LANCASTER COLONY CORP
Form 10-Q
February 05, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

or

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

For the transition period from _____ to _____

Commission file number 000-04065

Lancaster Colony Corporation

(Exact name of registrant as specified in its charter)

Ohio	**13-1955943**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
37 West Broad Street Columbus, Ohio	**43215**
(Address of principal executive offices)	*(Zip Code)*

614-224-7141

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No þ

As of January 29, 2010, there were approximately 28,203,000 shares of Common Stock, without par value, outstanding.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION	3
Item 1. Consolidated Financial Statements:	3
Consolidated Balance Sheets December 31, 2009 and June 30, 2009	3
Consolidated Statements of Income Three and Six Months Ended December 31, 2009 and 2008	4
Consolidated Statements of Cash Flows Six Months Ended December 31, 2009 and 2008	5
Notes to Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	24
PART II OTHER INFORMATION	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 4. Submission of Matters to a Vote of Security Holders	25
Item 6. Exhibits	25
SIGNATURES	26
INDEX TO EXHIBITS	27

EX-31.1
EX-31.2
EX-32

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except share data)	**December 31 2009**	**June 30 2009**
ASSETS		
Current Assets:		
Cash and equivalents	**$ 91,391**	$ 38,484
Receivables (less allowance for doubtful accounts, December $847 and June $942)	**85,484**	61,152
Inventories:		
Raw materials	**30,637**	33,067
Finished goods and work in process	**51,659**	69,456
Total inventories	**82,296**	102,523
Deferred income taxes and other current assets	**23,231**	20,653
Total current assets	**282,402**	222,812
Property, Plant and Equipment:		
Land, buildings and improvements	**129,074**	130,683
Machinery and equipment	**234,941**	239,380
Total cost	**364,015**	370,063
Less accumulated depreciation	**199,056**	199,163
Property, plant and equipment net	**164,959**	170,900
Other Assets:		
Goodwill	**89,840**	89,840
Other intangible assets net	**10,096**	10,678
Other noncurrent assets	**3,958**	4,251
Total	**$ 551,255**	$ 498,481
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	**$ 37,643**	$ 41,180
Accrued liabilities	**32,695**	33,399
Total current liabilities	**70,338**	74,579

Other Noncurrent Liabilities	**16,776**	16,719
Deferred Income Taxes	**5,195**	4,627
Shareholders Equity:		
Preferred stock authorized 3,050,000 shares; outstanding none		
Common stock authorized 75,000,000 shares; outstanding December 28,201,359 shares; June 28,101,885 shares	**93,537**	88,962
Retained earnings	**1,049,921**	998,476
Accumulated other comprehensive loss	**(8,715)**	(9,085)
Common stock in treasury, at cost	**(675,797)**	(675,797)
Total shareholders equity	**458,946**	402,556
Total	**$ 551,255**	$ 498,481

See accompanying notes to consolidated financial statements.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share data)	Three Months Ended December 31		Six Months Ended December 31	
	2009	**2008**	**2009**	**2008**
Net Sales	**$ 304,115**	$ 288,242	**$ 558,275**	$ 552,079
Cost of Sales	**219,338**	230,079	**409,791**	454,247
Gross Margin	**84,777**	58,163	**148,484**	97,832
Selling, General and Administrative Expenses	**24,400**	21,917	**44,868**	42,178
Restructuring and Impairment Charges	**1,216**	(8)	**2,046**	1,606
Operating Income	**59,161**	36,254	**101,570**	54,048
Other (Expense) Income:				
Interest expense		(639)		(1,130)
Other income Continued Dumping and Subsidy Offset Act	**893**	8,696	**893**	8,696
Interest income and other net	**34**	(271)	**59**	(196)
Income Before Income Taxes	**60,088**	44,040	**102,522**	61,418
Taxes Based on Income	**20,561**	15,588	**34,590**	21,946
Net Income	**$ 39,527**	$ 28,452	**$ 67,932**	$ 39,472
Net Income Per Common Share:				
Basic and Diluted	**$ 1.40**	$ 1.02	**$ 2.41**	$ 1.40
Cash Dividends Per Common Share	**$ .30**	$ .285	**$ .585**	$ .565
Weighted Average Common Shares Outstanding:				
Basic	**28,147**	27,948	**28,114**	28,105
Diluted	**28,176**	27,955	**28,145**	28,110

See accompanying notes to consolidated financial statements.

4

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Amounts in thousands)	Six Months Ended December 31 2009	2008
Cash Flows From Operating Activities:		
Net income	**$ 67,932**	$ 39,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**10,882**	10,970
Deferred income taxes and other noncash changes	**909**	(420)
Restructuring and impairment charges	**528**	(1,221)
Gain on disposal of property	**(3)**	(776)
Pension plan activity	**251**	(28)
Changes in operating assets and liabilities:		
Receivables	**(24,714)**	(15,834)
Inventories	**20,047**	24,444
Other current assets	**(2,560)**	11,949
Accounts payable and accrued liabilities	**(4,091)**	(5,663)
Net cash provided by operating activities	**69,181**	62,893
Cash Flows From Investing Activities:		
Payments on property additions	**(3,701)**	(6,749)
Proceeds from sale of property	**6**	1,263
Other net	**(720)**	(964)
Net cash used in investing activities	**(4,415)**	(6,450)
Cash Flows From Financing Activities:		
Proceeds from debt		25,000
Payments on debt		(35,000)
Purchase of treasury stock		(16,894)
Payment of dividends	**(16,487)**	(15,877)
Proceeds from the exercise of stock options	**3,923**	
Increase (decrease) in cash overdraft balance	**705**	(2,749)
Net cash used in financing activities	**(11,859)**	(45,520)
Net change in cash and equivalents	**52,907**	10,923
Cash and equivalents at beginning of year	**38,484**	19,417
Cash and equivalents at end of period	**$ 91,391**	$ 30,340

