in the Credit Agreement and all the Loan Documents to the term “**Loan Documents**” shall mean the Loan Documents as defined therein and this Amendment and any and all other documents executed and delivered by Borrowers pursuant to and in connection herewith.

7. **Covenants and Representations and Warranties.** Borrowers hereby:

7.1 ratify, confirm and agree that the Credit Agreement, as amended by this Amendment, and all other Loan Documents are valid, binding and in full force and effect as of the date of this Amendment, and enforceable in accordance with their terms.

7.2 agree that they have no defense, set-off, counterclaim or challenge against the payment of any sums owed or owing under the Loan Documents or the enforcement of any of the terms of the Loan Documents.

7.3 ratify, confirm and continue all liens, security interests, pledges, rights and remedies granted to Agent for the benefit of Lenders in the Loan Documents and agree that such liens, security interests and pledges shall secure all of the Obligations under the Loan Documents as amended by this Amendment.

7.4 represent and warrant that all representations and warranties in the Loan Documents are true and complete as of the date of this Amendment.

7.5 agree that their failure to comply with or perform any of their covenants or agreements in this Amendment will constitute a Default or an Event of Default under the Loan Documents subject to applicable notice and cure periods set forth in **Section 9.01** of the Credit Agreement.

7.6 represent and warrant that no condition or event exists after taking into account the terms of this Amendment which would constitute a Default or an Event of Default.

7.7 represent and warrant that the execution and delivery of this Amendment by Borrowers and all documents and agreements to be executed and delivered pursuant to this Amendment:

(a) have been duly authorized by all requisite action of Borrowers;

(b) will not conflict with or result in a breach of, or constitute a default (or with the passage of time or the giving of notice or both, will constitute a default) under, any of the terms, conditions, or provisions of any applicable statute, law, rule, regulation or ordinance or any Borrower's Articles of Incorporation or By-Laws or any indenture, mortgage, loan or credit agreement or instrument to which any Borrower is a party or by which it may be bound or affected, or any judgment or order of any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign; and

(c) will not result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Borrowers under the terms or provisions of any such agreement or instrument, except liens in favor of Lenders.

**8. No Novation or Waiver.** Nothing contained herein constitutes a novation of the Credit Agreement or any of the documents collateral thereto and shall not constitute a release, termination or waiver of any of the liens, security interests, rights or remedies granted to Agent and Lenders in the Credit Agreement or any of the other Loan Documents, which liens, security interests, rights or remedies are hereby ratified, confirmed, extended and continued as security for all obligations secured by the Credit Agreement. Nothing contained herein constitutes an agreement or obligation by Agent or Lenders to grant any further amendments to the Credit Agreement or any of the other Loan Documents.

9. **Inconsistencies**. To the extent of any inconsistency between the terms and conditions of this Amendment and the terms and conditions of the Credit Agreement or the other Loan Documents, the terms and conditions of this Amendment shall prevail. All terms and conditions of the Credit Agreement and the other Loan Documents not inconsistent herewith, shall remain in full force and effect and are hereby ratified and confirmed by Borrowers.

10. **Binding Effect**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

11. **No Third Party Beneficiaries**. The rights and benefits of this Amendment and the Loan Documents shall not inure to the benefit of any third party.

12. **Headings**. The headings of the Sections of this Amendment are inserted for convenience only and shall not be deemed to constitute a part of this Amendment.

13. **Severability**. The provisions of this Amendment and all other Loan Documents are deemed to be severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions which shall continue in full force and effect.

14. **Modifications**. No modifications of this Amendment or any of the Loan Documents shall be binding or enforceable unless done in accordance with **Section 11.01** of the Credit Agreement.

15. **Law Governing**. This Amendment has been made, executed and delivered in the Commonwealth of Pennsylvania and will be construed in accordance with and governed by the laws of such Commonwealth, without regard to any rules or principles regarding conflicts of law or any rule or canon of construction which interprets agreements against the draftsman.

16. **Waiver of Right to Trial by Jury**. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

17. **Counterparts; Facsimile Signatures.** This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original without the production of any other counterpart. Any signature delivered via facsimile or other electronic means shall be deemed an original signature hereto.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first above written.

**BORROWERS:**

**TASTY BAKING COMPANY**

By: /s/ Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Vice President & Corporate Treasurer

**TASTYKAKE INVESTMENT COMPANY**

By: /s/ Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**TBC FINANCIAL SERVICES, INC.**

By: /s/ Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**TASTY BAKING OXFORD, INC.**

By: /s/ Eugene P. Malinowski  
Name: Eugene P. Malinowski  
Title: Treasurer

**AGENT:**

**CITIZENS BANK OF PENNSYLVANIA, as**  
Administrative Agent, Collateral Agent and L/C Issuer

By: /s/ W. Anthony Watson  
Name: W. Anthony Watson  
Title: Senior Vice President

**CITIZENS BANK OF PENNSYLVANIA, as Lender**

By: /s/ W. Anthony Watson  
Name: W. Anthony Watson  
Title: Senior Vice President

**BANK OF AMERICA, N.A., as Lender**

By: /s/ Robert Fratta  
Name: Robert Fratta  
Title: Vice President

**SOVEREIGN BANK, as Lender**

By: /s/ Dennis Wasilewski  
Name: Dennis Wasilewski  
Title: Senior Vice President

**MANUFACTURERS AND TRADERS TRUST COMPANY, as Lender**

By: /s/ David W. Mills  
Name: David W. Mills  
Title: Vice President

MACHINERY AND EQUIPMENT LOAN FUND  
LOAN AGREEMENT

THIS LOAN AGREEMENT, MADE this 9th day of September, 2008, effective as of September 9, 2008 (the "Effective Date"), BY AND BETWEEN TASTY BAKING COMPANY, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania and having an address of 3413 Fox Street, Philadelphia, PA 19129 (the "Borrower") and THE COMMONWEALTH OF PENNSYLVANIA, acting by and through the DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, having its principal place of business at Commonwealth Keystone Building, 400 North Street, Fourth Floor, Harrisburg, Pennsylvania 17120 (the "Department").

NOW, THEREFORE, the parties hereto, in consideration of the mutual promises herein contained, and intending to be legally bound hereby, covenant and agree as follows:

ARTICLE I  
DEFINITIONS AND BACKGROUND

Section 1.01. When used herein the following words and phrases shall have the following meanings:

"Act" means Chapter 29 of the Job Enhancement Act, Act of February 12, 2004, No. 12, P.L. 99, codified at 12 P.S. § 2901 et seq.

"Application" means the application for the Loan submitted by the Borrower to the Department, including all attachments and exhibits thereto.

"CERCLA" means The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Collateral" means that certain machinery and equipment the Borrower has purchased or intends to purchase or has upgraded or intends to upgrade for use at the Premises as more fully described at Exhibit "A", which is incorporated herein by reference and made a part hereof .

"Commitment" means the Department's letter of August 21, 2007, setting forth its agreement to make the Loan, and the conditions under which the Loan would be made.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise.

"Cost" or "Costs" means the costs of the purchase and installation of the Collateral.

"Due Inquiry" shall mean that the Borrower, consistent with good commercial or customary practice, has caused to be made by a responsible officer or agent of the Borrower appropriate inquiry among those directors, officers, employees, agents, accountants and attorneys for the Borrower who might reasonably be expected to have knowledge of the particular matter and, when such matter includes the condition of the Collateral, the Premises or other facility, has further undertaken appropriate inquiries into the present and past ownership and uses thereof.

"Eligible Activity" means manufacturing, industrial processes, mining, Production Agriculture, information technology, biotechnology, services as a Medical Facility or other industrial or technology sectors as defined by the Department.

"Environmental Laws" shall mean The Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, The Resource Conservation and Recovery Act of 1976, as amended by the Hazardous and Solid Waste Amendments of 1984, The Clean Water Act, The Toxic Substances Control Act, The Clean Air Act, the Pennsylvania Hazardous Sites Cleanup Act, the Pennsylvania Solid Waste Management Act, the Pennsylvania Storage Tank and Spill Prevention Act, the Pennsylvania Worker and Community Right to Know Act, the Pennsylvania Clean Streams Law, as amended, or any rule or regulation promulgated pursuant to any of the foregoing statutes, or any other applicable law, statute, rule, regulation or ordinance regulating the manufacture, use, possession, discharge or disposal of substances injurious to the natural environment or to human health, whether federal, state or local.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" means those occurrences listed in Section 7.01 herein.

"First Lien" means the lien on the Collateral held by the First Lien Holder to secure \$46,000,000 of the aggregate maximum principal amount of \$100,000,000, as set forth in the Intercreditor Agreement.

