

TASTY BAKING CO
Form 10-K
March 12, 2008

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

FORM 10-K

(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 29, 2007 (52 weeks)
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission File Number 1-5084

TASTY BAKING COMPANY
(Exact name of Company as specified in its charter)

Pennsylvania 23-1145880
(State of Incorporation) (IRS Employer Identification Number)

2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129
(Address of principal executive offices including Zip Code)
215-221-8500
(Company's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.50 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company"

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in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="radio"/>	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

The aggregate market value of common stock held by non-affiliates as of June 29, 2007, is \$72,537,341 (computed by reference to the closing price on the NASDAQ Global Market on June 29, 2007).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of March 4, 2008.

Class	Outstanding
Common Stock, par value \$.50	8,263,746 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document

The registrant has incorporated by reference in Part III of this report on Form 10-K portions of the registrant's definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on May 2, 2008, which is expected to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's last fiscal year.

TASTY BAKING COMPANY AND SUBSIDIARIES
PART I

Item 1. Business

The Company was incorporated in Pennsylvania in 1914 and maintains its principal offices and manufacturing facility in Philadelphia, Pennsylvania. The Company manufactures, co-packages and sells a variety of premium single portion cakes, pies, donuts, snack bars, pretzels, and brownies under the well-established trademark, TASTYKAKE®. These products are comprised of approximately 100 varieties. The availability of some products, especially the holiday-themed offerings, varies according to the season. The single portion cakes, snack bars and donuts principally sell at retail prices for individual packages ranging from \$0.50 to \$1.39 per package and family convenience packages at \$3.69. The individual pies include various fruit and cream-filled varieties and, at certain times of the year, additional seasonal varieties. The best known products with the widest sales acceptance are sponge cakes marketed under the trademarks JUNIORS® and KRIMPETS®, and chocolate enrobed cakes under KANDY KAKES®. The Company produces a line of sugar-free single portion cakes and snack bars under the name TASTYKAKE Sensables® which are sold at retail prices ranging from \$0.50 for single serve to \$3.99 for family convenience packages.

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

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. The lease will commence upon the later of substantial completion of the office space or April 2009, and will end at the same time as the new bakery lease.

Tasty Baking Oxford, Inc., a wholly-owned subsidiary of the Company, located in Oxford, Pennsylvania, currently manufactures honey buns, donuts, mini donuts and donut holes under the trademark TASTYKAKE®. Oxford also manufactures several products, which are distributed under private labels.

The Company's products are sold principally by independent sales distributors through distribution routes to approximately 15,500 retail outlets in Delaware, Maryland, New Jersey, New York, Ohio, Pennsylvania and Virginia, which make up the Company's primary target market. This method of distribution for direct store deliveries via independent sales distributors has been used since 1986. The Company sells products to approximately 427 independent sales distributors that service route sales areas. The Company also distributes its products through distributorships and major grocery chains which have centralized warehouse distribution capabilities throughout the continental United States and Puerto Rico via third party distributorships. The Company has formed alliances with third party distributors in New York, Florida, Virginia, Georgia and New England that can warehouse and distribute the Company product lines most effectively in both fresh and frozen forms. The Company also distributes its products through the www.tastykake.com program, whereby consumers can call a toll-free number or visit the Company's website to order a variety of Tastykake gift packs for delivery to homes and businesses.

For 2007, the Company's top 20 customers represented 57.7% of its net sales and its largest customer, Wal-Mart, represented 18.4% of its net sales. This relationship has been reasonably consistent over the prior two years. If any of the top twenty customers change their buying patterns with the Company, the Company's sales and profits could be adversely affected.

The Company conducts marketing programs that utilize radio and television advertising, outdoor billboard campaigns, newspaper free standing inserts, consumer coupons, and public relations. In 2007, the Company utilized television advertising for the first time in many years.

The Company is engaged in a highly competitive business, specializing in premium snack cakes and pies. Although the number of competitors varies among marketing areas, certain competitors are national companies with multiple production facilities, nationwide distribution systems and significant advertising and promotion budgets. The Company is able to maintain a strong competitive position in many areas within its primary target market through the quality of its products and brand name recognition. In these areas, the Company has a strong market share.

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Outside of its principal marketing area, awareness of the Company's trademarks and reputation is not as strong and the Company's market share is generally less significant. In these markets, the Company competes for limited shelf space available from retailers, leveraging product quality, price promotions and consumer acceptance. The Company has been able to grow sales outside of its principal marketing area primarily through the distribution of its products using mass merchandisers and third party distributors.

The Company's principal competitor in the premium snack cake market is George Weston Foods, which competes on price, product quality and brand name recognition in the multi-serve and single-serve baked goods market under the brand name of Entenmann's. They compete primarily in the United States east of the Mississippi River. Another competitor is Interstate Bakeries Corporation ("Interstate") which owns three major brands in this category – Hostess, Dolly Madison and Drakes. Interstate is a large publicly held corporation that has achieved national recognition of its Hostess brand name through extensive advertising. Interstate filed for Chapter 11 Bankruptcy protection in 2004 and has remained in Chapter 11 through March 2008. McKee Foods Corporation, a large privately held company, competes in the snack cake market under the brand name Little Debbie, primarily selling lower priced snack cakes. Little Debbie holds the largest share of the snack cake market in the United States. Local independent bakers also compete in a number of regional markets. In addition, there are national food companies that are expanding their snack product offerings in the Company's category. Many large food companies advertise and promote single-serve packages of their traditional multi-serve cookie and sweet and salty snack varieties and compete against the Company for a portion of the overall snack market.

The Company is dependent upon sweeteners, eggs, oils and flour for its ingredients. The market prices for sweeteners could be volatile during 2008; however, the Company has recently entered into a fixed price arrangement for sweeteners that covers a significant majority of the Company's needs beyond the end of 2008. Eggs, which the Company purchases in the spot market, experienced significant price increases during 2007 due to higher costs associated with corn based ingredients used in feed and are also expected to be volatile in 2008. Flour pricing was under significant pressure in the second half of 2007 and is expected to continue to be volatile in 2008 due to supply issues, strong exports and the potential for adverse weather conditions. Increased demand along with the continuing increase in alternative fuels, such as bio-diesel and ethanol, combined with supply shortages caused a significant increase in soybean oil during 2007, which is expected to continue into 2008.