Supplemental Disclosure of Operating Cash Flows:		
Cash paid during the period for income taxes	**$ 32,448**	$ 2,964

See accompanying notes to consolidated financial statements.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands, except share and per share data)

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, the interim consolidated financial statements reflect all adjustments necessary for a fair presentation of the results of operations and financial position for such periods. All such adjustments reflected in the interim consolidated financial statements are considered to be of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full year. Accordingly, these financial statements should be read in conjunction with the financial statements and notes thereto contained in our 2009 Annual Report on Form 10-K. Unless otherwise noted, the term year and references to a particular year pertain to our fiscal year, which begins on July 1 and ends on June 30; for example, 2010 refers to fiscal 2010, which is the period from July 1, 2009 to June 30, 2010.

Subsequent Events

We have evaluated events occurring between the end of our most recent fiscal quarter and February 5, 2010, the date the financial statements were issued.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Purchases of property, plant and equipment included in accounts payable at December 31, 2009 and 2008 were approximately $0.1 million and less than $0.1 million, respectively. These purchases, less the preceding June 30 balances, have been excluded from the property additions in the Consolidated Statements of Cash Flows.

Earnings Per Share

Effective July 1, 2009, we adopted the provisions of a Financial Accounting Standards Board (FASB) Staff Position (FSP) on the FASB s Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which is now part of Accounting Standards Codification (ASC) Topic 260, Earnings Per Share. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in generally accepted accounting principles for EPS. The restricted stock we previously granted to employees was deemed to meet the definition of a participating security as the employees receive nonforfeitable dividends before the stock becomes vested. Our adoption of this FSP required that we retrospectively restate EPS for all periods presented. There was no impact on EPS for the three and six months ended December 31, 2008.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

Basic and diluted net income per common share were calculated as follows:

	Three Months Ended December 31		Six Months Ended December 31	
	2009	**2008**	**2009**	**2008**
Net income	**$ 39,527**	$ 28,452	**$ 67,932**	$ 39,472
Net income allocated to participating securities	**(39)**	(23)	**(68)**	(32)
Net income allocated to common shareholders	**$ 39,488**	$ 28,429	**$ 67,864**	$ 39,440
Weighted average common shares outstanding (in thousands):				
Basic	**28,147**	27,948	**28,114**	28,105
Incremental share effect from:				
Stock options	**3**		**5**	
Restricted stock	**4**	7	**8**	5
Stock-settled stock appreciation rights	**22**		**18**	
Diluted	**28,176**	27,955	**28,145**	28,110
Net income per common share basic and diluted	**$ 1.40**	$ 1.02	**$ 2.41**	$ 1.40

Significant Accounting Policies

There were no changes to our Significant Accounting Policies from those disclosed in our 2009 Annual Report on Form 10-K.

Note 2 Impact of Recently Issued Accounting Standards

In December 2008, the FASB issued FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which is now part of ASC Topic 715, Compensation-Retirement Benefits. FSP FAS 132(R)-1 provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP expands the disclosure set forth in general accounting principles for retirement benefits by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentration of risk. Additionally, the FSP requires an employer to disclose information about the valuation of plan assets similar to that required under general accounting principles for fair value measurements. This FSP is effective for fiscal years ending after December 15, 2009, with earlier adoption permitted. We are currently reviewing the additional disclosure requirements regarding our benefit plans assets.

Note 3 Goodwill and Other Intangible Assets

Goodwill attributable to the Specialty Foods segment was approximately $89.8 million at December 31, 2009 and June 30, 2009.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

The following table summarizes our identifiable other intangible assets, all included in the Specialty Foods segment, as of December 31, 2009 and June 30, 2009:

	December 31 2009	June 30 2009
Trademarks (40-year life)		
Gross carrying value	**$ 370**	$ 370
Accumulated amortization	**(172)**	(167)
Net Carrying Value	**$ 198**	$ 203
Customer Relationships (12 to 15-year life)		
Gross carrying value	**$ 13,020**	$ 13,020
Accumulated amortization	**(3,586)**	(3,118)
Net Carrying Value	**$ 9,434**	$ 9,902
Non-compete Agreements (5 to 8-year life)		
Gross carrying value	**$ 1,540**	$ 1,540
Accumulated amortization	**(1,076)**	(967)
Net Carrying Value	**$ 464**	$ 573
Total Net Carrying Value	**$ 10,096**	$ 10,678

Amortization expense relating to these assets was approximately $0.3 million and $0.6 million for both the three and six months ended December 31, 2009 and 2008, respectively. Total annual amortization expense is estimated to be approximately $1.2 million next year, $1.1 million for the second year and $0.9 million for each of the following three years.

Note 4 Long-Term Debt

At December 31, 2009 and June 30, 2009, we had an unsecured revolving credit facility under which we may borrow up to a maximum of $160 million at any one time, with the potential to expand the total credit availability to $260 million based on obtaining consent of the issuing bank and certain other conditions. The facility expires on October 5, 2012, and all outstanding amounts are due and payable on that day. At December 31, 2009 and June 30, 2009, we had no borrowings outstanding under this facility. Loans may be used for general corporate purposes.