"First Lien Holder" means Citizens Bank of Pennsylvania in its capacity as agent for the Senior Lenders as defined in the Intercreditor Agreement and its successors and/or assigns.

"Hazardous Materials", shall include, without limitation, asbestos (including, without limitation, asbestos in friable form), polychlorinated biphenyls, petroleum products, flammable or explosive materials, radioactive materials, hazardous materials, hazardous waste, hazardous or toxic substances or related materials, each as defined under or pursuant to any Environmental Law.

"Indemnified Party" means the Department and its employees and agents, including, without limitation, any engineer or environmental consultant retained by the Department.

"Intercreditor Agreement" means the Intercreditor and Collateral Sharing Agreement effective as of the Effective Date by and among the Department, the First Lien Holder, Philadelphia Industrial Development Corporation and the Borrower.

"Lease" means that certain lease entered into between Borrower and L/S THREE CRESCENT DRIVE, LP, dated June 15, 2007, for office space at temporary address of 3 Crescent Drive (pending final subdivision with the City of Philadelphia) at the Philadelphia Navy Yard in the City of Philadelphia.

"Loan" means a loan in the maximum principal amount of Five Million Dollars (\$5,000,000) to be used exclusively by the Borrower to defray a portion of the Cost not to exceed 50%.

"Loan Documents" means this Loan Agreement, the Note, the Security Agreement, Intercreditor Agreement, the opinions of counsel hereinafter referred to, and all other agreements, instruments and documents to be delivered hereunder.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), or condition (financial or otherwise) of Borrower taken as a whole, (b) a material impairment of the ability of any Borrower to perform its obligations under any Loan Document to which it is a party, or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Borrower of any Loan Document to which it is a party or the rights of the Department thereunder.

"Navy Yard Project" means the Premises and the office facilities leased by Borrower under the Lease and located at the temporary address of 3 Crescent Drive (pending final subdivision with the City of Philadelphia) at the Philadelphia Navy Yard in the City of Philadelphia.

"Note" means the \$5,000,000 promissory note given by the Borrower to the Department, effective as of the Effective Date.

"Obligations" means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any of the Loan Documents, the loan documents executed in connection with any future or past loans or otherwise with respect to any loan, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Borrower of any proceeding under any Bankruptcy Laws naming such Borrower as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"Participation Percentage" means fifty percent (50%).

"Premises" means a tract of land located at the temporary address of 4300 South 26<sup>th</sup> Street (pending final subdivision with the City of Philadelphia) at the Philadelphia Navy Yard in the City of Philadelphia, Philadelphia County, Pennsylvania as described in more detail on Exhibit B.

"Production Agriculture" means the management and use of a normal agricultural operation for the production of a farm commodity.

"Project" means the purchase and installation of new machinery and equipment or the upgrade of existing machinery and equipment that is directly related to the business process.

"Security Documents" means the Security Agreement and financing statements given by the Borrower to the Department which constitutes not less than a shared first lien upon the Collateral with the First Lien Holder, subject to the Intercreditor Agreement.

“UCC” means the Pennsylvania Uniform Commercial Code as codified at 13 Pa.C.S.A. § 9101, et seq.

Section 1.02. The Borrower has purchased or intends to purchase or has upgraded or intends to upgrade certain machinery and equipment for use at the Premises. The Borrower has filed with the Department the Application and accepted from the Department the Commitment for the Loan, to be used exclusively to defray a portion of the Cost. The Department is willing to make the Loan upon the terms and subject to the conditions hereinafter set forth.

ARTICLE II  
THE LOAN

Section 2.01. The Loan. Subject to the conditions set forth herein, the Department agrees to make the Loan to the Borrower, and the Borrower agrees to accept the Loan from the Department, for the purposes set forth in the Application.

ARTICLE III  
THE NOTE AND SECURITY DOCUMENTS

Section 3.01. The Note. The Loan shall be evidenced by the Note, which shall be executed by the Borrower.

Section 3.02. The Security Documents. Payment of the Note and satisfaction of the Obligations shall be secured by a perfected security interest in the Collateral given by the Borrower to the Department under the Security Documents. The Security Documents shall be dated the date of the Note and shall create a perfected first lien upon the Collateral shared only with the First Lien subject to and as set forth in the Intercreditor Agreement and the lien in favor of the Department as security for the \$5,000,000 MELF loan (#26-9-856), which closed on September 6, 2007. At all times until the Obligations have been paid in full, the Borrower agrees that whatever right, title and interest which it and its successors and assigns may have in and to the Collateral shall be, and the same are hereby expressly made subject and subordinate to the lien of the Security Documents and any other judgment, lien or encumbrance pursuant to the Note, the Security Documents or this Loan Agreement.

ARTICLE IV  
REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties to the Department, which shall survive and continue until the Loan is paid in full and all of the Borrower's obligations hereunder have been satisfied:

Section 4.01. Organization. The Borrower is a corporation validly existing and in good standing under the laws of the Commonwealth of Pennsylvania.

Section 4.02. Power and Authority. The Borrower has all necessary power and authority to purchase, own, encumber, and sell its property and to carry on its business as now being conducted, and to carry out the transactions contemplated by the Loan Documents.

Section 4.03. Loan Documents Consistent with Law and Agreements. The execution and delivery of this Agreement and of each of the Loan Documents to be executed and delivered by the Borrower, consummation of the transactions herein contemplated, and compliance with the terms and provisions hereof and of the Loan Documents which Borrower has executed and delivered or to which it is otherwise subject do not (i) contravene any provision of law, statute, rule or regulation to which Borrower is subject or any judgment, decree, franchise, order or permit applicable to the Borrower or (ii) conflict with, or result in, a breach of any of the terms, conditions or provisions of the organizational documents of the Borrower, or of any material agreement, indenture or other instrument to which the Borrower is a party or by which it is bound or to which it or its property is subject.

Section 4.04. Due Authorization. The execution, delivery and performance of this Agreement, the performance of the transactions contemplated by the provisions hereof, and the execution, issuance and delivery of each of the Loan Documents to be executed and delivered by the Borrower hereunder have each been duly authorized by all necessary action on the part of the Borrower.

Section 4.05. Execution and Delivery. This Agreement and each of the Loan Documents being executed and delivered by Borrower concurrently herewith have been duly and validly executed and delivered by the Borrower and constitute valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other substantially similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity.

Section 4.06. Litigation. There is no material litigation or governmental proceeding pending or, to the knowledge of the Borrower, threatened against the Borrower, which if determined adversely, could reasonably be expected to have a Materially Adverse Effect, other than that which has been previously disclosed to the Department in writing. If such litigation or proceeding exists or is threatened, it shall be set forth in Exhibit C attached hereto and made a part hereof.

Section 4.07. Taxes. The Borrower has filed all required federal, state and local tax returns and has paid all taxes shown on such returns as such taxes have become due unless the obligation to file such return or pay such tax is the subject of a pending administrative or judicial appeal or proceeding with respect to which the Borrower has set aside adequate reserves in accordance with GAAP.

Section 4.08. No Default For Borrowed Money. No default with respect to any agreement pursuant to which the Borrower has borrowed money or guaranteed the obligations of others has occurred and is continuing as of the date hereof nor has any such event occurred which with the passage of time and/or giving of notice would constitute such a default.

Section 4.09. Financial Statements and Financial Condition. All financial statements of the Borrower (including all related notes) and all supplementary financial information delivered to the Department fairly present what they purport to present as of the dates and for the respective fiscal periods presented, and were prepared in accordance with generally accepted accounting principles consistently applied, except as disclosed in such financial statements. The Borrower has no material liabilities, direct or indirect, fixed or contingent, as of the date of such financial statements which are not reflected therein. There has been no material adverse change in the financial condition of the Borrower from that disclosed in the most recent annual financial statements delivered to the Department prior to the initial approval of the Loan by the Department.

Section 4.10. Employee Benefits. Any employee pension benefit plans and employee welfare benefit plans, collectively referred to as employee benefit plans, within the meaning of ERISA maintained by the Borrower or any subsidiary of the Borrower comply in all material respects with the reporting and disclosure and fiduciary responsibility provisions of Title I of ERISA.

Section 4.11. Environmental Violations. Any transportation, storage, handling or usage of Hazardous Materials by the Borrower, whether on the Premises or otherwise, has been in compliance with all Environmental Laws. Borrower further represents and warrants that, to the best of its knowledge, no spill, release, discharge, or disposal of Hazardous Materials has occurred on the Premises to date, and that the soil and groundwater on the Premises are free of Hazardous Materials except as disclosed by that certain Phase I Environmental Report relating to the Premises conducted by Dewberry & Davis, LLC, dated January 2007.

