TASTY BAKING CO
Form 10-K
April 11, 2011

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

FORM 10-K

(Mark One)
x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 25, 2010 (52 weeks)

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-5084

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

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

Navy Yard Corporate Center, Three Crescent Drive, Suite 200, Philadelphia, Pennsylvania 19112
(Address of principal executive offices including Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange
Common Stock, par value, $.50	NASDAQ Global Market

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 o NO x

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 o NO x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES o   NO o

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. o

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" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold as the last business day of the registrant's most recently completed second fiscal quarter June 26, 2010, was $57,586,848.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of April 8, 2011.

Class	Outstanding
Common Stock, par value $.50	8,622,847 shares

DOCUMENTS INCORPORATED BY REFERENCE

None.

TASTY BAKING COMPANY AND SUBSIDIARIES
INDEX

TASTY BAKING COMPANY AND SUBSIDIARIES

PART I

Item 1. Business

Recent Developments

On April 10, 2011, Tasty Baking Company (the “Company”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Flowers Foods, Inc., a Georgia corporation (“Flowers”), and Flowers Bakeries, LLC, a Georgia limited liability company and wholly-owned subsidiary of Flowers (and its permitted assignee)(“Merger Sub”). Pursuant to the terms of the Merger Agreement, a tender offer (the “Offer”) will commence within 10 business days to acquire all of the outstanding shares of common stock of the Company (“Common Stock”) at a purchase price of $4.00 per share, net to the holder in cash, without any interest and subject to any withholding taxes.

The obligation to purchase the shares tendered in the Offer is subject to the satisfaction or waiver of a number of conditions set forth in the Merger Agreement, including no breach by the Company of its lease for its bakery at the Philadelphia Navy Yard (which has not been cured or waived) and other customary closing conditions. In addition, the obligation to purchase the shares tendered in the Offer is also subject to the condition that the number of the outstanding shares of Common Stock that have been validly tendered and not validly withdrawn, together with any shares of Common Stock then owned by Flowers and its subsidiaries, equals a majority of the Common Stock outstanding (assuming conversion of all deferred stock units but not any other derivative securities) as of the expiration of the Offer.

As soon as practicable after the consummation of the Offer and subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (“Merger”) and the Company will become a wholly-owned subsidiary of Flowers and will remain responsible for the Company’s existing obligations, including those under the defined benefit pension plan. If Flowers and any of its affiliates acquire more than 80% of the outstanding shares (assuming conversion of all deferred stock units but not any other derivative securities) of the Common Stock, the merger will be completed through the “short form” merger procedures available under Pennsylvania law.

There can be no assurance that the conditions to closing will be met (including a sufficient number of shareholders tendering their shares), or that the closing of the Offer or Merger will occur before June 30, 2011, or at all. See also Risk Factor below regarding the definitive merger agreement with Flowers Foods, Inc.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Company’s Form 8-K filed on April 11, 2011 and which is incorporated herein by reference.

Description of Business

The Company was incorporated in Pennsylvania in 1914 and maintains its principal offices and manufacturing facilities 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 include approximately 195 varieties. The availability of some products, especially the holiday-themed offerings, vary according to the season. The single portion cakes, snack bars and donuts principally sell at retail prices for individual packages ranging from $0.45 to $1.59 per package and family convenience packages from $3.99 to $4.49. 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 $0.79 for single serve to $4.29 for family convenience packages.

Tasty Baking Oxford, Inc. ("Oxford"), a wholly-owned subsidiary of the Company, located in Oxford, Pennsylvania, currently manufactures honey buns and donuts under the well-established trademark TASTYKAKE® and several products which are distributed under private labels.

During 2009, the Company relocated its corporate offices to a leased facility in the Philadelphia Navy Yard and in 2010 the Company relocated its Philadelphia operations to a separate leased facility in the Philadelphia Navy Yard, which includes a new bakery, warehouse and distribution center.

As noted below in this report on Form 10-K, the Company is currently experiencing extremely tight liquidity and there is substantial doubt regarding the Company's ability to maintain liquidity sufficient to operate the business and the Company's ability to continue as a going concern. In response to this situation, the Company explored various strategic alternatives, which culiminated in the Company entering into the Merger Agreement, as described above. See also Item 1A (Risk Factors) and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operation) for more details on the Company's liquidity situation and the Merger Agreement.