Based on the long-term nature of this facility and in accordance with generally accepted accounting principles, when we have outstanding borrowings under this facility, we classify the outstanding balance as long-term debt. We paid no interest for the three and six months ended December 31, 2009, as compared to approximately $0.7 million and $1.1 million for the three and six months ended December 31, 2008, respectively.

The facility contains two principal financial covenants: an interest expense test that requires us to maintain an interest coverage ratio not less than 2.5 to 1 at the end of each fiscal quarter; and an indebtedness test that requires us to maintain a leverage ratio not greater than 3 to 1 at all times. The interest coverage ratio is calculated by dividing Consolidated EBIT (as defined more specifically in the credit agreement) by Consolidated Interest Expense (as defined more specifically in the credit agreement), and the leverage ratio is calculated by dividing Consolidated Debt (as defined more specifically in the credit agreement) by Consolidated EBITDA (as defined more specifically in the credit agreement). We met the requirements of these financial covenants at December 31, 2009 and June 30, 2009.

Note 5 Pension Benefits

We and certain of our operating subsidiaries provide multiple defined benefit pension plans. Benefits under the plans are primarily based on negotiated rates and years of service and cover the union workers at such locations. We contribute to these plans at least the minimum amount required by regulation or contract. We recognize the cost of plan benefits as the employees render service.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

The following table discloses net periodic benefit cost for our pension plans:

	Three Months Ended December 31		Six Months Ended December 31	
	2009	**2008**	**2009**	**2008**
Components of net periodic benefit cost				
Service cost	**$ 18**	$ 30	**$ 45**	$ 60
Interest cost	**530**	541	**1,059**	1,082
Expected return on plan assets	**(538)**	(602)	**(1,076)**	(1,204)
Curtailment charge			**349**	
Amortization of unrecognized net loss	**124**	62	**248**	124
Amortization of prior service cost		26	**5**	52
Amortization of unrecognized net obligation existing at transition		1		2
Net periodic benefit cost	**$ 134**	$ 58	**$ 630**	$ 116

In the first quarter of 2010, one of our plans became subject to curtailment accounting. This resulted in the immediate recognition of all of the outstanding prior service cost of the plan, which was approximately $0.3 million, as required under generally accepted accounting principles for retirement benefits. This charge was included in our Specialty Foods segment.

We made no contributions to our pension plans during the three months ended December 31, 2009. For the six months ended December 31, 2009, we made pension plan contributions totaling less than $0.1 million. We expect to make approximately $0.8 million more in contributions to our pension plans during the remainder of 2010.

Note 6 Postretirement Benefits

We and certain of our operating subsidiaries provide multiple postretirement medical and life insurance benefit plans. We recognize the cost of benefits as the employees render service. Postretirement benefits are funded as incurred.

The following table discloses net periodic benefit cost for our postretirement plans:

	Three Months Ended December 31		Six Months Ended December 31	
	2009	**2008**	**2009**	**2008**
Components of net periodic benefit cost				
Service cost	**$ 4**	$ 5	**$ 8**	$ 9
Interest cost	**48**	50	**96**	99
Amortization of unrecognized gain	**(3)**	(5)	**(6)**	(9)
Amortization of prior service asset	**(1)**	(2)	**(2)**	(3)
Net periodic benefit cost	**$ 48**	$ 48	**$ 96**	$ 96

For the three and six months ended December 31, 2009, we made less than $0.1 million and approximately $0.1 million, respectively, in contributions to our postretirement medical and life insurance benefit plans. We expect to make approximately $0.1 million more in contributions to our postretirement medical and life insurance benefit plans during the remainder of 2010.

9

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

Note 7 Stock-Based Compensation

As approved by our shareholders in November 1995, the terms of the 1995 Key Employee Stock Option Plan (the 1995 Plan) reserved 3,000,000 common shares for issuance to qualified key employees. All options granted under the 1995 Plan were exercisable at prices not less than fair market value as of the date of grant. The 1995 Plan expired in August 2005, but there are still options outstanding that were issued under this plan. In general, options granted under the 1995 Plan vested immediately and had a maximum term of five years. Our policy is to issue shares upon option exercise from new shares that had been previously authorized.

Our shareholders approved the adoption of the Lancaster Colony Corporation 2005 Stock Plan (the 2005 Plan) at our 2005 Annual Meeting of Shareholders. The 2005 Plan reserved 2,000,000 common shares for issuance to our employees and directors, and all awards granted under the 2005 Plan will be exercisable at prices not less than fair market value as of the date of the grant. The vesting period for awards granted under the 2005 Plan varies as to the type of award granted, but generally these awards have a maximum term of five years.

Stock Options

Until 2008, we used stock options as the primary vehicle for rewarding certain employees with long-term incentives for their efforts in helping to create long-term shareholder value. Under generally accepted accounting principles for stock-based compensation, we calculated the fair value of option grants using the Black-Scholes option-pricing model. There were no grants of stock options during the six months ended December 31, 2009 and 2008.

We recognized compensation expense over the requisite service period. Total compensation cost related to stock options for the three and six months ended December 31, 2009 was zero, as compared to less than $0.1 million for the three and six months ended December 31, 2008. These amounts were reflected in Selling, General and Administrative Expenses and were allocated to each segment appropriately. No initial tax benefits were recorded for the portion of these compensation costs that relate to incentive stock options, which do not qualify for a tax deduction until, and only if, a disqualifying disposition occurs.

During the three and six months ended December 31, 2009, we received approximately $0.9 million and $3.7 million, respectively, in cash from the exercise of stock options. The aggregate intrinsic value of these options was approximately $0.2 million and $0.8 million, respectively. A related tax benefit of approximately $0.1 million and $0.3 million was recorded in the three and six months ended December 31, 2009, respectively. These tax benefits were included in the financing section of the Consolidated Statements of Cash Flows and resulted from incentive stock option disqualifying dispositions and exercises of non-qualified options. The benefits include less than $0.1 million of gross windfall tax benefits for the three and six months ended December 31, 2009.