Section 4.12. Bankruptcy, etc. The Borrower has not within seven (7) years prior to the date hereof filed any voluntary petition for relief under the U.S. Bankruptcy Code.

Section 4.13. Criminal Convictions. Neither the Borrower nor any owner, director, officer or person employed or engaged by the Borrower in a senior management capacity or as a manager or comptroller, has been convicted by any court of any felony or any misdemeanor involving theft, dishonesty, deception, false swearing, or the filing or submission of any false or misleading information to any agency of government.

Section 4.14. No Consent Required. No consent or approval to the execution and performance of this Agreement and the transactions contemplated hereby not already obtained is required to be obtained by the Borrower from any governmental body, authority, agency, court or other person or entity, public or private, other than the Department.

Section 4.15. No Removal of Jobs. The establishment of the Project by the Borrower at the Premises will not cause the removal of any business operation from one area of Pennsylvania to another area of Pennsylvania.

Section 4.16. Eligible Activity at the Premises. The Borrower engages in an Eligible Activity at the Premises.

ARTICLE V  
BORROWING PROCEDURES AND AGREEMENTS

Section 5.01. Conditions Precedent to All Advances. The obligation of the Department to make the initial advance of the proceeds of the Loan to the Borrower and to make each subsequent advance thereof is subject to the satisfaction of the following conditions precedent at the time of each such advance:

(a) The Borrower has satisfied all conditions set forth in the Commitment, the closing requirements transmitted by the Department's counsel to the Borrower's counsel following issuance of the Commitment have been satisfied; if applicable, the conditions regarding Property Coverage set forth in Section 6.11 of this Agreement have been satisfied; the Loan Documents shall have been properly executed and, where appropriate, delivered to the Department; and the Security Documents and any other document requested to be filed or recorded by the Department shall have been duly acknowledged and delivered for filing or recording in the appropriate public office.

(b) The Borrower shall submit to the Department a bringdown of the UCC searches showing that no new liens have been filed against the Collateral prior to the initial disbursement only.

(c) Each and all of the representations and warranties of the Borrower set forth in Articles IV hereof, and in any of the other Loan Documents, shall be true and correct in all respects, as though separately and independently made on and as of the date of each such advance.

(d) There shall be no event of default under any of the Loan Documents or any event which, with the passage of time or the giving of notice, or both, could constitute an event of default under any of the Loan Documents.

(e) There shall have been no material adverse change in the financial condition of the Borrower from that disclosed in financial statements heretofore delivered to and approved by the Department.

(f) In the event there is any material change in the Project, Department may refuse to make further advances under this Agreement until the matter is resolved to the Department's reasonable satisfaction, whether or not the Department has declared an Event of Default hereunder or such revocation, rescission, suspension, or material adverse effect would comprise an Event of Default hereunder.

The Borrower agrees that by making a request for an advance hereunder, the Borrower shall be deemed to be reconfirming to the Department that all representations and warranties of the Borrower set forth in this Agreement and all related instruments, agreements and documents remain true and correct as of the date of each request.

Section 5.02. Deadline for Requesting Disbursements. Unless otherwise agreed to by the Department, the Borrower shall comply with the conditions stated in Section 5.01, and submit a request or requests to the Department for disbursement of one hundred percent (100%) of the Loan by the end of the twenty-fourth full calendar month following the Effective Date. If the Borrower fails to comply with this deadline the Commitment shall be automatically terminated and no further disbursements will be permitted.

#### ARTICLE VI BORROWER'S COVENANTS

Until the Loan has been entirely repaid and all of Borrower's obligations to the Department in connection therewith and herewith have been satisfied, the Borrower hereby covenants that:

Section 6.01. Use of Proceeds. The Borrower shall use the proceeds of the Loan solely for the purpose of defraying a portion of the Cost.

Section 6.02. Preservation of Existence. The Borrower will (a) maintain and preserve its existence as a corporation and the right to carry on its Eligible Activity at the Premises, and (b) take all reasonable action to maintain all necessary licenses, franchises, permits and other documents necessary or appropriate in connection therewith and all necessary renewals and extensions thereof, provided that failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.03. Debt Secured by Collateral. Without the prior written consent of the Department, the Borrower shall not take any action to cause or permit any lien or encumbrance to be placed against the Collateral or any interest therein, except such liens and encumbrances which replace or refinance the First Lien or except such liens and encumbrances as may be expressly permitted by the Security Documents or the Intercreditor Agreement.

Section 6.04. Nondiscrimination/Sexual Harassment. The Borrower and its subsidiaries will not discriminate against or intimidate any employee or any applicant for employment because of gender, race, creed, or color, in any manner, including but not limited to the following activities: employment; upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Borrower hereby accepts and agrees to be bound by the nondiscrimination/sexual harassment provisions set forth in Exhibit "E" hereto, and will cause comparable nondiscrimination/sexual harassment provisions to be inserted into all Project contracts.

Section 6.05. Filing and Other Costs. The Department may require the Borrower to pay the costs of filing or recording and any other reasonable costs that the Department may incur in connection with closing and administration of the Loan.

Section 6.06. Inspection. Subject to Borrower's rights under the Lease, the Borrower shall provide proper facilities at reasonable times during normal business hours for inspection of the Project before and after completion thereof by the Department and the Department's authorized representatives (including, without limitation, any engineer or environmental consultant retained by the Department), and afford full and free access to the Project and Premises to such persons as may from time to time be designated by the Department.

Section 6.07. Operations and Number of Jobs. The Borrower will retain at the Navy Yard Project no less than 455 jobs and a total of 494 jobs in Pennsylvania within three years from the Effective Date.

(a) A breach by the Borrower of this Section 6.07 shall be an Event of Default under this Loan Agreement. The remedies of the Department for an Event of Default arising solely from a breach by the Borrower of this Section 6.07 are governed by Section 7.03 of this Loan Agreement.

(b) The Department Policy For Failure to Meet Job Projections (the "Department Policy") is incorporated herein by reference and is attached hereto as Exhibit D and the Department may, in compliance with the Department Policy and such other regulations and statements of policy, if any, as are then in effect, raise the rate of interest on the Loan as permitted under the Note.

(c) The Borrower shall be required to meet job projections within the three (3) year period referred to above and shall not be penalized if there is a reduction in the number of jobs once the projections have been achieved even if such reduction occurs within the three (3) year period.

Section 6.08. Certificate re Jobs. The Borrower will annually provide the Department with a certificate executed by an authorized officer setting forth the number of employees, and their respective job classifications (skilled, semi-skilled and unskilled), employed by the Borrower or any subsidiary during the previous year at the Premises, together with such other related information as the Department may reasonably request.

Section 6.09. Employee Benefit Plans. To the extent that the Borrower maintains any employee benefit plans subject to the requirements of ERISA, the Borrower and its subsidiaries shall: (1) fund all of its employee pension benefit plans, to the extent required, in accordance with the minimum funding standards of Section 302 of ERISA and Section 412 of the Internal Revenue Code of 1986 (the "Code"), except where the failure to do so would not have a material adverse effect on the continuing operations of the Borrower; (2) make all payments of contributions to all employee benefit plans within the time periods established in ERISA and the Code, except where the failure to do so would not have a material adverse effect on the continuing operations of the Borrower; (3) furnish the Department, upon its request, with copies of all reports or other statements filed with the United States Department of Labor, the Internal Revenue Service or the Pension Benefit Guaranty Corporation, or any other agencies, whether federal, state, or local, with respect to all employee benefit plans; (4) advise the Department within thirty days of the occurrence of any "reportable event" or "prohibited transaction," within the respective meanings of these terms in ERISA and the Code, with respect to any employee benefit plan to which the Borrower contributes, potentially having a material adverse effect on the continuing operations of the Borrower; (5) promptly advise the Department of any audit or investigation of any employee benefit plans by the Internal Revenue Service or Department of Labor or any other governmental agency or any threatened or proposed action by any such agency affecting the status of, and deductibility of contributions to, any employee benefit plans, potentially having in any such case a material adverse effect on the continuing operations of the Borrower.

Section 6.10. Environmental Compliance. The Borrower shall comply with all Environmental Laws.

Section 6.11. Insurance. Upon installation of the Collateral at the Premises, the Borrower shall provide the Department with evidence that the Borrower and/or the owner of the Premises has the Property Coverage set forth in Section 3 (a) (i) of the Security Agreement. Upon commencement of operations at the Premises, the Borrower shall provide the Department with evidence that the Borrower has obtained the Property Coverage set forth in Section 3 (a) (i) of the Security Agreement. The Borrower shall annually submit to the Department evidence of its compliance with the Department's insurance requirements set forth in the Security Agreement.