The Company's products are sold principally by independent sales distributors through distribution routes to approximately 16,700 retail outlets in Delaware, Maryland, New Jersey, New York, Ohio, Pennsylvania and Virginia, which comprise the Company's core market. This method of distribution for direct store deliveries via independent sales distributors has been used since 1986. The Company sells products to approximately 413 independent sales distributors and maintains 61 Company owned and operated routes that service route sales areas. The Company also distributes its products through third party distributor arrangements in various states, as well as directly to certain grocery chains that have centralized warehouse distribution capabilities throughout the continental United States and Puerto Rico. In addition, the Company sells its products through the www.tastykake.com program, whereby consumers can visit the Company's website or call a toll-free number to order a variety of TASTYKAKE® products and novelties.

During 2010, the Company's top 20 customers represented 61.6% of its net sales and its largest customers, Wal-Mart and Wawa Inc. ("Wawa"), represented approximately 19.3% and 10.2% of its total 2010 net sales, respectively. If any of the top twenty customers change their buying patterns with the Company, the Company's sales and profits could be materially adversely affected.

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 its principal marketing area through the quality of its products and brand name recognition. In these areas, the Company has a strong market share. The Company conducts marketing programs that utilize radio and on-line advertising, sports partnerships, public relations, product sampling and consumer coupons.

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 principally competes in the premium snack cake market on price, product quality and brand name recognition with McKee Foods, Bimbo USA and Hostess Brands. 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. Bimbo USA markets certain of its products under the Entenmann’s brand name and generally competes with the Company in the multi-serve and single-serve baked goods. Hostess Brands competes with the Company using the Hostess, Dolly Madison and Drakes brand names. 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, cocoa, eggs, oils and flour for its ingredients. The Company procures raw materials through multi-year, annual, short-term and spot market purchases from various suppliers. These raw materials are subject to availability restrictions within the markets in which the suppliers operate. Additionally, purchases made in the spot market are subject to price volatility that may continue to negatively affect the Company’s operations. The prices paid for raw materials generally reflect external factors such as weather conditions, commodity market fluctuations, value of the U.S. dollar against other currencies and the effects of governmental agricultural programs. The market prices for sweeteners, cocoa, oils and flour have been volatile and experienced significant upward price pressure during 2010 which negatively impacted results of operations. Eggs, which the Company purchases in the spot market, have been relatively stable since 2009. Refer to Item 1A (Risk Factors) for a discussion regarding the risks associated with an increase in commodity prices and availability which may impact the Company’s profitability.

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 as of year-end for fiscal 2010 and fiscal 2009 was 0.2 to 1.0 and 1.0 to 1.0, respectively. The change in the Company’s working capital ratio is primarily related to the change in the maturity date of the Company's Bank Credit Facility to June 30, 2011, which resulted in the debt obligations thereunder being classified as current as of December 25, 2010.

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, as necessary, to protect formulas and processes used in producing its products.

The Company engages in continuous research and development activities at its manufacturing locations 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, the expenditures for research and development activities 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.

As of April 8, 2011, the Company employed approximately 740 persons, including 115 part-time employees, and approximately 36 maintenance employees that are covered by a labor agreement, which expires in May 2012. In August 2010, 216 full-time and 36 part-time hourly production, sanitation and distribution workers in the Company's Philadelphia Navy Yard facility agreed to be represented by the Bakery, Confectionery, Tobacco Workers and Grain Millers' International Union. On April 10, 2011, those employees ratified a Collective Bargaining Agreement, which expires in April 2015. The National Labor Relations Board certified the Union as the bargaining unit representatives of these employees. In addition, as of April 8, 2011, the Company also retained the services of approximately 36 contract staff at its Philadelphia operations.

See 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.tastykake.com, under the "Investors, Corporate Governance" headings or are available upon written request directed to the Corporate Secretary of the Company at Navy Yard Corporate Center, Three Crescent Drive, Suite 200, Philadelphia, Pennsylvania 19112.

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."

A copy of this annual report on Form 10-K for the fiscal year end December 25, 2010 may be obtained, without charge, by any shareholder, upon written request directed to the Corporate Secretary of the Company at Three Crescent Drive, Suite 200, Philadelphia, Pennsylvania 19112.

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.

There is substantial doubt regarding our ability to continue as a going concern.

Due to our current liquidity situation and indebtedness that is due June 30, 2011, there is substantial doubt regarding our ability to maintain liquidity sufficient to operate our business and our ability to continue as a going concern. Our auditors, the independent registered public accounting firm of PricewaterhouseCoopers LLP, have included an explanatory paragraph in their opinion on our consolidated financial statements that there is substantial doubt about our ability to continue as a going concern (see page 27). In response to this situation, we explored various financial and strategic alternatives, which culminated with the Company entering into the Merger Agreement with Flowers. Until the closing of the transactions contemplated by the Merger Agreement (the "Transaction"), our future remains uncertain, and there can be no assurance that the Transaction will close. If unsuccessful, we could be required to pursue a restructuring of our indebtedness or file for protection under the U.S. Bankruptcy Code.