There were no stock option exercises during the six months ended December 31, 2008.

The following table summarizes the activity relating to stock options granted under the 1995 Plan mentioned above for the six months ended December 31, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	**96,350**	**$ 41.52**		
Exercised	**(88,050)**	**41.52**		
Forfeited				
Outstanding at end of period	**8,300**	**$ 41.52**	**.16**	**$ 68**
Exercisable and vested at end of period	**8,300**	**$ 41.52**	**.16**	**$ 68**

Vested and expected to vest at end of period	**8,300**	**$**	**41.52**	**.16**	**$**	**68**

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

There were no unvested options at December 31, 2009 and June 30, 2009. At December 31, 2009, there was also no unrecognized compensation cost related to stock options.

Stock-Settled Stock Appreciation Rights

Since 2008, we have used periodic grants of stock-settled stock appreciation rights (SSSARs) as a vehicle for rewarding certain employees with long-term incentives for their efforts in helping to create long-term shareholder value. Under generally accepted accounting principles for stock-based compensation, we calculate the fair value of SSSARs grants using the Black-Scholes option-pricing model. There were no grants of SSSARs during the six months ended December 31, 2009 and 2008.

We recognize compensation expense over the requisite service period. Total compensation cost related to SSSARs was approximately $0.1 million and $0.2 million for the three and six months ended December 31, 2009, respectively, as compared to $0.1 million for the three and six months ended December 31, 2008. These amounts were reflected in Selling, General and Administrative Expenses and were allocated to each segment appropriately. We recorded a tax benefit of less than $0.1 million and approximately $0.1 million for the three and six months ended December 31, 2009 and 2008, respectively.

The following table summarizes the activity relating to SSSARs granted under the 2005 Plan mentioned above for the six months ended December 31, 2009:

	Number of Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	**222,240**	**$ 38.85**		
Exercised	**(15,441)**	**38.31**		
Granted				
Forfeited	**(1,417)**	**38.31**		
Outstanding at end of period	**205,382**	**$ 38.90**	**3.54**	**$ 2,215**
Exercisable and vested at end of period	**27,315**	**$ 38.31**	**3.16**	**$ 311**
Vested and expected to vest at end of period	**198,549**	**$ 38.89**	**3.54**	**$ 2,142**

The following table summarizes the status of, and changes to, unvested SSSARs during the six months ended December 31, 2009:

	Number of Rights	Weighted Average Grant Date Fair Value
Unvested at beginning of period	**179,234**	**$ 6.39**
Granted		
Vested		
Forfeited	**(1,167)**	**6.00**
Unvested at end of period	**178,067**	**$ 6.39**

At December 31, 2009, there was approximately $0.7 million of total unrecognized compensation cost related to SSSARs that we will recognize over a weighted-average period of approximately 1.68 years.

Restricted Stock

Since 2008, we have used periodic grants of restricted stock as a vehicle for rewarding our nonemployee directors and certain employees with long-term incentives for their efforts in helping to create long-term shareholder value.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

On November 16, 2009, we granted a total of 8,435 shares of restricted stock to our seven nonemployee directors under the terms of the 2005 Plan discussed above. The restricted stock had a grant date fair value of approximately $0.4 million based on a per share closing stock price of $50.86. This restricted stock vests over a one-year period, and all of these shares are expected to vest. Dividends earned on the stock during the vesting period are held in escrow and will be paid to the directors at the time the stock vests. Compensation expense related to the restricted stock award will be recognized over the requisite service period. An additional 14,000 shares of restricted stock that were granted to our seven nonemployee directors on November 17, 2008 vested during the second quarter of 2010, and the directors were paid the related dividends that had been held in escrow.

We recognize compensation expense over the requisite service period. Total compensation cost related to restricted stock for the three and six months ended December 31, 2009 was approximately $0.2 million and $0.4 million, respectively, as compared to approximately $0.1 million and $0.2 million in the corresponding periods of the prior year. These amounts were reflected in Selling, General and Administrative Expenses and were allocated to each segment appropriately. We recorded a tax benefit of less than $0.1 million and approximately $0.1 million for the three and six months ended December 31, 2009 and 2008, respectively.

The following table summarizes the activity related to restricted stock granted under the 2005 Plan mentioned above for the six-month period ended December 31, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at beginning of period	**42,950**	**$ 35.61**
Granted	**8,435**	**50.86**
Vested	**(14,300)**	**29.57**
Forfeited	**(150)**	**38.31**
Unvested restricted stock at end of period	**36,935**	**$ 41.42**
Expected to vest restricted stock at end of period	**36,365**	**$ 41.46**

At December 31, 2009, there was approximately $0.9 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted average period of 1.22 years.

Note 8 Restructuring and Impairment Charges

Specialty Foods Segment Fiscal 2010

In the first quarter of 2010, we committed to a plan to close our dressings and sauces manufacturing operation located in Wilson, New York. This decision was intended to provide greater efficiency in our Specialty Foods segment by consolidating most of this facility s operations into other existing plants, outsourcing certain requirements and exiting less profitable dressing lines. Production at this facility was phased out in the second quarter of 2010, and while timing of the disposal of the associated real estate is difficult to predict, this closure was essentially complete at December 31, 2009. The operations of this location have not been reclassified to discontinued operations in accordance with generally accepted accounting principles for the impairment or disposal of long-lived assets.