The Company's policies with respect to working capital items are not unique. Finished goods inventory is generally maintained at levels sufficient for one to two weeks of sales while packaging and ingredient inventory levels are generally maintained to support eight weeks of sales, depending on product seasonality. Changes in suppliers and new product launches are two reasons why inventory levels may change but these changes are normally short-term in nature. The ratio of current assets to current liabilities is generally maintained at a level between 1.5 and 1.9 to 1 and was at 1.8 to 1 at December 29, 2007.

The Company believes that its brand trademarks such as "TASTYKAKE®" and "Sensables®" and product trademarks such as "KRIMPETS®," "KREAMIES®," "JUNIORS®," and "KANDY KAKES®" are of material importance to the Company's strategy of brand building. The Company takes appropriate action from time to time against third parties to prevent infringement of its trademarks and other intellectual property. The Company also enters into confidentiality agreements from time to time with employees and third parties as necessary to protect formulas and processes used in producing its products.

The Company engages in continuous research and development activities at its Philadelphia location related to new products as well as to the improvement and maintenance of existing products. These initiatives are designed to drive top-line growth and improve the Company's cost position. In the past two years these expenditures have not been material.

The Company's plants are subject to inspection by the Food and Drug Administration and various other governmental agencies, and its products must comply with regulations under the Federal Food, Drug and Cosmetic Act and with various comparable state statutes regulating the manufacturing and marketing of food products. The Company's enterprise resource planning ("ERP") system enables the establishment and maintenance of records in compliance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

The Company has historically made investments based on compliance with environmental laws and regulations. These expenditures have not been material with respect to the Company's capital expenditures, earnings or competitive position.

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As of March 1, 2008, the Company employed approximately 878 persons, including 89 part-time employees, and approximately 64 maintenance employees that are covered by a labor agreement that was ratified in June of 2006 and expires in May 2009. In addition, as of March 1, 2008 the Company also retained the services of approximately 101 contract staff at its Philadelphia operations.

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to the Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are made available free of charge through the Company's website the same day as they are made available on the Securities and Exchange Commission's ("SEC") website. These reports are available by going to the Company's website at www.tastycake.com, under the "Investors, Annual Reports, SEC Filings -SEC Website" captions. See the first paragraph of Item 7 below regarding the use of forward-looking statements contained herein.

The Corporate Governance Guidelines, Code of Business Conduct and charters for the Audit Committee, Compensation Committee, Strategic Planning Committee, and Nominating and Corporate Governance Committee are available on the Company's website at www.tastycake.com, under the "Investors, Corporate Governance" headings or are available upon written request directed to the Secretary of the Company at 2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129.

The Company will also post to its website any amendments to the Code of Business Conduct, or a waiver from the provisions of the Code of Business Conduct relating to the Company's principal executive officers or directors. Waivers will be located under "Investors, Corporate Governance, Code of Business Conduct-Waivers."

Item 1A. Risk Factors

The risks described below, together with all of the other information included in this report, should be carefully considered in evaluating our business and prospects. Additional information regarding various risks and uncertainties facing us are included under Item 7 of this report on Form 10-K. Solely for purposes of the risk factors in this Item 1A, the terms "we," "our," and "us" refer to Tasty Baking Company and its subsidiaries. The risks and uncertainties described herein are not the only ones facing us. Additional risks and uncertainties not presently known or deemed insignificant may also impair our business operations. The occurrence of any of the following risks could harm our business, financial condition or results of operations.

Increased Competition May Impair Profitability

We are engaged in a highly competitive business. The number of choices facing the consumer on how to spend snack food dollars has increased significantly over the last several years, particularly with the introduction of more convenient packaging of traditional products, both sweet and salty. Although the number of competitors varies among marketing areas, certain competitors are national companies with multiple production facilities, nationwide distribution systems, and nationally recognized brands with large advertising and promotion budgets. From time to time, we experience price pressure in certain of our markets as a result of competitors' promotional pricing practices. Increased competition could result in lower sales, profits and market share.

Change in Top Customers' Buying Patterns May Adversely Affect Our Sales and Profits

Our top twenty customers represented 57.7% of our 2007 net sales and 56.7% of our 2006 net sales. Our largest customer, Wal-Mart, represented 18.4% of our net sales in 2007 and 2006. If any of the top twenty customers change their buying patterns with us, our sales and profits could be adversely affected.

Increased Commodity Prices May Impact Profitability

We are dependent upon sweeteners, eggs, oils, and flour for our ingredients. Many commodity prices have been volatile and continue to be volatile. Further substantial increases in commodity prices may have an adverse impact on our profitability.

Change in Consumer Preferences May Adversely Affect Our Financial and Operational Results

Our success is contingent upon our ability to forecast the tastes and preferences of consumers and offer products that appeal to their preferences. Consumer preference changes due to taste, nutritional content or other factors, and the Company's failure to anticipate, identify or react to these changes could result in reduced demand for our products, which could adversely affect our financial and operational results. The current consumer focus on wellness may affect demand for our products. We continue to explore the development of new products that appeal to consumer preference trends while maintaining our product quality standards.

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Collectibility of Long-term Receivables May Adversely Affect Our Financial Position

Our long-term receivables represent loans issued to our independent sales distributors for the purchase of route territories and delivery vehicles. These loans are issued through a wholly-owned subsidiary, TBC Financial Services, Inc. Current lending guidelines require significant collateral to minimize our risk in the event of default by an independent sales distributor and our loss history has been minimal. The ability to collect the entire loan portfolio, however, is directly related to the success of our current route distribution system and the independent sales distributor's ability to repay the loan, which is directly related to the economic success of the route. In addition, any external event or circumstance that impacts the independent sales distributors may also affect the collectibility of long-term receivables.