We have entered into a definitive merger agreement with Flowers Foods, Inc., which is subject to certain conditions

As described above in "Business - Recent Developments," we recently entered into a definitive Agreement and Plan of Merger with Flowers Foods, Inc. ("Flowers") and its wholly-owned subsidiary Flowers Bakeries, LLC. The Merger Agreement provides that Flowers will acquire all of our outstanding shares of our common stock for a cash payment of $4.00 per share. The closing of the Transaction is subject to certain terms and conditions, including (but not limited to):

- tender of a majority of the outstanding shares of our common stock in the first step tender offer;

- no occurrence of a material adverse effect on the business;

no material breach by us (which has not been cured or waived) under our lease for our bakery at the Philadelphia Navy Yard; and

no litigation challenging the tender offer or merger;

While we currently anticipate closing the Transaction on or before June 30, 2011, there can be no assurance that all of the requisite closing conditions will be met and the Offer will close or the Merger will occur, or that they will occur on the timetable contemplated hereby. If this Transaction is not completed for any reason, our shareholders will not receive any payment for their shares pursuant to the Merger Agreement, and the market value of our shares of common stock may decrease significantly. In addition, we have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with these transactions, and many of these fees and costs are payable by us regardless of whether or not the Merger is consummated. Given the Company's current tight liquidity and the additional costs of these fees, if we cannot close the Transaction contemplated by the Merger Agreement, we could be required to pursue a restructuring of our indebtedness or file for protection under the U.S. Bankruptcy Code.

We face uncertainty regarding our liquidity and our capital resources.

Several of our creditors, including the bank group under our Bank Credit Facility, have waived payment obligations and certain specified defaults until June 30, 2011. Further, the maturity date for the Bank Credit Facility was moved up to June 30, 2011. As discussed in Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources), we have entered into arrangements with certain of our creditors, including our bank group (each a “Creditor, and collectively, the “Creditors”), on January 14, 2011 (each a “Creditor Amendment,” and collectively the “Creditor Amendments”). Absent a refinancing of our indebtedness or consummation of the Transaction, it is likely that we will be unable to repay the amount due under the Bank Credit Facility, as amended, and maintain liquidity sufficient to operate our business beyond June 30, 2011 and, as a result, the bank group will have the right to institute foreclosure proceedings against the assets securing the Bank Credit Facility. This action by the bank group would have a material adverse impact on the Company.

If we are not able to obtain adequate financing from a refinancing or complete the Transaction prior to June 30, 2011, we could potentially be required to seek relief through a filing under the U.S. Bankruptcy Code, either through a prepackaged plan of reorganization or under an alternative plan, which could include liquidation.

If we were not able to secure adequate funding to continue our operations or complete the Transaction, we could potentially be required to seek relief through a filing under the U.S. Bankruptcy Code, either through a prepackaged plan of reorganization or under an alternative plan, which could include liquidation. If we are unable to refinance the Bank Credit Facility prior to June 30, 2011, or otherwise satisfactorily address payments due on June 30, 2011, a default would arise with respect to payment on this obligation, which could also trigger cross defaults in other outstanding debt and potentially require us to seek relief through a filing under the U.S. Bankruptcy Code. Substantial risks would result from any such bankruptcy filing, including the risk that the equity interests of our current shareholders would be completely eliminated.

The Bank Credit Facility imposes significant restrictive and financial covenants that limit our financial and operating activities, and could cause us to be in default prior to June 30, 2011.

The Bank Credit Facility, as amended in connection with the Creditor Amendments, requires us to comply with certain restrictive covenants and maintain certain financial covenants, including meeting certain financial ratios and performance against a cash flow forecast. These covenants 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; make investments, and enter into new businesses. Our ability to remain in compliance with these covenants can be affected by events beyond our control, such as general economic conditions or a significant increase in the cost of our raw materials.

Failure to maintain any financial covenant or to comply with any operating covenant will cause us to be in default under the Bank Credit Facility. A default under the Bank Credit Facility would also occur if we default under our leases at the Philadelphia Navy Yard or the loans from other Creditors. Any of these defaults could cause the outstanding indebtedness to become immediately due and payable and it is unlikely that we would be able to repay the Banks if the Bank Credit Facility became immediately due and payable. If we were unable to repay those amounts, our Banks could initiate a bankruptcy or liquidation proceeding. Moreover, a default under our Bank Credit Facility would also cause a cross-default under our leases at the Philadelphia Navy Yard and our loans from other Creditors.