During the three and six months ended December 31, 2009, we recorded restructuring charges of approximately $1.3 million ($0.9 million after taxes) and $2.2 million ($1.5 million after taxes), respectively, including approximately $0.1 million and $0.2 million recorded in Cost of Sales for the write-down of inventories during the three and six months ended December 31, 2009, respectively. The remaining charges consisted of one-time termination benefits, a pension curtailment charge and other various closing costs. Cash expenditures for the three and

six months ended December 31, 2009 were approximately $1.7 million and were for the one-time termination benefits and other closing costs.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

An analysis of the restructuring activity for the six months ended December 31, 2009 recorded within the Specialty Foods segment follows:

	Accrual at June 30, 2009	2010 Charges	2010 Cash Outlays	Accrual at December 31, 2009
Restructuring Charges				
Employee Separation Costs	$	$ 1,643	$ (1,643)	$
Other Costs		54	(54)	
Subtotal	$	1,697	$ (1,697)	$
Pension Curtailment Charges		349		
Inventory Write-Down		179		
Total Restructuring Charges		$ 2,225		

There may be some other miscellaneous expenses and cash payments, but we do not expect other significant restructuring costs related to this closure. The total costs associated with this closure were ultimately less than originally estimated due to the actual timing of the closure and its impact on the one-time termination benefits and also due to lower than expected other closing costs.

Specialty Foods Segment Fiscal 2009

In the first quarter of 2009, we began consolidating our Atlanta, Georgia dressing operation into our other existing food facilities as part of our cost-reduction efforts within the Specialty Foods segment. During the six months ended December 31, 2008, we recorded restructuring and impairment charges of approximately $0.8 million ($0.5 million after taxes). This closure was essentially complete at September 30, 2008, and the disposition of the associated real estate occurred in December 2008. We do not expect any other costs or cash expenditures related to this closure.

Other Segments Fiscal 2009

During fiscal 2007, we initiated our plan to close our industrial glass operation located in Lancaster, Ohio. During the six months ended December 31, 2008, we recorded additional restructuring and impairment charges of approximately $0.8 million ($0.5 million after taxes) within corporate expenses for costs incurred during the period. The total costs associated with this plant closure totaled approximately $5.7 million. This closure was essentially complete at September 30, 2008. We do not currently expect other significant restructuring costs related to this closure.

Held for Sale

As a result of the current-year closing discussed above, as well as various prior-year restructuring and divestiture activities, we have certain held for sale properties, with a total net book value of approximately $2.9 million, which have been reclassified to current assets and are included in Deferred Income Taxes and Other Current Assets on the Consolidated Balance Sheet. In accordance with generally accepted accounting principles for property, plant and equipment, we are no longer depreciating these held for sale assets and they are being actively marketed for sale.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

Note 9 Income Taxes

The gross tax contingency reserve at December 31, 2009 was approximately $1.3 million and consisted of tax liabilities of approximately $0.7 million and penalties and interest of approximately $0.6 million. In accordance with generally accepted accounting principles for income taxes, we have classified the entire balance at December 31, 2009 as long-term liabilities as these amounts are not expected to be paid within the next 12 months. We expect that the amount of these liabilities will change within the next 12 months; however, we do not expect the change to have a significant effect on our financial position or results of operations. We recognize interest and penalties related to these tax liabilities in income tax expense.

During 2010, we executed several state tax voluntary disclosure agreements. The settlement of these liabilities resulted in pre-tax income of approximately $0.9 million, which impacted our effective tax rate for the six months ended December 31, 2009 by approximately 0.7%.

Note 10 Business Segment Information

The following summary of financial information by business segment is consistent with the basis of segmentation and measurement of segment profit or loss presented in our June 30, 2009 consolidated financial statements:

	Three Months Ended December 31		Six Months Ended December 31	
	2009	**2008**	**2009**	**2008**
Net Sales				
Specialty Foods	**$ 243,099**	$ 245,393	**$ 459,440**	$ 466,179
Glassware and Candles	**61,016**	42,849	**98,835**	85,900
Total	**$ 304,115**	$ 288,242	**$ 558,275**	$ 552,079
Operating Income (Loss)				
Specialty Foods	**$ 56,146**	$ 39,651	**$ 99,298**	$ 63,140
Glassware and Candles	**6,142**	(1,007)	**7,813**	(3,869)
Corporate Expenses	**(3,127)**	(2,390)	**(5,541)**	(5,223)
Total	**$ 59,161**	$ 36,254	**$ 101,570**	$ 54,048

Note 11 Commitments and Contingencies

In addition to the items discussed below, at December 31, 2009, we were a party to various claims and litigation matters arising in the ordinary course of business. Such matters did not have a material adverse effect on the current-year results of operations and, in our opinion, their ultimate disposition will not have a material adverse effect on our consolidated financial statements.

The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) provides for the distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately $0.9 million in the second quarter of 2010, as compared to a distribution of approximately $8.7 million in the corresponding period of 2009. These remittances related to certain candles being imported from the People s Republic of China.

Legislation was enacted in February 2006 to repeal the applicability of the CDSOA to duties collected on products imported after September 2007. However, all duties collected on an entry filed before October 1, 2007 will continue to be available for distribution under former section 1675(c) of the CDSOA. Accordingly, we may receive some level of

annual distributions for an undetermined period of years in the future as the monies collected that relate to entries filed prior to October 2007 are administratively finalized by U.S. Customs. Without further legislative action, we expect these distributions will eventually cease.