Our Brand Recognition May Not Extend Beyond Our Core Market

Historically, route sales by independent sales distributors have accounted for the largest part of our revenues. Prior to 2003 as we expanded outside of our core Mid-Atlantic route market, the percentage of volume began to shift toward more non-route business, causing some erosion of our gross margin. We continue to evaluate existing and new business possibilities outside the core market utilizing third party distributors. We also sell products through distributorships and major grocery chains that have centralized warehouse distribution capabilities throughout the continental United States and Puerto Rico. If we are unable to further develop brand recognition in the expanded markets, sales and profitability could be adversely affected.

Limited Product Shelf Life May Adversely Affect Sales Potential

Our products have limited shelf life. Production planning and monitoring of demand is essential to effective operations, both to fulfill customer demand and to minimize the levels of inventory and returns. Delays in getting products to market for any reason, including transportation disruptions or bad weather, may cause loss of sales, which could adversely affect our operating results.

Product Recall or Safety Concerns May Adversely Affect Our Financial and Operational Results

We may recall certain of our products should they be mislabeled, contaminated, damaged or if there is a perceived safety issue. A perceived safety issue, product recall or an adverse result in any related litigation could have a material adverse effect on our operations, financial condition and financial results.

Loss of Facilities Could Adversely Affect Our Financial and Operational Results

We have two production facilities: one each in Philadelphia and Oxford, Pennsylvania. The Philadelphia facility is a multi-storied manufacturing facility where our signature products are exclusively manufactured. The Oxford facility is a single-story manufacturing facility with expansion possibilities. Our data processing operations are located in our Fox Street building in Philadelphia with off-site data backup. The loss of either production facility or the facility housing the data processing operation could have an adverse impact on our operations, financial condition and results of operations.

Indebtedness Incurred in Connection with Our Strategic Manufacturing Initiative Could Adversely Affect Our Financial and Operational Results

On May 9, 2007 we announced that we had entered into agreements to relocate our Philadelphia operations. Higher levels of indebtedness associated with this initiative could increase our vulnerability to general adverse economic and industry conditions; limit our flexibility in planning for and reacting to changes in our business and the industry in which we operate; and require that we use a larger portion of our cash flow to pay principal and interest, thereby

reducing availability of cash to fund working capital, capital expenditures and other operating needs.

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The Inability to Successfully Implement Our Strategic Manufacturing Initiative Could Adversely Affect Our Financial and Operational Results

We are dependent upon third parties to construct the new facility and to deliver the high-tech, modern baking equipment. Unanticipated delays in the completion of the facility or delivery of new equipment could substantially increase the costs and ultimately the indebtedness associated with the initiative. Unexpected increases in equipment or installation costs could also substantially increase the indebtedness associated with the initiative. Unfavorable deviations from expected equipment performance or unforeseen difficulties associated with transitioning to a new facility could significantly increase the costs of future production. Such unanticipated delays, cost increases or unfavorable deviations in equipment performance could also restrict the Company's ability to increase revenues and profitability as well as have an adverse impact on our financial condition and results of operations.

A Change in Interest Rates May Adversely Affect Our Financial and Operational Results

Increases in interest rates will increase our recognition of interest expense related to long-term debt and the interest income related to our long-term receivables. A decrease in interest rates used to set the pension discount rate could increase pension liability and adversely impact the relationship of our unrecognized gain or loss to the pension corridor. A sensitivity analysis on the impact of this relationship is included under Note 10 of the consolidated financial statements, included in Item 8 below.

Terms of Indebtedness Impose Significant Restrictions on Our Business

Our bank credit facility, PIDC Local Development Corporation credit facility and the Machinery and Equipment Loan Fund loan with the Commonwealth of Pennsylvania (the "Agreements") contain various covenants that limit our ability to, among other things, incur or become liable for additional indebtedness; create or suffer to exist certain liens; enter into business combinations or asset sale transactions; make restricted payments, including dividends over a specified amount; make investments; enter into transactions with affiliates; and enter into new businesses.

These restrictions could limit our ability to obtain future financing, sell assets, make acquisitions or needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. The Agreements also require us to maintain certain financial ratios. Our ability to remain in compliance with our financial ratio requirements in the future could be affected by events beyond our control, such as general economic conditions, a significant increase in the cost of our raw materials or a material increase in our pension or post-retirement obligations. Failure to maintain any applicable financial ratios may prevent us from borrowing additional amounts under our bank credit facility and could result in a default under the Agreements, which could cause the indebtedness outstanding under the Agreements to become immediately due and payable if the appropriate waiver could not be obtained by the Company. If we were unable to repay those amounts, our banks could initiate a bankruptcy or liquidation proceeding. If the banks were to accelerate the repayment of all outstanding borrowings under the Agreements, we may not have sufficient assets to repay those amounts and any others that default as a result thereof.

In addition, if we amend our Agreements or seek a waiver for any events of default, we may incur additional fees and/or higher interest rates on all or a portion of our outstanding borrowings.

Changes in Governmental Laws and Regulations Could Adversely Affect Our Financial and Operational Results

Our business is subject to regulation by various federal, state and local government entities and agencies, including regulation of our products, properties, employees, distribution and overall operations. Changes in laws and regulations and the manner in which they are interpreted or applied may alter the environment in which we operate and may affect results of operations or increase liabilities. These include changes in food and drug laws, laws related to advertising

and marketing practices, accounting standards, taxation requirements, competition laws, employment laws and environmental laws.

Litigation Could Adversely Affect Our Financial and Operational Results

We are involved in certain legal and regulatory actions, all of which have arisen in the ordinary course of our business. We are unable to predict the outcome of these matters, but do not believe that the ultimate resolution of these matters will have a material adverse effect on our consolidated financial position or results of operations. However, if one or more of these matters were determined adversely to us, the ultimate liability arising therefrom could be material to our financial condition and results of operations. In addition, we may become subject to additional litigation at any time which could have an adverse material impact on us.

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Changes in Pension Expense Assumptions and Estimates May Adversely Affect Our Operational Results

Accounting for pension expense requires the use of estimates and assumptions including discount rate, rate of return on plan assets, compensation increases, mortality and employee turnover, all of which affect the amount of expense recognized by us. In addition, the rate of return on plan assets is directly related to changes in the equity and credit markets, which can be volatile. The use of the above assumptions, market volatility and our election in 1987 to recognize all pension gains and losses in excess of our pension corridor in the current year, may cause us to experience significant changes in our pension expense from year to year, which could adversely affect our operating results. Most other public companies elected an amortization method that allows recognition of pension gains and losses to be amortized over longer periods of time, up to 15 years.