Section 6.12. Compliance with Agreements and Laws; Payment of Obligations. The Borrower will act in accordance with all applicable agreements, laws, rules, regulations, orders, judgments, injunctions, decrees, resolutions, permits, franchises, determinations or awards of any administrative or governmental authority or administrative or governmental organization, non-compliance with which could have a Material Adverse Effect. The Borrower will pay and discharge all bills, claims and charges relating to the Project or the Premises, including without limitation claims for taxes and claims of laborers, mechanics and materialmen (collectively, "Project Claims"), prior to the time the holder of any Project Claim lawfully may cause any judgment or writ of execution to be filed or lodged against the Premises as a result of such Project Claim except in such instances in which such Project Claim is being contested in good faith by appropriate proceedings diligently conducted.

Section 6.13. Financial Statements. During the term of the Loan, the Borrower will provide the Department with:

(a) financial statements for the Borrower within one hundred twenty (120) days after the close of each fiscal year including balance sheets, statements of income and reconciliations of equity, in accordance with generally accepted accounting principles, reviewed by an independent certified public accountant satisfactory to the Department, provided that if the Borrower is a corporation subject to the reporting requirements of the Exchange Act, the relevant entity's obligation under this paragraph shall be satisfied by delivery to the Department of the financial statements required to be filed by the Borrower under the Exchange Act in its annual reports;

(b) with reasonable promptness, such other information respecting the business, operations and condition (financial or otherwise) of the Borrower as the Department may from time to time reasonably request, including information relating to the Project; and

(c) with reasonable promptness, after it becomes known to the Borrower, reasonably complete information on material adverse developments which may reasonably be expected to threaten the completion or continued operation of the Project.

The Department will not disclose any confidential information submitted to it by the Borrower pursuant to this Section 6.13 to any third party, except as may be required by applicable law or court order, or to fulfill the requirements of the Act.

Section 6.14. Compliance Certificates. If the Department shall so request, the Borrower will provide the Department with annual Compliance Certificates, executed (in the case of entities other than natural persons) by officers authorized to execute and deliver the same, within 120 days of each fiscal year's end reciting compliance with representations, warranties and covenants.

Section 6.15. Accuracy of Information Supplied. The Borrower will ensure that all information prepared by the Borrower and supplied to the Department or any third party under the provisions of this Agreement for the purpose of any report or certificate to be furnished to the Department in connection with this Agreement or any of the Loan Documents will at the time it is supplied be true and accurate in all material respects, except that (i) financial statements and other statements expressly effective as of a particular date prior to the date when furnished are required only to be true and accurate or (in the case of financial statements) fairly to present what they purport to present, in either case as of the effective date thereof, and (ii) to the extent any such information is based upon or constitutes a forecast, projection or other data which by its nature is uncertain, the Borrower is committed only to act in good faith and utilize due and careful consideration and the best information then known to it in preparing such information. With respect to all information prepared by third parties and supplied by the Borrower to the Department and/or any third party under the provisions hereof for the purpose of any report or certificate to be furnished to the Department in connection with this Agreement or any of the Loan Documents, the Borrower shall deliver a written notice to the Department as soon as possible if it believes that such information is not complete and accurate in all material respects, which written notice shall include the basis for such belief.

Section 6.16. Notice of Defaults. The Borrower will give prompt notice to the Department of the occurrence of any Event of Default under the Loan Documents either on its part, or on the part of the Borrower of which the Borrower becomes aware.

Section 6.17. Further Assurances. The Borrower will make, execute or endorse, and acknowledge and deliver or file, all such vouchers, invoices, notices and certifications and additional agreements, undertakings, conveyances, transfers, assignments, financing statements, continuation statements or further assurances, and take any and all such other actions, as the Department may reasonably deem necessary or advisable from time to time in connection with the Loan or the Loan Documents to assure or confirm to the Department and perfect all or any part of the security for the Loan and any other obligations of the Borrower.

Section 6.18. Indemnification. The Borrower hereby indemnifies and holds harmless the Indemnified Party from and against any and all claims, damages, losses, liabilities, costs or expenses (including all reasonable fees or expenses resulting from the settlement of any claims or liabilities and reasonable attorneys' fees) (collectively, "Indemnified Claims") whatsoever which the Indemnified Party may incur (or which may be claimed against the Indemnified Party by any person or entity whatsoever) by reason of or in connection with (a) the issuance of the Loan, (b) any breach by the Borrower of any representation, warranty, covenant, term or condition in, or the occurrence of any default under, this Agreement or the Loan Documents, and (c) involvement of the Indemnified Party in any legal suit, investigation, proceeding, inquiry or action as a consequence, direct or indirect, of the Department's issuance of the Loan, the Department's or the Borrower's entering into this Agreement or any of the Loan Documents or any other event or transaction contemplated by any of the foregoing; provided, however, that (i) the Indemnified Party shall within sixty (60) days of becoming aware of (A) its actual or potential liability for any Indemnified Claim or (B) the formal assertion against it in writing of any Indemnified Claim, have notified the Borrower in writing of such Indemnified Claim and tendered to the Borrower the defense of such claim; (ii) that no Indemnified Claim shall be paid or compromised without the consent of the Borrower, which shall not unreasonably be withheld, by a notice in writing to the Indemnified Party, to the payment or compromise of such Indemnified Claim within 10 calendar days after the Indemnified Party has given to the Borrower notice of the proposed payment or compromise thereof, and (iii) the Borrower shall not be required to indemnify an Indemnified Party hereunder for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the negligence or willful misconduct of such Indemnified Party.

Except as set forth in subclause (iii) of the immediately preceding paragraph, the liability under this Section 6.18 shall in no way be limited or impaired by (i) any extension of time for performance required by any of the Loan Documents, (ii) any sale, assignment or foreclosure of the Note or any sale or transfer of all or part of the Collateral or the Premises, (iii) the discharge of the Note, (iv) any exculpatory provisions in any of the Loan Documents limiting the Department's recourse to any other security, (v) the accuracy or inaccuracy of the representations and warranties made by the Borrower; (vi) the release of the Borrower or any other person from performance or observance of any of the agreements, covenants, terms or conditions contained in any of the Loan Documents by operation of law, the Department's voluntary act (other than the execution and delivery by the Department of an instrument of release expressly and specifically referring to Borrower's indemnification obligations), or otherwise, (vii) the release or substitution in whole or in part of any security for the Note; or (viii) the Department's failure to file any mortgage or UCC financing statements (or the Department's improper filing of any thereof) or to otherwise perfect, protect, secure or insure any mortgage, security interest or lien given as security for the Note; and, in any such case, whether with or without notice to the Borrower and with or without consideration.

The indemnity provisions contained in this Section 6.18 hereof shall survive any judicial foreclosure, foreclosure by power of sale, deed in lieu of foreclosure, transfer of the property by the Borrower or the Department, and payment of the Loan in full, provided, however, that such indemnity provisions shall at no time accrue to, or be construed to benefit, any other third-party entity (other than an Indemnified Party or a successor in interest or assign of the Department) no matter how such other third-party entity obtains title or any interest in the Project or Premises.

The liability covered by the indemnity provision shall include, but not be limited to, losses sustained by an Indemnified Party for (i) amounts owing under the Loan and the Loan Documents, (ii) amounts arising out of personal injury or death claims, (iii) amounts charged to an Indemnified Party for any environmental or Hazardous Materials clean up costs and expenses, liens, or other such charges or impositions, (iv) payment for fees, court costs, environmental tests and design studies, and (v) any other amounts reasonably expended by an Indemnified Party.

Section 6.19. Payment. The Borrower will make all payments required to be made by it to the Department, at such address as the Department may specify from time to time.

Section 6.20. Negative Covenants.

(a) Without the prior written consent of the Department, the Borrower shall not permit, allow or suffer to exist, any lien or encumbrance to be placed against the Collateral or any interest therein or enter into any agreement requiring, contemplating or providing for placement of any such lien or encumbrance, except (i) liens and encumbrances expressly provided for in the Application and the Intercreditor Agreement and (ii) that the terms of this Section 6.19(a) shall not be deemed to prohibit execution of any note or credit instrument not providing for any specific lien against the Collateral but permitting confession of judgment against the Borrower subsequent to an event of default thereunder so long as judgment is not confessed thereunder.

(b) The Borrower will not change its name without notice to the Department.

(c) Without the prior written consent of the Department, the Borrower shall not merge or consolidate with any other corporation or other entity or dispose of all or any substantial portion of its assets, except in the ordinary course of business, unless the Borrower or the surviving corporation, as the case may be, shall have a tangible net worth (after giving effect to such merger, consolidation or sale of assets) not less than that shown in the most recent audited financial statements for the Borrower, as the case may be, delivered to the Department, and, if a corporation different from the Borrower, shall have expressly assumed the obligations of the Borrower hereunder. Notwithstanding the foregoing, Borrower may merge with a subsidiary without the prior written consent of the Department provided that (i) the Borrower shall survive and (ii) no Event of Default exists or would result from the merger.