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except share and per share data)

The uncertainties surrounding the legislative and administrative challenges have been compounded by cases brought in U.S. courts challenging the CDSOA. In two separate cases, the U.S. Court of International Trade (CIT) ruled that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The U.S. Court of Appeals for the Federal Circuit reversed one of the CIT decisions in February 2009, but the case remains subject to further appeal. The second CIT case has been stayed pending resolution of this appeal. Other cases remain pending that challenge certain aspects of the CDSOA, any of which could affect the amount of funds available for distribution, including funds relating to entries prior to October 2007.

The extent to which we may receive any future CDSOA distributions is subject to the legal challenges and uncertainties described above. Accordingly, we cannot predict the amount of future distributions, and it is possible that we may not receive any further distributions. Any reduction in CDSOA distributions could reduce our earnings and cash flow.

Note 12 Comprehensive Income

Total comprehensive income for the three and six months ended December 31, 2009 was approximately $39.6 million and $68.3 million, respectively. Total comprehensive income for the three and six months ended December 31, 2008 was approximately $28.5 million and $39.6 million, respectively. The December 31, 2009 and 2008 comprehensive income consists of net income and pension and postretirement amortization.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Tabular dollars in thousands)

OVERVIEW

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) describes the matters that we consider to be important in understanding the results of our operations for the three and six months ended December 31, 2009 and our financial condition as of December 31, 2009. Our fiscal year begins on July 1 and ends on June 30. Unless otherwise noted, references to year pertain to our fiscal year; for example, 2010 refers to fiscal 2010, which is the period from July 1, 2009 to June 30, 2010. In the discussion that follows, we analyze the results of our operations for the three and six months ended December 31, 2009, including the trends in our overall business, followed by a discussion of our financial condition.

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto, all included elsewhere in this report. The forward-looking statements in this section and other parts of this report involve risks and uncertainties including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under the caption Forward-Looking Statements.

EXECUTIVE SUMMARY

Business Overview

Lancaster Colony Corporation is a diversified manufacturer and marketer of consumer products focusing primarily on specialty foods for the retail and foodservice markets. We also manufacture and market candles for the food, drug and mass markets. Less significantly, we are also engaged in the distribution of various products, including glassware and candles, to commercial markets. Our operations are organized in two reportable segments: Specialty Foods and Glassware and Candles. Over 90% of the sales of each segment are made to customers in the United States.

In recent years, our strategy has shifted away from operating businesses in a variety of industries towards emphasizing the growth and success we have achieved in our Specialty Foods segment. Fiscals 2008 and 2007 were significant years in implementing this strategy as we divested nonfood operations and focused our capital investment in the Specialty Foods segment.

We view our food operations as having the potential to achieve future growth in sales and profitability due to attributes such as:

- leading retail market positions in several branded products with a high-quality perception;
- a broad customer base in both retail and foodservice accounts;
- well-regarded culinary expertise among foodservice accounts;
- recognized leadership in foodservice product development;
- demonstrated experience in integrating complementary business acquisitions; and
- historically strong cash flow generation that supports growth opportunities.

Our goal is to grow our specialty foods retail and foodservice business by:

- leveraging the strength of our retail brands to increase current product sales and introduce new products;
- growing our foodservice sales through the strength of our reputation in product development and quality; and
- pursuing acquisitions that meet our strategic criteria.

Table of Contents

We have made substantial capital investments to support our existing food operations and future growth opportunities. Based on our current plans and expectations, we believe that total capital expenditures for 2010 will be approximately $15 million.

Summary of 2010 Results

The following is a comparative overview of our consolidated operating results for the three and six months ended December 31, 2009 and 2008.

Net sales for the second quarter ended December 31, 2009 increased 6% to approximately $304.1 million from the prior-year total of $288.2 million. This sales growth was driven by a 42% increase in sales of the Glassware and Candles segment, as partially offset by a slight decrease in sales of the Specialty Foods segment. Gross margin increased 46% to approximately $84.8 million from the prior-year second quarter total of $58.2 million. Lower raw-material costs, a more favorable sales mix in the Specialty Foods segment and the benefits of higher candle sales contributed to the higher gross margins. Other income for the current-year second quarter totaled approximately $0.9 million compared to $7.8 million in the prior-year comparative period. These figures included Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) receipts totaling approximately $0.9 million in the second quarter of 2010 and approximately $8.7 million in the corresponding period of 2009. Net income for the three months ended December 31, 2009 totaled approximately $39.5 million, or $1.40 per diluted share. Net income totaled approximately $28.5 million in the second quarter of 2009, or $1.02 per diluted share.

Year-to-date net sales for the period ended December 31, 2009 increased 1% to approximately $558.3 million from the prior year-to-date total of $552.1 million. Gross margin increased to approximately $148.5 million from the prior year-to-date total of $97.8 million. Net income for the six months ended December 31, 2009 totaled approximately $67.9 million, or $2.41 per diluted share. Net income totaled approximately $39.5 million in the six months ended December 31, 2008, or $1.40 per diluted share.

RESULTS OF CONSOLIDATED OPERATIONS

Net Sales and Gross Margin

	Three Months Ended December 31				Six Months Ended December 31			
	2009	**2008**	**Change**		**2009**	**2008**	**Change**	
Net Sales								
Specialty Foods	**$ 243,099**	$ 245,393	**$ (2,294)**	**(1)%**	**$ 459,440**	$ 466,179	**$ (6,739)**	**(1)%**
Glassware and Candles	**61,016**	42,849	**18,167**	**42%**	**98,835**	85,900	**12,935**	**15%**
Total	**$ 304,115**	$ 288,242	**$ 15,873**	**6%**	**$ 558,275**	$ 552,079	**$ 6,196**	**1%**
Gross Margin	**$ 84,777**	$ 58,163	**$ 26,614**	**46%**	**$ 148,484**	$ 97,832	**$ 50,652**	**52%**
Gross Margin as a Percentage of Sales	**27.9%**	20.2%			**26.6%**	17.7%		

Consolidated net sales for the second quarter and six months ended December 31, 2009 increased 6% and 1%, respectively. During both periods, increased sales within the Glassware and Candles segment were partially offset by lower sales within the Specialty Foods segment.