Increases in Employee and Employee-Related Costs Could Adversely Affect Our Financial and Operational Results

Health care and other employee-related costs may continue to rise and any substantial increase in costs may have an adverse impact on our profitability. In addition, a shortage of qualified employees, a substantial increase in the cost of qualified employees, or any adverse affect resulting from third-party labor negotiations could have an adverse affect on our operations and financial results.

Loss or Impairment of Intellectual Property and Trade Secrets Could Adversely Affect Our Brands and Our Business

We have taken efforts to protect our trademarks, copyrights and trade secrets as we consider our intellectual property rights important to our success. However, other parties may take actions or, without authority, make use of our intellectual property that could impair the value of our proprietary rights or the reputation of our brands. Any such impairment could adversely affect our business.

Changes in Economic Conditions Could Adversely Affect Our Financial and Operational Results

Our business may be adversely affected by changes in economic and business conditions nationally and particularly within our core market. In addition, the business strategies implemented by management to meet these business conditions and other market challenges may have a significant impact upon our future financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The locations and primary use of the materially important physical properties owned by the Company and its subsidiaries are as follows:

Location	Primary Facility Use
2801 Hunting Park Avenue Philadelphia, PA	Certain Corporate Offices, Production of cakes, pies, snack bars and donuts
3413 Fox Street Philadelphia, PA	Executive, Sales and Finance Offices, Data Processing Operations, Office Services, Warehouse, Shipping and Distribution Operations

700 Lincoln Street
Oxford, PA

Tasty Baking Oxford Offices,
Production of honey buns, cake, mini donuts and donut holes

These properties are encumbered by a shared first priority lien under the Company's bank credit facility and PIDC Local Development Corporation credit facility.

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In addition, the Company leases various other properties used principally as local pick-up and sales distribution points. 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. This agreement provides for a 26-year lease for a yet to be constructed 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Site preparation has begun and construction is expected to be completed by the end of 2009. The company expects the new facility to be fully operational in 2010. This Facility is expected to replace the Company's current manufacturing facility located at 2801 Hunting Park Avenue, Philadelphia, and also accommodate the Company's current distribution operations taking place at 3413 Fox Street, Philadelphia.

The Company also entered into an agreement to relocate its corporate headquarters, currently located at 3413 Fox Street, Philadelphia, PA, to the Philadelphia Navy Yard. This lease agreement provides for not less than 35,000 square feet of office space that commences upon the later of substantial completion of the office space or April 2009, and will end at the same time as the new bakery lease.

Item 3. Legal Proceedings

In November 1998, nine (9) independent route sales distributors (Plaintiffs), on behalf of all present and former route sales distributors, commenced suit against the Company seeking recovery from the Company 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 the Company since January 1, 1998, as an administrative fee from all unincorporated sales distributors. The Company 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 the Company 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 the Company, 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 the Company. On July 30, 2006, the court granted the Company'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 the Company's favor. Since no further appeal was filed, the Company believes this matter is fully resolved.

The Company is also involved in certain other legal and regulatory actions, all of which have arisen in the ordinary course of the Company's business. The Company is unable to predict the outcome of these matters, but does not believe that the ultimate resolution of such matters will have a material adverse effect on the consolidated financial position or results of operations of the company. However, if one or more of such matters were determined adversely to the Company, the ultimate liability arising therefrom is not expected to be material to the financial position of the Company, but could be material to its results of operations in any quarter or annual period.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

TASTY BAKING COMPANY AND SUBSIDIARIES
PART II

Item 5. Market for the Company's Common Equity and Related Shareholder Matters

Summarized quarterly market prices per share for the Company's common stock for 2007 and 2006 are as follows:

	First	Second	Third	Fourth	Year
2007					
Market prices:					
High	9.39	10.56	11.51	10.22	11.51
Low	8.06	8.05	9.59	8.02	8.02
Cash Dividends	.05	.05	.05	.05	.20
2006					
Market prices:					
High	8.29	9.75	9.97	9.75	9.97
Low	6.95	7.46	6.97	8.49	6.95
Cash Dividends	.05	.05	.05	.05	.20

Each quarter consisted of 13 weeks. The market prices of the Company's common stock reflect the high and low sales price by quarter as traded on the NASDAQ Global Market (formerly the NASDAQ National Market). The approximate number of holders of record of the Company's common stock (par value \$ 0.50 per share) as of February 11, 2008, was 2,212.

Dividends

The declaration and payment of dividends is subject to the discretion of the Company's Board of Directors ("Board"). The Board bases its decisions regarding dividends on, among other things, general business conditions, the Company's financial results, contractual, legal and regulatory restrictions regarding dividend payments and any other factors the Board may consider relevant. Under the terms of the Company's credit agreement with its banks, the Company is permitted to pay annual dividends not exceeding the excess of the Company's tangible net worth over the adjusted net worth as defined.

Item 6. Selected Financial Data

Not Applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

(\$'s in 000's, share, per share amounts and square footage unless otherwise noted)

All disclosures are pre-tax, unless otherwise noted

Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K, including but not limited to those under the headings "Business," "Risk Factors," "Legal Proceedings" 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 such words 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 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, loss of one or both of the Company's production facilities, availability of capital, fluctuation in interest rates, pension expense and related assumptions, changes in long-term corporate bond rates or asset returns that could effect the recognition of 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 directly above and under "Risk Factors." Readers are strongly encouraged to consider these factors when evaluating any such forward-looking statements. There can be no assurance that the Company's new manufacturing strategy 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.

Critical Accounting Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require that management make numerous estimates and assumptions. Actual results could differ from those estimates and assumptions, impacting the Company's reported results of operations and financial position. Certain accounting estimates, however, are considered to be critical in that (i) they are most important to the depiction of the financial condition and results of operations of the Company and (ii) their application requires management's most subjective judgment in making estimates about the effect of matters that are inherently uncertain. The Company's significant accounting policies are more fully described in Note

1 to the Company's audited consolidated financial statements in this Annual Report on Form 10-K.