(d) Without prior written notice to the Department, the Borrower shall not take any corporate action to permit or facilitate any change in control from that set forth in the Application.

ARTICLE VII  
EVENTS OF DEFAULT

Section 7.01. Events of Default. The following shall each constitute an Event of Default hereunder:

(a) Payment Default. The Borrower shall fail to pay when due any amount payable under any of the Loan Documents and such failure shall continue for a period of thirty (30) days;

(b) False Representation. Any representation, warranty or statement made by the Borrower herein or in the Application or in any of the Loan Documents or in any certificate or financial or other statement furnished pursuant to the provisions of any of the Loan Documents or the Application (except for any representation, warranty or statement expressly made effective as of a date prior to the date when made or furnished), shall have been false or misleading in any material respect when made or deemed made;

(c) Borrower Insolvency. The Borrower shall (i) become insolvent, (ii) admit its inability to pay its debts as they come due, (iii) make an assignment to the benefit of its creditors, (iv) be adjudicated bankrupt or insolvent, (v) voluntarily initiate proceedings under any bankruptcy or reorganization law either now or hereafter in effect, (vi) become the subject of any involuntary proceedings under any bankruptcy or reorganization law either now or hereafter in effect that shall not have been discharged within ninety (90) days of the initiation thereof, or (vii) seek to take advantage of any moratorium law either now or hereafter in effect;

(d) Receiver Appointed. A receiver, liquidator or trustee shall be appointed for the Borrower and shall not have been discharged within ninety (90) days;

(e) Covenant Default. The Borrower shall fail to observe or perform any of the terms, covenants, promises and agreements on the Borrower's part to be observed and performed under this Agreement or under the Note, Security Agreement or any of the other Loan Documents and such failure continues for thirty (30) days after written notice;

(f) Default Under Other Financing. A default in the due and punctual payment of principal or interest or the due and punctual observance or performance of any covenants or agreements on any loan or debt instrument;

(g) Collateral Default. The Collateral is (i) sold, leased, liened or encumbered without the prior written consent of the Department, which consent shall not be unreasonably withheld, except those liens or encumbrances permitted under the Intercreditor Agreement; (ii) the Collateral is seized or levied upon under any legal or governmental process against the Debtor or against the Collateral; (iii) the Collateral is lost, stolen, or moved from the Premises without the consent of the Department, provided that Borrower may dispose of any obsolete or worn-out Collateral, whether now owned or hereinafter acquired in the ordinary course of business; (iv) the Collateral is substantially damaged or destroyed, and such damage is not covered by insurance; or

(h) Change in the Project. The Borrower makes substantial changes to or does not complete the Project as described in the Application, and such changes have a Material Adverse Effect. Notwithstanding the foregoing, if such change affects the eligibility of the Borrower under the Act or the guidelines promulgated by the Department, even if it is not deemed to have a Material Adverse Effect, the change in Project shall be an Event of Default.

Section 7.02. Remedies Upon an Event of Default. Immediately and without further notice to the Borrower, upon the occurrence of an Event of Default, other than an Event of Default, arising solely from a breach by the Borrower of Section 6.07 "Operations and Number of Jobs" pertaining to job creation or retention, the Department, or any subsequent holder of the Note, may, subject to the Intercreditor Agreement, exercise any one or more of the following remedies:

- (a) cease making any further disbursements of advances hereunder;
- (b) declare the Note and interest accrued thereon and all liabilities of the Borrower thereunder to be immediately due and payable, and the same shall thereupon become and be due and payable;
- (c) raise the rate of interest on the Loan as provided in the Note;
- (d) bring an action against the Borrower under the Note; or
- (e) exercise any other remedy available to it under any of the Loan Documents or applicable law, including the Pennsylvania Uniform Commercial Code.

Except as expressly required by the particular Loan Document pursuant to which such remedies are exercised or by applicable law, the Department may exercise any of the foregoing remedies without presentment, demand, protest or notice of any kind to any person (including, without limitation, the Borrower), all of which are hereby expressly and knowingly waived.

Subject solely to the limitation that the Department is limited to one recovery for the aggregate amounts due and owing under the Loan Documents, the Department's remedies under the Loan Documents are cumulative and concurrent and may, in the Department's sole discretion, be exercised, deferred, compromised, settled or discontinued without affecting any other remedy available to the Department under any of the Loan Documents or under applicable law.

Section 7.03. Remedies for Event of Default Arising From Failure to Create or Retain Jobs. Upon the occurrence of an Event of Default arising solely from a breach by the Borrower of Section 6.07 "Number of Jobs" of this Agreement, the Department may, in compliance with such regulations and statements of policy, if any, as are then in effect, raise the rate of interest on the Loan as permitted under the Note.

ARTICLE VIII  
MISCELLANEOUS

Section 8.01. Obligations Unconditional. The obligations to the Department under this Agreement and each of the Loan Documents shall be absolute and unconditional without defense or set-off by reason of any default by the contractors under the contracts relating to the Project or by the Department under this Agreement, any of the Loan Documents, or under any other agreement between the Borrower and the Department, or for any other reason, including without limitation failure to complete the Project, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, or failure of the Department to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement, it being the intention of the parties that the payments required under each of the Loan Documents will be paid in full when due without any delay or diminution whatsoever. Payments and additional sums required to be paid to the Department under any of the Loan Documents shall be received by the Department as net sums and the Borrower agrees to pay or cause to be paid all charges against or which might diminish such net sums. The provisions of this Section shall not impair the ability of the Borrower or any other persons to bring an independent action against the Department with respect to any cause of action such person may have against the Department.

Section 8.02. Provisions Complementary. The provisions of this Agreement shall be in addition to those of any other Loan Document. All of such provisions shall be construed as complementary to each other. Nothing contained herein shall prevent the Department from enforcing any and all of such provisions in accordance with their respective terms.

Section 8.03. Rights and Remedies. The terms of all Loan Documents shall be liberally construed in favor of the Department to effectuate the purposes hereof. No delay or failure on the part of the Department in exercising any right, power or privilege under any of the Loan Documents shall affect such right, power or privilege; nor shall any single or partial exercise thereof or any abandonment, waiver, or discontinuance of steps to enforce such a right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies of the Department under any of the Loan Documents are cumulative and concurrent and not exclusive of any rights or remedies which the Department might otherwise have. The Department shall have the right at all times to enforce the provisions of each of the Loan Documents and all related documentation in strict accordance with the terms hereof and thereof, notwithstanding any conduct or custom on the part of the Department in refraining from so doing at any time or times. The failure of the Department at any time or times to enforce the Department's rights under such provisions, strictly in accordance with the same, shall not be construed as having created a custom in any way or manner contrary to specific provisions of such Loan Documents or any such documentation, or as having in any way or manner modified or waived the same.

Section 8.04. Writing Required. Any permit, consent or approval of any kind or character on the part of the Department under any of the Loan Documents, and any waiver of any provision or condition thereof, must be in writing and executed by the Department and shall be effective only to the extent specifically set forth in such writing.

Section 8.05. Duration of Covenants. All covenants and agreements of the Borrower or any of the Guarantors in any of the Loan Documents, or otherwise made in writing in connection herewith, shall survive and continue until the Loan is entirely paid and all of the obligations of the Borrower hereunder have been entirely satisfied, unless a longer term is expressly provided for, in which event such longer term shall apply.

Section 8.06. Pennsylvania Law to Govern. Each of the Loan Documents shall be deemed to be contracts made under the laws of the Commonwealth of Pennsylvania and, for all purposes, shall be construed in accordance with the laws of such Commonwealth, including its statutes of limitations, but without regard to its rules regarding conflict of laws.

Section 8.07. Counterparts. Each of the Loan Documents may be executed in as many counterparts as may be deemed necessary and convenient and each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. All signatures need not appear on the same copy of any Loan Document.

Section 8.08. Department Project Inspections Solely for the Department's Benefit. It is understood and agreed that, subject to Borrower's rights under the Lease, the Department, its agents, servants, invitees and employees, may inspect the plans and specifications for the Project and enter the Premises and conduct such tests, surveys, examinations and inspections at reasonable times during normal business hours. The Borrower hereby acknowledges and agrees (i) that such project inspections are solely for the protection and benefit of the Department, and (ii) that the Department, its agents, servants, invitees and employees carry no responsibility whatsoever for the Project, its quality or the compliance or lack of compliance with the plans and specifications.