Absent a refinancing arrangement or other alternative that satisfies the obligations of the Bank Credit Facility, the Creditor Amendments to the Bank Credit Facility requires us to complete the sale of the Company by June 30, 2011, and we may not be successful.

The Bank Credit Facility, as amended in connection with the Creditor Amendments, requires us to engage in a process (pursuant to an agreed upon timeline with milestones) to sell the Company by June 30, 2011 for an amount sufficient to pay all obligations under the Bank Credit Facility (the "Obligations") along with all related transaction costs. We retained the investment banking firm of Janney Montgomery Scott LLC as our financial advisor to assist us in our evaluation of various possible financial and strategic alternatives, which culminated in the Company entering into the Merger Agreement with Flowers. However, there can be no assurance that the Transaction will be completed by June 30, 2011, or at all. A failure to complete the Transaction or to refinance the outstanding debt may result in the Bank Credit Facility becoming immediately due and payable.

A default under our lease at the Philadelphia Navy Yard will have a material adverse effect on our financial condition and results of operations.

We currently lease our Philadelphia Navy Yard bakery from Liberty Property Trust (the "Landlord"). The bakery is the exclusive production facility for most of our branded products, including cakes, pies and snack bars. The Creditor Amendment with the Landlord waives certain defaults and payments due until June 30, 2011. If we fail to pay all accrued amounts due on or before June 30, 2011, we will be in default under this lease. The loss of this facility would have a material and immediate adverse impact on our ability to continue as a going concern.

The failure to achieve expected cost savings at our new bakery at the Philadelphia Navy Yard will continue to have a material adverse effect on our financial condition and results of operations.

We had originally anticipated that we would achieve $13 to $15 million in annualized pre-tax cash savings, net of facility leases but before debt service, at our new bakery at the Philadelphia Navy Yard. However, by the end of 2010, the Company had achieved annualized pre-tax cash savings of approximately $10 million. If this facility does not consistently achieve at least this level of annualized pre-tax cash savings, this could have a material adverse impact on our profitability and our ability to continue as a going concern.

We are dependent on maintaining relationships and material contracts with our suppliers.

Our current tight liquidity may cause certain critical suppliers to further tighten their credit terms or require us to change their trade terms to a “cash on delivery” or “cash on order” basis or such other terms that could have an adverse impact on our short-term cash flow. Failure to maintain our current relationships with our critical suppliers could have a material and immediate adverse impact on our ability to operate as a going concern.

Our indebtedness has impacted our operational results.

Higher levels of indebtedness associated with our new manufacturing and distribution facility has increased our vulnerability to general adverse economic and industry conditions; limited our ability to react to changes in our business and the industry in which we operate; and required 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. Because a large portion of our costs are fixed, our operating cash flow margins are highly dependent on sales of our products and how efficiently we operate our bakeries. A lower amount of sales or higher expenses, when coupled with our significant debt obligations, could adversely affect our ability to fund our operations and continue as a going concern.

Our results may be adversely impacted by customers that become insolvent or bankrupt.

We are exposed to the credit risk of our customers, including risk of insolvency and bankruptcy. To the extent one or more of our customers becomes insolvent or seeks protection from its creditors, we may not be able to collect money due to us and we could incur write-downs to our accounts receivable balances. In addition, the loss of such receivables could substantially and adversely impact our liquidity.

A change in interest rates may adversely affect our financial and operational results.

The interest on our Bank Credit Facility is structured, in part, on LIBOR rates. An increase in LIBOR rates could adversely affect our ability to meet the financial covenants under our Bank Credit Facility. In addition, 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. Refer to the risk factor “Changes in Pension Expense Assumptions and Estimates May Adversely Affect Our Operational Results” below for additional discussion. A sensitivity analysis on the impact of this relationship is included in Note 12 of the consolidated financial statements, included in Item 8 below.

A change in top customer’s buying patterns may adversely affect our financial results.

Our top twenty customers represented 61.6% of our 2010 net sales and 61.1% of our 2009 net sales. Our largest customer, Wal-Mart, represented approximately 19.3% of our net sales in 2010 and 20.6% of our net sales in

2009. Another significant customer, Wawa, represented 10.2% of our net sales in 2010 and 9.5% of our net sales in 2009. If any of the top twenty customers change their buying patterns with us, our sales, profitability and liquidity could be adversely affected.

An increase in commodity prices and availability may impact profitability and our tight liquidity situation.

We are dependent upon sweeteners, cocoa, eggs, oils, and flour for our ingredients in a