Customer Sales and Discounts and Allowances

The Company gives allowances and offers various sales incentive programs to customers and consumers that are accounted for as a reduction of sales. The Company records estimated reductions to sales for:

- Price promotion discounts at the time the product purchased by the independent sales distributor is sold to the customer
- Distributor discounts at the time revenue is recognized
 - Coupon expense at the estimated redemption rate
 - Customer rebates at the time revenue is recognized
- Cooperative advertising at the time the Company's obligation to the customer is incurred
 - Product returns received from independent sales distributors

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Price promotion discount expense is recorded when the related product being discounted is sold by the independent sales distributor to the customer. The amount of the price promotion is captured when the independent sales distributor sells product to the customer. The price promotion discount is based upon actual discounts per case using an approved price promotion calendar. Any increase or decrease in volume may result in variations to price discounts recorded each month. Independent sales distributors receive a purchase discount equal to a percentage of the wholesale price of product sold to customers, adjusted for price promotions and product returns. Direct customers receive a purchase discount equal to a percentage of the wholesale price of product received. Discounts to distributors and customers are based on agreed upon rates, and amounts vary based upon volume.

Coupon expense estimates are calculated using the number of coupons dropped to consumers and the estimated redemption percentage. The estimated redemption percentages are based on data obtained from the company's third-party coupon processor, and its experience with similar coupon drops. Upon monthly receipt of the actual coupon redemption report, the coupon expense is updated based upon actual coupon activity as well as changes in the forecasted redemption percentage as estimated by the third-party coupon processor.

Estimates for customer rebates assume that customers will meet the required quantities to qualify for payment. If the customers fall above or below the estimate as the year progresses, this could impact the estimate.

Cooperative advertising expense is recorded based on the estimated advertising cost of the underlying program.

Product returns are recorded as product is returned to the Company. At quarter and year-end, an estimated reserve for product returns is recorded based upon sales in the last month of the quarter or year and historical return experience. Actual returns may vary from this estimate.

Some customers take unauthorized deductions when they make payments to the Company. Unauthorized deductions are taken by customers for various reasons, including, but not limited to missing or damaged product. It is the Company's policy to establish a reserve for each unauthorized deduction at the time it is taken by the customer. The reserve is maintained until such time as the Company can determine the validity of the deduction. If it is ultimately determined after investigation that a deduction is not valid, the customer is charged back and the reserve is reversed.

Since the Company obtains updated information on every discount and allowance account each month, the risk that estimates are not properly recorded is generally limited to a percentage of one month's activity. The average monthly amount of discounts and allowances was approximately \$8.5 million in 2007. Historically, actual discounts and allowances have not varied significantly from estimates. Total discounts and allowances were 37.6% of gross sales in 2007. This percentage is consistent with prior years and is a significant percentage of gross sales since all price discounts given to both independent sales distributors and third-party distributors are reflected as reductions to gross sales.

Provision for Doubtful Accounts

The Company aggressively pursues collection of accounts receivable balances. The Company performs ongoing credit evaluations of customers' financial condition and makes quarterly estimates of its ability to collect its accounts receivable balances. When evaluating the adequacy of the allowance for doubtful accounts, management specifically analyzes accounts receivable trends and historical bad debts, customer concentrations, customer credit worthiness, levels of customer deductions, current economic trends and changes in customer payment terms. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The provision for doubtful accounts is recorded as a selling, general and administrative expense. The allowance for doubtful accounts has three components. The first component is a reserve against all accounts receivable balances

based on the last five years of write-off experience for the Company. The second component is for specific trade customer accounts receivable balances from customers whose ability to pay is in question, such as customers who file for bankruptcy while they have an outstanding balance due the Company. The third component is a reserve against any breached independent sales distributor accounts receivable balances that are not adequately covered by the independent sales distributor's equity in the route territory. Although the total allowance for doubtful accounts reflects the estimated risk for all customer balances, if any one of our top twenty customers' accounts receivable balances became fully uncollectible, it would have a material impact on our consolidated statement of operations and would negatively impact cash flow.

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Long-lived Asset Impairment

In accordance with SFAS No.144, long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In instances where the carrying amount may not be recoverable, the review for potential impairment utilizes estimates and assumptions of future cash flows directly related to the asset. Cash flow estimates are typically derived from the Company's historical experience and internal business plans.

For assets where there is no plan for future use, the review for impairment includes estimates and assumptions of the fair market value of the asset, which is based on the best information available. The Company uses market prices, when available, and independent appraisals as appropriate to determine fair value. These assets are recorded at the lower of their book value or market value. Adverse changes in future market conditions could result in losses or an inability to recover the carrying value of an affected asset. For assets which are expected to be disposed of through abandonment before the end of their previously estimated useful life, depreciation estimates are revised to reflect the shortened useful life.

Pension and Postretirement Plans

Accounting for pensions and postretirement benefit plans requires the use of estimates and assumptions regarding numerous factors, including discount rate, rate of return on plan assets, compensation increases, health care cost increases, and mortality and employee turnover. A sensitivity analysis for pensions is included in Note 10 and a sensitivity analysis for postretirement benefits other than pensions is included in Note 12 to the Company's audited consolidated financial statements in this Annual Report on Form 10-K. Licensed independent actuaries perform these required calculations to determine liability and expense in accordance with the accounting principles generally accepted in the United States of America. In addition, the Company may experience significant changes in its pension expense from year to year because of its election in 1987 to immediately recognize all pension gains and losses in excess of its pension corridor in the year that they occur. For comparative purposes, this is relevant because most other public companies use an amortization method that allows recognition of pension gains and losses to be amortized over longer periods of time, up to 15 years. Also, the final determination of the gains and losses that could potentially exceed the corridor is not known until the last day of the year, which makes it difficult to estimate. The combination of low interest rates and low or negative rates of return on plan assets can cause higher levels of pension expense; conversely, high interest rates and high rates of return on assets could result in higher levels of pension income. Market conditions where interest rates and asset returns move inversely relative to each other, in most instances, cause the Company to have pension expense or income within its allowable pension corridor. Actual results may differ from the Company's assumptions and may impact the liability and expense amounts reported for pensions and postretirement benefits. During 2007 long-term corporate bond rates stayed flat and overall pension asset returns were below the 8.0% assumption. In addition, the discount rate increased from 5.90% at the end of 2006 to 6.25% at the end of 2007. Further, the other post-retirement benefits ("OPEB") discount rate increased from 5.80% to 6.20% at the end of 2007. There were no gains or losses in excess of the pension corridor for 2007 or 2006.