Section 8.09. Setoff. The Borrower agrees that the Commonwealth of Pennsylvania may set off the amount of any state tax liability or other debt of the Borrower or its subsidiaries that is owed to the Commonwealth and not being contested on appeal against any payments due the Borrower under this or any other contract with the Commonwealth.

Section 8.10. Contractor Responsibility. Included in and made a part of this Agreement is Exhibit "F", a clause pertaining to Contractor Responsibility.

Section 8.11. Contractor Integrity. The Borrower represents, warrants and covenants that it currently has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of its obligations hereunder as set forth in Exhibit "G", attached hereto and made a part hereof.

Section 8.12. Americans with Disabilities Act. Included in and made a part of this Agreement is Exhibit "H", a clause pertaining to compliance with the Americans with Disabilities Act.

Section 8.13. Successors and Assigns. This Agreement and each of the Loan Documents shall inure to the benefit of, and shall be binding upon, the respective successors and assigns of the Department and the Borrower. Although the Department has no present intention to convey, pledge or otherwise assign its rights under the Loan Documents, it may nevertheless do so in whole or in part without notice to any person (including, without limitation, the Borrower). The Borrower has no right to assign any of its rights or obligations hereunder or under any of the Loan Documents without the prior written consent of the Department, and any such assignment without the prior written consent of the Department shall be void. The Borrower and the Department intend that no person except Borrower shall have any claim or interest under this Agreement or right of action hereunder.

Section 8.14. Notices. Notices required hereunder, or any correspondence concerning this Agreement shall be directed to the following addresses and shall be deemed properly given (a) if delivered by hand, (b) if sent by certified mail, return receipt requested, postage prepaid, or by recognized overnight courier service (including, without limitation, Federal Express or United Parcel Service overnight service), charges prepaid; or (c) if sent by facsimile, with a copy sent by first class U.S. Mail, postage prepaid.

To the Department:

Department of Community and Economic Development  
Commonwealth Keystone Building  
400 North Street, Fourth Floor  
Harrisburg, PA 17120  
FAX: (717) 772-2890  
Attention: Machinery and Equipment Loan Fund

To Borrower:  
Tasty Baking Company  
3413 Fox Street  
Philadelphia, PA 19129  
Attention: President and CEO

With a copy to:  
Linda Ann Galante, Esquire  
Stradley Ronon Stevens & Young, LLP  
2600 One Commerce Square  
Philadelphia, PA 19103-7098

Notices and communications hereunder shall be deemed sufficiently given when dispatched pursuant to the foregoing provisions. Notices and communications delivered by hand shall be effective upon receipt; notices and communications sent by fax, with a copy by first class U.S. Mail, shall be effective upon dispatch provided they are dispatched between 9:00 a.m. and 5:00 p.m. on a business day; notices and communications sent by recognized overnight courier service shall be effective on the business day following dispatch; and notices sent by certified mail shall be effective on the third business day following dispatch. The parties hereto may, by a notice given hereunder, designate any further or different addresses to which any subsequent notice or communication hereunder shall be sent.

Section 8.15. Severability. If any provision hereof or of the Loan Documents is found by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction, it shall be ineffective as to such jurisdiction only to the extent of such prohibition or unenforceability, and such prohibition or unenforceability shall not invalidate the balance of such provision as to such jurisdiction to the extent it is not prohibited or unenforceable, nor invalidate such provision in any other jurisdiction, nor invalidate the other provisions of the Loan Documents, all of which shall be liberally construed in favor of the Department in order to effect the provisions of this Agreement. Notwithstanding anything to the contrary herein contained, the total liability of the Borrower for payment of interest pursuant hereto shall not exceed the maximum amount, if any, of such interest permitted by applicable law to be contracted for, charged or received, and if any payments by the Borrower to the Department include interest in excess of such a maximum amount, the Department shall apply such excess to the reduction of the unpaid principal amount due pursuant hereto, or if none is due, such excess shall be refunded to the Borrower or the Borrower, as appropriate; provided that, to the extent permitted by applicable law, in the event the interest is not collected, is applied to principal or is refunded pursuant to this sentence and interest thereafter payable pursuant hereto shall be less than such maximum amount, then such interest thereafter so payable shall be increased up to such maximum amount to the extent necessary to recover the amount of interest, if any, theretofore uncollected, applied to principal or refunded pursuant to this sentence. Any such application or refund shall not cure or waive any Event of Default. In determining whether or not any interest payable under the Loan Documents exceeds the highest rate permitted by law, any nonprincipal payment (except payments specifically stated to be "interest") shall be deemed, to the extent permitted by applicable law, to be an expense, fee, premium or penalty rather than interest.

Section 8.16. Consent to Jurisdiction. The Borrower hereby irrevocably (a) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or the Loan Documents may be brought in any federal or state court located in the county wherein the Project is located and consents to the jurisdiction of such court in any such suit, action or proceeding, and (b) waives any objection it may have to the laying of venue of any such suit, action or proceeding in any such court and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Borrower hereby irrevocably consents to the service of any and all process in any such suit, action or proceeding by mailing of copies of such process to the Borrower at its address provided under or pursuant to Section 8.14. The Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. All mailings under this section shall be by certified or registered mail, return receipt requested. Nothing in this section shall affect the right of the Department to serve legal process in any other manner permitted by law or affect the right of the Department to bring any suit, action or proceeding against the Borrower or its property in the courts of any other jurisdiction.

Section 8.17. Defined Terms. In each of the Loan Documents, unless otherwise indicated, (i) defined terms may be used in the singular or the plural and the use of any gender includes all genders, (ii) the words, "hereof", "herein", "hereto", "hereby" and "hereunder" refer to the particular Loan Document in which they occur in such document's entirety, (iii) the term, the "Loan Documents", and the words, "thereof", "therein", "thereto", "thereby" and "thereunder" refer to all the Loan Documents, taken together as a whole, (iv) all references to particular Articles, Sections or Paragraphs are references to the particular Article, Section or Paragraph of the particular Loan Document in which such references occur, and (v) the Borrower shall be referred to as Contractor in the Exhibits hereto.

Section 8.18. Incorporation by Reference. All exhibits to this Agreement and the terms of all Loan Documents shall be incorporated herein by reference as though expressly set forth herein. The Borrower agrees to be bound as the "Contractor" under the provisions of the exhibits to this Agreement.

Section 8.19. Descriptive Headings. Descriptive headings of the several Articles and Sections of each of the Loan Documents are intended for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 8.20. Further Assurances. The Borrower from time to time, shall execute such further instruments as the Department may reasonably request to further confirm and assure the interests and rights created or intended to be created in favor of the Department hereunder or under the Loan Documents.

Section 8.21. Complete Agreement. The Loan Documents constitute the entire agreement between the Department and the Borrower with respect to the Project and the Loan. The Loan Documents supersede and replace all prior agreements related to the subject matter thereof including, without limitation, the Commitment, except to the extent such prior agreements are expressly incorporated by reference or otherwise referred to. This Agreement may be modified or amended only by a written instrument duly executed by the Department and the Borrower. Each of the remaining Loan Documents may be modified only by a written instrument duly executed by the Department and the remaining parties to the particular Loan Document.

*[Signatures on Following Page.]*

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Page 28 of 40*

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*[Remainder of Page Intentionally Left Blank.]*

WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMMONWEALTH OF PENNSYLVANIA,  
acting by and through the DEPARTMENT OF  
COMMUNITY AND ECONOMIC  
DEVELOPMENT

\_\_\_\_\_  
Deputy Secretary

ATTEST:

TASTY BAKING COMPANY

By: \_\_\_\_\_  
Charles P. Pizzi, President & CEO

EXHIBIT "A"

COLLATERAL

All "Equipment" as such term is defined in the UCC, now owned or hereinafter acquired by the Borrower located at the Premises, including all of Borrower's machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment, including embedded software and peripheral equipment and all engineering, processing, and manufacturing equipment, office machinery, furniture, materials handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles, rolling stock and other equipment of every kind and nature, all fixtures as such term is defined in the UCC, together with all additions and accessions thereto, replacements therefore, all substitutes for any of the foregoing, fuel therefore and all manuals, drawings, instructions, warranties and rights with respect thereto and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

EXHIBIT "B"

The Premises

ALL that certain lot, piece or parcel of land, now or formerly of Liberty Property Trust, situated in Philadelphia, Pennsylvania known as the Tasty Baking Property - Phase I as shown as Lease parcel 3B on a plan titled Lease Exhibit A, prepared by Pennoni Associates Inc., dated May 8, 2007, and being more particularly described, by PENNONI ASSOCIATES INC., as follows, to wit:

BEGINNING at a point at the northwesterly corner of Lease Parcel 33, said point being distant the following nine (9) courses and distances from the northeasterly corner of Parcel 3, now or formerly of Liberty Property Trust, to wit: North 76° 37' 07" West, 199.40' to a point, thence continuing; South 50° 08' 54" West, 851.14' to a point, thence continuing; North 75° 57' 30" West, 72.56' to a point, thence continuing; South 32° 49' 05" East, 329.48' to a point, thence continuing; North 57° 10' 55" East, 10.00' to a point, thence continuing; South 32° 49' 05" East, 129.39' to a point, thence continuing; South 01 ° 56' 00" East, 122.66' to a point, thence continuing; South 10° 26' 00" East, 240.69' to a point, thence continuing; South 12° 14' 00" West, 79.33' to the point of beginning, thence by a new line for Lease Parcel 3B the following six (6) courses and distances, as follows, to wit:

- 1) North 70° 44' 07" East, 560.36' to a point, thence;
- 2) North 73° 38' 25" East, 11.37' to a point in the bed of an existing cartway, thence by the bed of said existing cartway the following three (3) courses and distances;
- 3) southeasterly 569.53 along the arc of a curve to the left having a radius 1,567.66' (chord being South 20° 44'47" East, 566.41') to a point of reverse curve, thence continuing;
- 4) southeasterly 247.47 along the arc of a curve to the right having a radius 625.00' (chord being South 19° 48'39" East, 245.86') to a point of tangency, thence continuing;
- 5) South 08° 28'03" East, 435.80' to a point, said point being a new common corner with Parcel 2, thence by a new common line with Parcel 2;
- 6) South 80° 52' 06" West, 1,160.33' to a point, said point being a common corner with Parcel 2 and lands now or formerly of Pier Hays Terminal, thence by the common line with said lands now or formerly of Pier Hays Terminal and lands now or formerly of Consolidated Rail Corporation, in part;
- 7) North 12° 14' 00" East, 1,215.71' to the point and place of beginning. Containing 23.9142 acres of land, more or less.

EXHIBIT "C"

LITIGATION

1. In November 1998, nine (9) independent route sales distributors (collectively, "Plaintiffs"), on behalf of all present and former route sales distributors, commenced suit against Tasty Baking Company ("TBC") seeking recovery from TBC of amounts (i) which the sales distributors paid in the past to the Internal Revenue Service on account of employment taxes, and (ii) collected by TBC since January 1, 1998, as an administrative fee from all unincorporated sales distributors. TBC removed the action to the United States District Court for the Eastern District of Pennsylvania and was successful in having the action dismissed with prejudice as to all federal causes of action on March 29, 1999.

Subsequently, Plaintiffs commenced a new suit in Common Pleas Court for Philadelphia County, Pennsylvania, asserting state law claims seeking damages for (1) the alleged erroneous treatment of the sales distributors as independent contractors by TBC such that the sales distributors were required to pay self-employment, social security and federal unemployment taxes which they allege should have been paid by TBC, and (2) for alleged breach of contract relating to the collection of an administrative fee from all unincorporated sales distributors. The Court dismissed with prejudice Plaintiffs' first claim in March 2000. As to the second claim, in January 2002, the Court certified a class of approximately 200 sales distributors, consisting of unincorporated sales distributors who, since February 7, 1998, have paid or continue to pay the administrative fee to TBC. On July 30, 2006, the court granted TBC's motion for summary judgment on the second claim.

On August 29, 2006, the Plaintiffs appealed the decisions on each of the claims to the Pennsylvania Superior Court. On November 19, 2007, the Superior Court affirmed the lower court's decision in TBC's favor. Since no further appeal was filed, TBC believes this matter is fully resolved.

2. In February of 2006, the U.S. Department of Labor ("DOL") notified the Borrower that it was commencing an investigation of the sale in December, 2005 by the Tasty Baking Company Pension Plan (the "Plan") to the Borrower of the Hunting Park Avenue bakery property owned by the Plan since 1960. In essence, the investigation related to whether the Borrower adhered to the conditions of a prohibited transaction exemption issued to the Borrower in 1984 by the DOL which permitted the Plan to lease the bakery property to the Borrower and which gave the Borrower the right to purchase the property from the Plan provided it paid the greater of the fair market value or the value in use of the property. In accordance with an appraisal of the property by Binswanger as of November 30, 2005, the Borrower paid the Plan the greater of the fair market value or the value in use of the property. On September 25, 2007, the DOL informed the Borrower that the DOL's limited review had concluded and that no further action by the DOL was contemplated.

EXHIBIT "D"

CRITERIA FOR FAILURE TO MEET JOB PROJECTIONS

**Criteria for Penalty Waiver:**

The following four criteria will be evaluated to determine if a valid explanation exists for failing to meet employment projections. If the Department determines that a company has provided adequate justification that one of the factors below led to its failure to meet projections, no penalty will be imposed. The criteria are: **(1) Natural Disaster, (2) Industry Trend, (3) Labor Force and (4) Loss of Major Supplier.**

**Detailed Explanation of Above Criteria**

If a company fails to meet its projections because of any of the following four reasons, no penalty will be levied:

- (1) Natural Disaster.** A company will not be held responsible for failing to attain employment projections if a natural disaster such as a fire, flood, hurricanes or tornado strikes the business.
- (2) Industry Trend.** If a company can demonstrate to the satisfaction of the Department that the industry in which the company does a majority of its business suffered a sales or revenue decline of at least 10%, the company will not be held responsible for failing to attain employment projections. The following points will be considered:
- (i) Burden of proof resides with the company. The company must provide documentation from industry sources or other verifiable documentation to prove the overall industry sales or revenue decline. Statistical comparisons must be for a period of no less than one year and must be from within the project term.
  - (ii) The company must also provide a narrative explaining the business in which it operates, and how the industry downturn impacted its business operations.
  - (iii) If the company does business in more than one industry, the company must provide evidence that its overall business was dramatically impacted by the failure of its business within the declining industry.
- (3) Labor Force** If a company can demonstrate to the satisfaction of the department that there was a lack of an available labor pool, the company will not be held responsible for failure to attain employment projections. This demonstration must take the following into consideration:
- (i) The unemployment rate of the county in which the project is located does not in itself signify the absence of available labor, particularly for low skilled jobs; however, if the company requires skilled workers, or those with scarce skills, this factor could constitute sufficient demonstration.
  - (ii) A company will not be deemed to have experienced lack of an available labor pool if the wages offered by the company are below average. In this instance, the burden of proof shall be on the company to demonstrate that it pays employees the average wage based on the industry-wide average for a particular region. Staff research utilizing average wage data supplied by the Department of Labor and Industry will be used to determine the validity of this explanation.
- (4) Loss of a Major Supplier** If the failure of a company to attain employment projections is the result of a loss of a major supplier, the company will not be held responsible for failing to attain employment projections.
- (i) Burden of proof resides with the company. The company must provide financial/accounting proof that the supplier accounted for at least 25% of its business.
  - (ii) The company must also provide a narrative outlining its dependence on this supplier, and any attempts that were made to secure a new supplier.

**90% Guideline:**

If a company fails to retain the full job requirement, but achieves at least 90% of the job retention requirement, the Department will take into consideration other criteria including the quality of the jobs retained, the economic condition of the area, the strategic importance of the industry to the Commonwealth and other pertinent criteria, as determined by the Department.

EXHIBIT "E"

NONDISCRIMINATION CLAUSE

During the term of this contract, the Contractor agree as follows:

1. The Contractor shall not discriminate against any employe, applicant for employment, independent contractor or any other person because of race, color, religious creed, ancestry, national origin, age or sex. The Contractor shall take affirmative action to insure that applicants are employed, and that employes or agents are treated during employment, without regard to their race, color, religious creed, ancestry, national origin, age or sex. Such affirmative action shall include, but is not limited to: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training. The Contractor shall post in conspicuous places, available to employes, agents, applicants for employment and other persons, a notice to be provided by the contracting agency setting forth the provisions of this nondiscrimination clause.

2. The Contractor shall in advertisements or requests for employment placed by it or on its behalf, state that all qualified applicants will receive consideration for employment without regard to race, color, religious creed, ancestry, national origin, age, or sex.

3. The Contractor shall send each labor union or workers' representative with which they have a collective bargaining agreement or other contract or understanding, a notice advising said labor union or workers' representative of their commitment to this nondiscrimination clause. Similar notice shall be sent to every other source of recruitment regularly utilized by the Contractor.

4. It shall be no defense to a finding of noncompliance with this nondiscrimination clause that the Contractor had delegated some of its employment practices to any union, training program or other source of recruitment which prevents it from meeting its obligations. However, if the evidence indicates that the Contractor was not on notice of the third-party discrimination or made a good faith effort to correct it, such factor shall be considered in mitigation in determining appropriate sanctions.