For both the three and six months ended December 31, 2009, net sales of the Specialty Foods segment declined by 1%. This decline reflected moderately lower foodservice sales. Foodservice sales declined by approximately 8% in both periods with contributing factors including somewhat weaker demand from restaurant chains and downward pricing adjustments in certain of our customer supply arrangements that occurred as a result of lower key ingredient costs. We believe these foodservice trends may persist to some degree through the balance of 2010. Retail sales

increased approximately 5% for the three and six months ended December 31, 2009, with volume growth coming from both frozen and non-frozen products. While pricing for retail products remained relatively firm through the six months ended December 31, 2009, competitive conditions could lead to lower net pricing levels among certain products during calendar 2010.

The increase in net sales of the Glassware and Candles segment for both the three and six months ended December 31, 2009 reflected improved consumer demand for high-quality, value-priced candles, the success

Table of Contents

of new products and higher seasonal sales. We believe that customer order patterns resulted in some amount of seasonal product being sold in the second quarter of 2010 as opposed to in the first quarter of 2009.

As a percentage of sales, our consolidated gross margin for the three and six months ended December 31, 2009 was 27.9% and 26.6%, respectively, as compared to 20.2% and 17.7% achieved in the prior-year comparative periods.

In the Specialty Foods segment, gross margin percentages improved in both the three and six months ended December 31, 2009 as a result of such factors as improvements in operating efficiencies, a stronger retail sales mix and lower commodity costs. We estimate the favorable year-over-year impact of commodity costs for the three and six months ended December 31, 2009 exceeded $13 million and $31 million, respectively. We believe that the comparative impact of commodity costs will likely be significantly less beneficial over the balance of 2010.

Gross margin percentages in the Glassware and Candles segment improved from the prior-year periods due to lower material costs and higher sales and operating levels.

Selling, General and Administrative Expenses

	Three Months Ended December 31			Six Months Ended December 31		
	2009	**2008**	**Change**	**2009**	**2008**	**Change**
Selling, General and Administrative Expenses	**$ 24,400**	$ 21,917	**$ 2,483 11%**	**$ 44,868**	$ 42,178	**$ 2,690 6%**
SG&A Expenses as a Percentage of Sales	**8.0%**	7.6%		**8.0%**	7.6%	

Consolidated selling, general and administrative costs of approximately $24.4 million and $44.9 million for the three and six months ended December 31, 2009 increased by 11% and 6%, respectively, from the $21.9 million and $42.2 million incurred for the three and six months ended December 31, 2008. The higher sales in 2010 contributed to the overall increase as did greater investment in brand marketing initiatives within the Specialty Foods segment.

Restructuring and Impairment Charges

Specialty Foods Segment Fiscal 2010

In the first quarter of 2010, we committed to a plan to close our dressings and sauces manufacturing operation located in Wilson, New York. This decision was intended to provide greater efficiency in our Specialty Foods segment by consolidating most of this facility s operations into other existing plants, outsourcing certain requirements and exiting less profitable dressing lines. Production at this facility was phased out in the second quarter of 2010, and while timing of the disposal of the associated real estate is difficult to predict, this closure was essentially complete at December 31, 2009. The operations of this location have not been reclassified to discontinued operations in accordance with generally accepted accounting principles for the impairment or disposal of long-lived assets.

During the three and six months ended December 31, 2009, we recorded restructuring charges of approximately $1.3 million ($0.9 million after taxes) and $2.2 million ($1.5 million after taxes), respectively, including approximately $0.1 million and $0.2 million recorded in Cost of Sales for the write-down of inventories during the three and six months ended December 31, 2009, respectively. The remaining charges consisted of one-time termination benefits, a pension curtailment charge and other various closing costs. Cash expenditures for the three and six months ended December 31, 2009 were approximately $1.7 million and were for the one-time termination benefits and other closing costs.

Table of Contents

An analysis of the restructuring activity for the six months ended December 31, 2009 recorded within the Specialty Foods segment follows:

	Accrual at June 30, 2009	2010 Charges	2010 Cash Outlays	Accrual at December 31, 2009
Restructuring Charges				
Employee Separation Costs	$	$ 1,643	$ (1,643)	$
Other Costs		54	(54)	
Subtotal	$	1,697	$ (1,697)	$
Pension Curtailment Charges		349		
Inventory Write-Down		179		
Total Restructuring Charges		$ 2,225		

There may be some other miscellaneous expenses and cash payments, but we do not expect other significant restructuring costs related to this closure. The total costs associated with this closure were ultimately less than originally estimated due to the actual timing of the closure and its impact on the one-time termination benefits and also due to lower than expected other closing costs.

Specialty Foods Segment Fiscal 2009

In the first quarter of 2009, we began consolidating our Atlanta, Georgia dressing operation into our other existing food facilities as part of our cost-reduction efforts within the Specialty Foods segment. During the six months ended December 31, 2008, we recorded restructuring and impairment charges of approximately $0.8 million ($0.5 million after taxes). This closure was essentially complete at September 30, 2008, and the disposition of the associated real estate occurred in December 2008. We do not expect any other costs or cash expenditures related to this closure.