With the implementation of Medicare Part D in January 2006, the Company no longer provides medical benefits for most of its post-65 retirees. In addition, incumbent retirees pay age-based rates for life insurance benefits in excess of \$20. As a result of these benefit changes, the projected benefit obligation was remeasured and the Company recognized a reduction in its OPEB liability of approximately \$10,000 that will be amortized over future periods. In 2007, the Company recognized the amortization of this liability in a reduction of pre-tax OPEB of \$1,013. This is primarily a non-cash benefit.

Workers' Compensation Expense

Accounting for workers' compensation expense requires the use of estimates and assumptions regarding numerous factors, including the ultimate severity of injuries, the timeliness of reporting injuries, and health care cost increases. The Company insures for workers' compensation liabilities under a large deductible program where losses are incurred by the Company up to certain specific and aggregate amounts. Accruals for claims under the large deductible insurance program are recorded as claims are incurred. The Company estimates the liability based on total incurred claims and paid claims, adjusted by loss development factors that account for the development of losses over time. Loss development factors are based on prior loss experience and on the age of incurred claims, and are reviewed by a third-party claim loss specialist. The Company's estimated liability is the difference between the amounts we expect to pay and the amounts we have already paid for those years, adjusted for the limits on the aggregate amounts and discounted to present value. The Company evaluates the estimated liability on a continuing basis and adjusts it accordingly. Included in the estimate of liability is an estimate for expected changes in inflation and health care costs.

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If there were to be an excessive number of workers' compensation claims in a given accounting period and these actual results varied from the Company's assumptions, these could have a material impact on our cash flow and consolidated statement of operations.

Income Tax Valuation

During the year, the Company records income tax expense and liabilities based on estimates of book and tax income, and current tax rates. These estimates could vary in the future due to uncertainties in Company profits, new laws, new interpretations of existing laws, and rulings by taxing authorities. Differences between actual results and our assumptions, or changes in our assumptions in future periods, are recorded in the period they become known.

The Company has recorded a deferred income tax asset for the benefit of federal and state income tax loss carryforwards ("NOLs"). These carryforwards expire in varying amounts between 2010 and 2027. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes that it is more likely than not that the deferred tax assets will be realized. However, the amount realized could be reduced if estimates of future taxable income during the carryforward period are not achieved.

Results of Operations

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

All disclosures are pre-tax, unless otherwise noted.

Percentages may not calculate due to rounding.

The following table sets forth the percentage relationships to gross sales of certain items in the Company's consolidated statements of operations:

	52 Weeks Ended Dec. 29, 2007	52 Weeks Ended Dec. 30, 2006
Gross sales	100.0%	100.0%
Discounts and allowances	37.6	37.4
Net sales	62.4	62.6
Costs, expenses and other		
Cost of sales	39.8	38.6
Depreciation	3.6	2.5
Selling, general & administrative expenses	17.7	19.5
Gain on termination of option	-	(.6)
Other income, net	(.3)	(.4)
Interest expense	.5	.6
Income before provision for income taxes	1.0	2.5
Provision for income taxes	.3	.9
Net income	.8	1.6

Overview

Net income for the fiscal year ended December 29, 2007, was \$2,128 or \$0.26 per fully diluted share. Net income for 2007 included \$2.1 million, or \$0.26 per common share, of incremental depreciation, after-tax, 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. The change in estimated useful lives resulted from the Company's plan to move from its present Philadelphia facilities. Net income for the fiscal year ended December 30, 2006 was \$4,196 or \$0.51 per fully-diluted

share. Net income for 2006 included \$1.0 million or \$0.12 per common share of after-tax income from the termination of a real estate option on the Company's corporate offices and distribution center.

Sales

Gross sales increased 1.6% in 2007 as compared to 2006 based on a sales volume increase of 0.4%. The increase in Route gross sales was driven by the growth in Family Pack Cake and sugar-free Sensables line. In addition, Route gross sales benefited from higher product prices for Family Pack Cake and Donuts as compared to 2006. Partially offsetting the growth in Routes was the decrease in Non-route sales. Non-route sales declined primarily due to the Company's largest Non-route customer reducing warehouse inventory levels and offering fewer promotional events during the fourth quarter of 2007. Net sales increased 1.3% in 2007 compared to 2006, due to the impact of higher gross sales, partially offset by a 2.2% increase in promotional spending, resulting primarily from changes in product mix. Route net sales increased 1.8% while Non-route net sales declined 0.4%.

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Cost of Sales

Cost of sales, excluding depreciation, increased 4.7% in fiscal 2007 as compared to fiscal 2006. This was caused by a 10.1% increase in per case variable manufacturing costs, partially offset by a 6.8% reduction in fixed manufacturing costs. The increase in variable manufacturing cost was primarily due to increased ingredient costs, including eggs, grains and oils, while the reduction in fixed manufacturing costs was due to favorable changes in compensation and other employee related costs, the full benefits of which are not expected to recur in future periods.

Gross Margin

For fiscal 2007, gross margin declined 4.0 percentage points to 30.4% of net sales from 34.4% of net sales in fiscal 2006. Increased ingredient and packaging costs accounted for 4.1 percentage points of decline, while incremental depreciation resulting from the change in useful lives of certain assets at the Company's Philadelphia bakery accounted for approximately 2.0 percentage points of decline. Offsetting this were reductions in fixed manufacturing costs, as well as the benefit of selling price increases.