5. Where the practices of a union or of any training program or other source of recruitment will result in the exclusion of minority group persons, so that the Contractor will be unable to meet its obligations under this nondiscrimination clause, the Contractor shall then employ and fill vacancies through other nondiscriminatory employment procedures.

6. The Contractor shall comply with all state and federal laws prohibiting discrimination in hiring or employment opportunities. In the event of the Contractor's noncompliance with the nondiscrimination clause of this contract or with any such laws, this contract may be terminated or suspended, in whole or in part, and the Contractor may be declared temporarily ineligible for further Commonwealth contracts, and other sanctions may be imposed and remedies invoked.

7. The Contractor shall furnish all necessary employment documents and records to, and permit access to its books, records and accounts by, the contracting agency and the Office of Administration, Bureau of Affirmative Action, for purposes of investigation to ascertain compliance with the provisions of this clause. If the Contractor does not possess documents or records reflecting the necessary information requested, it shall furnish such information on reporting forms supplied by the contracting agency or the Bureau of Affirmative Action.

8. The Contractor shall actively recruit minority subcontractors or subcontractors with substantial minority representation among its employes.

9. The Contractor shall include the provisions of this nondiscrimination clause in every subcontract, so that such provisions will be binding upon each subcontractor.

10. The Contractor obligations under this clause are limited to the Contractor's facilities within Pennsylvania or, where the contract is for purchase of goods manufactured outside of Pennsylvania, the facilities at which such goods are actually produced.

EXHIBIT "F"

CONTRACTOR RESPONSIBILITY PROVISIONS

1. The Contractor certifies that it is not currently under suspension or debarment by the Commonwealth, any other state, or the federal government, and if the Contractor cannot so certify, then it agrees to submit along with the bid/proposal a written explanation of why such certification cannot be made.

2. If the Contractor enters into any subcontracts or employs under this contract any subcontractors/individuals who are currently suspended or debarred by the Commonwealth or the federal government or who become suspended or debarred by the Commonwealth or federal government during the term of this contract or any extensions or renewals thereof, the Commonwealth shall have the right to require the Contractor to terminate such subcontracts or employment.

3. The Contractor agrees to reimburse the Commonwealth for the reasonable costs of investigation incurred by the Office of Inspector General for investigations of the Contractor's compliance with terms of this or any other agreement between the Contractor and the Commonwealth which result in the suspension or debarment of the Contractor. Such costs shall include, but not be limited to, salaries of investigators, including overtime; travel and lodging expenses; and expert witness and documentary fees. The Contractor shall not be responsible for investigative costs for investigations which do not result in the Contractor's suspension or debarment.

4. The Contractor may obtain the current list of suspended and debarred contractors by contacting the:

Department of General Services  
Office of Chief Counsel  
603 North Office Building  
Harrisburg, PA 17125  
Telephone No. (717) 783-6472  
Fax No. (717) 787-9138

EXHIBIT "G"

CONTRACTOR INTEGRITY PROVISIONS

1. Definitions.

a. Confidential information means information that is not public knowledge, or available to the public on request, disclosure of which would give an unfair, unethical, or illegal advantage to another desiring to contract with the Commonwealth.

b. Consent means written permission signed by a duly authorized officer or employee of the Commonwealth, provided that where the material facts have been disclosed, in writing, by prequalification, bid, proposal, or contractual terms, the Commonwealth shall be deemed to have consented by virtue of execution of this Agreement.

c. Commonwealth means the Commonwealth of Pennsylvania Acting by and Through its Department of Community and Economic Development and any agencies and instrumentalities of the Commonwealth of Pennsylvania for which the Department of Community and Economic Development provides staff services (including without limitation the Pennsylvania Industrial Development Authority, Pennsylvania Economic Development Financing Authority, Pennsylvania Energy Development Authority, and Pennsylvania Minority Business Development Authority).

d. Contractor means the individual or entity that has entered into an agreement with the Commonwealth, assumed the obligations of another to repay moneys to the Commonwealth, or is the intended beneficiary of, and has knowingly received benefits under, an agreement between the Commonwealth and a financial intermediary or educational institution, including directors, officers, partners, managers, key employees, and owners of more than a 5% interest.

e. Financial Interest means:

(1) ownership of more than a 5% interest in any business; or

(2) holding a position as an officer, director, trustee, partner, employee, or the like, or holding any position of management.

f. Gratuity means any payment of more than nominal monetary value in the form of cash, travel, entertainment, gifts, meals, lodging, loans, subscriptions, advances, deposits of money, services, employment, or contracts of any kind.

2. The Contractor shall take no action in violation of state or federal laws, regulations, or other requirements that govern contracting with the Commonwealth.

3. The Contractor shall not, in connection with this or any other agreement with the Commonwealth, directly or indirectly offer, confer, or agree to confer any pecuniary benefit on anyone as consideration for the decision, opinion, recommendation, vote, other exercise of discretion, or violation of a known legal duty by any officer or employee of the Commonwealth.

4. The Contractor shall not, in connection with this or any other agreement with the Commonwealth, directly or indirectly offer, give, or agree or promise to give to anyone any gratuity for the benefit of or at the direction or request of any officer or employee of the Commonwealth.

5. Except with the consent of the Commonwealth, the Contractor shall not have a financial interest in any other contractor, subcontractor, or supplier providing services, labor, or material on this project.

6. The Contractor, upon being informed that any violation of these provisions has occurred or may occur, shall immediately notify the Commonwealth in writing.

7. The Contractor, by execution of this Agreement and by the submission of any bills or invoices for payment pursuant thereto, certifies and represents that he has not violated any of these provisions.

8. The Contractor, upon the inquiry or request of the Inspector General of the Commonwealth or any of that official's agents or representatives, shall provide, or if appropriate, make promptly available for inspection or copying, any information of any type or form relevant to the Contractor's compliance with this Agreement (including without limitation these provisions relating to Contractor integrity). Such information shall be retained by the Contractor for a period of three years beyond the termination of the contract unless provided by law.

9. For violation of any of the above provisions, the Commonwealth may declare an event of default hereunder, subject to applicable notice and cure provisions, and debar and suspend the Contractor from doing business with the Commonwealth, including without limitation participation in its financial assistance programs. These rights and remedies are cumulative, and the use or nonuse of any one shall not preclude the use of all or any other. These rights and remedies are in addition to those the Commonwealth may have under law, statute, regulation, or otherwise.

EXHIBIT "H"

AMERICANS WITH DISABILITIES ACT PROVISIONS

During the term of this contract, the Contractor agrees as follows:

1. Pursuant to federal regulations promulgated under the authority of The Americans With Disabilities Act, 28 C.F.R. § 35.101 et seq., the Contractor understands and agrees that no individual with a disability shall, on the basis of the disability, be excluded from participation in this contract or from activities provided for under this contract. As a condition of accepting and executing this contract, the Contractor agrees to comply with the "General Prohibitions Against Discrimination," 28 C.F.R. § 35.130, and all other regulations promulgated under Title II of The Americans With Disabilities Act which are applicable to the benefits, services, programs, and activities provided by the Commonwealth of Pennsylvania through contracts with outside contractors.

2. The Contractor shall be responsible for and agrees to indemnify and hold harmless the Commonwealth of Pennsylvania from all losses, damages, expenses, claims, demands, suits, and actions brought by any party against the Commonwealth of Pennsylvania as a result of the Contractor's failure to comply with the provisions of paragraph 1 above.

3. "Contractor" means the individual or entity that has entered into this Agreement with the Commonwealth.

**Certification by the Chief Executive Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Charles P. Pizzi, President and Chief Executive Officer of Tasty Baking Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tasty Baking Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2008

/s/ Charles P. Pizzi

Charles P. Pizzi  
President and  
Chief Executive Officer

**Certification by the Chief Financial Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Paul D. Ridder, Senior Vice President and Chief Financial Officer of Tasty Baking Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tasty Baking Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2008

/s/ Paul D. Ridder

Paul D. Ridder  
Senior Vice President and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION  
906 OF THE SARBANES-OXLEY ACT OF 2002**

To my knowledge, this Quarterly Report on Form 10-Q for the quarter ended September 27, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in this Report fairly represents, in all material respects, the financial condition and results of operations of Tasty Baking Company. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the company specifically incorporates it by reference.

By: /s/ Charles P. Pizzi  
Charles P. Pizzi  
President and  
Chief Executive Officer

By: /s/ Paul D. Ridder  
Paul D. Ridder  
Senior Vice President and  
Chief Financial Officer

Date: November 4, 2008