Selling, General and Administrative Expenses

Selling, general and administrative expenses declined by \$3,853 or 7.4% to \$48,285 in fiscal 2007 as compared to \$52,138 in fiscal 2006. This reduction was primarily attributable to lower employee related costs due in part to changes in the Company's vacation plans, which resulted in a benefit of approximately \$1.0 million, as well as \$0.8 million in benefit from state franchise tax credits that were generated by certain of the Company's charitable contributions in 2007 and prior years.

Depreciation

Depreciation expense increased 51.0% to \$9,917 in fiscal 2007, from \$6,566 in fiscal 2006. The increase was due to a change in the useful lives of certain assets at the Philadelphia operation which will not be relocated to the new facility. The Company expects that the impact of the incremental depreciation resulting from the change in useful lives will be approximately \$5.2 million annually through June 2010, when the new facility is expected to be fully operational.

Other Items

In July 2006, the Company received \$1,600 in cash from Keystone Redevelopment Partners, LLC ("Keystone") in consideration for granting Keystone an option to acquire the Company's Fox Street property on which its corporate offices and a distribution center are located. On December 26, 2006, the Company received notification from Keystone that it would not exercise its option. Based upon the termination notice, the Company recorded pre-tax gain of \$1,600 during the fourth quarter of 2006.

Other income, net, decreased slightly to \$900 in fiscal 2007 from \$936 in fiscal 2006.

Interest expense declined by \$70 in fiscal 2007 as compared to fiscal 2006, due primarily to favorable changes in interest rates.

The effective tax rates for fiscal 2007 and fiscal 2006 were 24.7% and 36.2% of income before provision for income taxes, respectively. These rates compare to a federal statutory rate of 34.0%. In the fourth quarter of 2007, the Company recorded a favorable income tax expense adjustment of \$386 related to fiscal 2006, which was not material to 2006 or 2007. This adjustment is discussed in more detail in Note 16 to the Company's audited consolidated financial statements in this Annual Report on Form 10-K.

Liquidity and Capital Resources

Current assets at December 29, 2007 were \$30,984 compared to \$29,161 at December 30, 2006, and current liabilities at December 29, 2007 were \$16,954 compared to \$19,791 at December 30, 2006. The change in current assets was primarily driven by an increase in accounts receivable resulting from the timing of collections. In fiscal 2007 current liabilities decreased \$2,837 driven primarily by the change in the Company's vacation benefit plan.

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On May 9, 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. This agreement provides for a 26-year lease for a yet to be constructed 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres which the Company expects 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 \$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. The lease will commence upon the later of substantial completion of the office space or April 2009, and will end at the same time as 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 will increase 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 December 29, 2007 the outstanding letter of credit under this arrangement totaled \$1.1 million.

In addition to the facility leases, the Company expects to purchase 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 million through 2010. In September 2007, 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 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.

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 and MELF Loan as defined below, and utilizes certain capital and operating leases. Contractual obligations arising under these arrangements and related commitment expirations are detailed below in Notes 6 through 8 to the Company's audited consolidated financial statements.

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 million secured credit facility, consisting of a \$55 million fixed asset line of credit, a \$35 million working capital revolver and a \$10 million low-interest loan from the agent bank in partnership 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 funded debt 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 include 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 million low-interest loan is at a fixed rate of 5.5% per annum.

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On September 6, 2007, the Company entered into a 10 year, \$12 million secured credit agreement with the PIDC Local Development Corporation (“PIDC Credit Facility”). The PIDC Credit Facility bears interest at a blended fixed rate of 4.5% 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. 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 and the MELF Loan as defined below.

On September 6, 2007, the Company entered into a 10 year, \$5 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania (“MELF Loan”). 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. 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. Contemporaneously with the closing under the MELF Loan, the Company received a commitment from the Commonwealth of Pennsylvania Machinery and Equipment Loan Fund to extend a second \$5 million loan to the Company. This second loan with the Machinery and Equipment Loan Fund is expected to close in September 2008, and be on substantially the same terms and conditions as the MELF Loan.

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, and the MELF Loan (“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.

Net cash generated from operating activities in fiscal 2007 of \$7,897 decreased by \$4,216 compared to fiscal 2006. The decrease was primarily due to an increase in receivables, inventories and prepayments and other assets of \$1,868, \$792 and \$721, respectively.

Net cash used for investing activities in 2007 of \$9,553 increased by \$5,232 compared to 2006. The increase was due to the purchase of machinery and equipment to be used at the Company’s new manufacturing facility in the Philadelphia Navy Yard.

Net cash from financing activities in 2007 of \$1,701 increased by \$9,732 as compared to fiscal 2006. The increase was due to the additional long-term borrowings resulting from implementation of the Company’s new manufacturing strategy.

The Company anticipates that for the foreseeable future cash flow from operations, along with the continued availability under the Bank Credit Facility, the PIDC Credit Facility and the MELF Loan will provide sufficient cash to meet operating and financial requirements.

Recent Accounting Statements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FAS 109 (“FIN 48”), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity should recognize a tax benefit when it is “more-likely-than-not”, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized should be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position should be

recognized in the interim period in which the change occurs. The Company adopted FIN 48 effective December 31, 2006, the first day of its fiscal year ended December 29, 2007. Upon adoption, the Company increased its reserves for uncertain tax positions by recognizing a charge of approximately \$420 to beginning retained earnings. At the adoption date of December 31, 2006, the Company had \$835 of net unrecognized tax benefits, including \$351 of interest and penalties, all of which would affect the effective tax rate if recognized.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for us beginning December 30, 2007. The adoption of SFAS No. 157 is not currently expected to have a material impact on the Company's consolidated financial statements.

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In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2. This FSP permits a delay in the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial liabilities, except for those 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 SFAS 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 SFAS 157 in February 2008. The Company is currently assessing the potential impact that adoption of this statement would have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits all entities the option to measure many financial instruments and certain other items at fair value. If a company elects the fair value option for an eligible item, then it will report unrealized gains and losses on those items at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, which for the Company is our fiscal year beginning December 30, 2007. The Company is currently in the process of evaluating this standard and have not yet determined what impact, if any, the option of electing to measure certain financial instruments and other items at fair value may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 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 SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 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 SFAS No. 141(R).

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51" ("SFAS No. 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. SFAS No. 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 SFAS No.160.

Item 8. Consolidated Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of the Tasty Baking Company:

We have completed integrated audits of Tasty Baking Company's (the "Company") consolidated financial statements and of its internal control over financial reporting as of December 29, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Tasty Baking Company and its subsidiaries at December 29, 2007 and December 30, 2006 and the results of its operations and its cash flows for years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based payments in 2006, the manner in which it accounts for defined benefit pension and other postretirement plans effective December 30, 2006 and the manner in which it accounts for uncertain tax positions in 2007.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have

a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

March 12, 2008

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Consolidated Financial Statements
Tasty Baking Company and Subsidiaries

Consolidated Statements of Operations and Retained Earnings
(000's, except per share amounts)

	52 Weeks Ended Dec. 29, 2007	52 Weeks Ended Dec. 30, 2006
Operations		
Gross sales	\$ 272,276	\$ 267,911
Less discounts and allowances	(102,358)	(100,196)
Net sales	169,918	167,715
Costs and expenses:		
Cost of sales, exclusive of depreciation shown below	108,381	103,495
Depreciation	9,917	6,566
Selling, general and administrative	48,285	52,138
Gain on termination of option	-	(1,600)
Other income, net	(900)	(936)
Interest expense	1,410	1,480
	167,093	161,143
Income before provision for income taxes	2,825	6,572
Provision for income taxes:		
State	12	178
Deferred	685	2,198
	697	2,376
Net income	\$ 2,128	\$ 4,196
Retained Earnings		
Balance, beginning of year	\$ 25,028	\$ 22,472
FIN 48 implementation	(420)	-
Cash dividends paid on common shares (\$0.20 per share in 2007 and 2006)	(1,617)	(1,640)
Balance, end of year	\$ 25,119	\$ 25,028
Per share of common stock:		
Net income:		
Basic	\$.26	\$.52
Diluted	\$.26	\$.51

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
(000's)

	52 Weeks Ended Dec. 29, 2007	52 Weeks Ended Dec. 30, 2006
Cash flows from (used for) operating activities		
Net income	\$ 2,128	\$ 4,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,917	6,566
Amortization	478	566
Asset retirement obligation	90	-
Gain (loss) on sale of routes	28	(48)
DB retirement expense (benefit)	(149)	(78)
Pension contributions	(500)	-
Deferred taxes	685	2,198
Restructure payments and reclassifications	-	(247)
Post retirement medical	(1,848)	(1,852)
Gain on termination of Keystone option	-	(1,600)
Other	1,485	544
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,868)	16
Increase in inventories	(792)	(454)
Increase in prepayments and other	(721)	(244)
(Decrease) increase in accrued income taxes	(123)	474
(Decrease) increase in accounts payable, accrued payroll and other accrued liabilities	(913)	2,076
Net cash from operating activities	7,897	12,113
Cash flows from (used for) investing activities		
Independent sales distributor loan repayments	3,581	3,772
Proceeds from sale of property, plant and equipment	150	97
Purchase of property, plant and equipment	(10,620)	(5,906)
Loans to independent sales distributors	(2,580)	(3,537)
Proceeds from Keystone option	-	1,600
Other	(84)	(347)
Net cash used for investing activities	(9,553)	(4,321)

Cash flows from (used for) financing activities			
Dividends paid		(1,650)	(1,640)
Payment of long-term debt		(50,147)	(4,915)
Net decrease in short-term debt		(631)	-
Additional long-term debt		56,759	-
Payment of debt issuance costs		(1,355)	-
Net decrease in cash overdraft		(1,275)	(1,317)
Purchase of stock for treasury		-	(159)
Net cash from (used for) financing activities		1,701	(8,031)
Net increase (decrease) in cash		45	(239)
Cash and cash equivalents, beginning of year		12	251
Cash and cash equivalents, end of year	\$	57	\$ 12
Supplemental cash flow information			
Cash paid (received) during the year for:			
Interest	\$	1,406	\$ 1,586
Income taxes	\$	8	\$ (350)
Noncash investing and financing activities			
Capital leases	\$	1,627	\$ -
Loans to independent sales distributor	\$	(328)	\$ (75)
See accompanying notes to consolidated financial statements.			

Consolidated Balance Sheets
(000's)

	Dec. 29, 2007	Dec. 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 57	\$ 12
Receivables, less allowance of \$2,608 and \$2,455, respectively	19,358	17,769
Inventories	7,719	6,926
Deferred income taxes	1,547	3,040
Prepayments and other	2,303	1,414
Total current assets	30,984	29,161
Property, plant and equipment:		
Land	1,433	1,433
Buildings and improvements	49,874	43,110
Machinery and equipment	135,557	124,501
	186,864	169,044
Less accumulated depreciation and amortization	112,774	103,660
	74,090	65,384
Other assets:		
Long-term receivables from independent sales distributors	9,889	10,960
Deferred income taxes	6,396	4,596
Miscellaneous	3,162	2,190
	19,447	17,746
Total Assets	\$ 124,521	\$ 112,291

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets (continued)
(000's)

	Dec. 29, 2007	Dec. 30, 2006
Liabilities		
Current liabilities:		
Accounts payable	\$ 6,210	\$ 3,875
Accrued payroll and employee benefits	4,080	7,444
Cash overdraft	890	2,165
Current obligations under capital leases	431	327
Notes payable, banks and current portion of long-term debt	-	631
Other accrued liabilities	5,343	5,349
Total current liabilities	16,954	19,791
Asset retirement obligation	6,676	-
Accrued pension	16,502	18,724
Accrued other liabilities	2,888	1,057
Long-term debt	25,697	18,177
Long-term obligations under capital leases, less current portion	1,003	208
Postretirement benefits other than pensions	7,365	6,065
Total liabilities	77,085	64,022
Commitments and contingencies		
Shareholders' Equity		
Accumulated other comprehensive income	634	1,996
Capital in excess of par value of stock	28,683	28,951
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
Retained Earnings	25,119	25,028
Treasury stock, at cost:		
967 shares and 1,015 shares, respectively	(11,558)	