Other Segments Fiscal 2009

During fiscal 2007, we initiated our plan to close our industrial glass operation located in Lancaster, Ohio. During the six months ended December 31, 2008, we recorded additional restructuring and impairment charges of approximately $0.8 million ($0.5 million after taxes) within corporate expenses for costs incurred during the period. The total costs associated with this plant closure totaled approximately $5.7 million. This closure was essentially complete at September 30, 2008. We do not currently expect other significant restructuring costs related to this closure.

Held for Sale

As a result of the current-year closing discussed above, as well as various prior-year restructuring and divestiture activities, we have certain held for sale properties, with a total net book value of approximately $2.9 million, which have been reclassified to current assets and are included in Deferred Income Taxes and Other Current Assets on the Consolidated Balance Sheet. In accordance with generally accepted accounting principles for property, plant and equipment, we are no longer depreciating these held for sale assets and they are being actively marketed for sale.

Table of Contents

Operating Income (Loss)

The foregoing factors contributed to consolidated operating income totaling approximately $59.2 million and $101.6 million for the three and six months ended December 31, 2009, respectively. These amounts represent increases of 63% and 88% from the corresponding periods of the prior year. By segment, our operating income can be summarized as follows:

	Three Months Ended December 31				Six Months Ended December 31			
	2009	**2008**	**Change**		**2009**	**2008**	**Change**	
Operating Income (Loss)								
Specialty Foods	**$ 56,146**	$ 39,651	**$ 16,495**	**42%**	**$ 99,298**	$ 63,140	**$ 36,158**	**57%**
Glassware and Candles	**6,142**	(1,007)	**7,149**	**710%**	**7,813**	(3,869)	**11,682**	**302%**
Corporate Expenses	**(3,127)**	(2,390)	**(737)**	**31%**	**(5,541)**	(5,223)	**(318)**	**6%**
Total	**$ 59,161**	$ 36,254	**$ 22,907**	**63%**	**$ 101,570**	$ 54,048	**$ 47,522**	**88%**
Operating Income (Loss) as a Percentage of Sales								
Specialty Foods	**23.1%**	16.2%			**21.6%**	13.5%		
Glassware and Candles	**10.1%**	(2.4)%			**7.9%**	(4.5)%		
Consolidated	**19.5%**	12.6%			**18.2%**	9.8%		

Interest Expense

We incurred no interest expense for the three and six months ended December 31, 2009 as there were no borrowings outstanding during the period. We incurred interest expense of approximately $0.6 million and $1.1 million for the three and six months ended December 31, 2008, respectively, related to long-term borrowings.

Other Income Continued Dumping and Subsidy Offset Act

The CDSOA provides for the distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately $0.9 million in the second quarter of 2010, as compared to a distribution of approximately $8.7 million in the corresponding period of 2009. These remittances related to certain candles being imported from the People s Republic of China.

Legislation was enacted in February 2006 to repeal the applicability of the CDSOA to duties collected on products imported after September 2007. However, all duties collected on an entry filed before October 1, 2007 will continue to be available for distribution under former section 1675(c) of the CDSOA. Accordingly, we may receive some level of annual distributions for an undetermined period of years in the future as the monies collected that relate to entries filed prior to October 2007 are administratively finalized by U.S. Customs. Without further legislative action, we expect these distributions will eventually cease.

The uncertainties surrounding the legislative and administrative challenges have been compounded by cases brought in U.S. courts challenging the CDSOA. In two separate cases, the U.S. Court of International Trade (CIT) ruled that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The U.S. Court of Appeals for the Federal Circuit reversed one of the CIT decisions in February 2009, but the case remains subject to further appeal. The second CIT case has been stayed pending resolution of this appeal. Other cases remain pending that challenge certain aspects of the CDSOA, any of which could affect the amount of funds available for distribution,

including funds relating to entries prior to October 2007.

Table of Contents

The extent to which we may receive any future CDSOA distributions is subject to the legal challenges and uncertainties described above. Accordingly, we cannot predict the amount of future distributions, and it is possible that we may not receive any further distributions. Any reduction in CDSOA distributions could reduce our earnings and cash flow.

Income Before Income Taxes

As impacted by the factors discussed above, income before income taxes for the three months ended December 31, 2009 increased by approximately $16.1 million to $60.1 million from the prior-year total of $44.0 million. Income before income taxes for the six months ended December 31, 2009 and 2008 was approximately $102.5 million and $61.4 million, respectively. Our effective tax rate of 33.7% for the six months ended December 31, 2009 decreased from the prior-year rate of 35.7%. This decrease reflected, in part, a favorable resolution of certain previously-reserved state and local tax matters in 2010, as further discussed in Note 9 to the consolidated financial statements.

Net Income

Second quarter net income for 2010 of approximately $39.5 million increased from the preceding year s net income for the quarter of $28.5 million, as influenced by the factors noted above. Year-to-date net income of approximately $67.9 million was higher than the prior year-to-date total of $39.5 million. Net income per share for the second quarter of 2010 totaled $1.40 per basic and diluted share, as compared to $1.02 per basic and diluted share recorded in the prior year. Year-to-date net income per share was $2.41 per basic and diluted share, as compared to $1.40 per basic and diluted share for the prior-year period.

FINANCIAL CONDITION

For the six months ended December 31, 2009, net cash provided by operating activities totaled approximately $69.2 million as compared to $62.9 million in the prior-year period. The increase results from a higher level of net income, as partially offset by comparatively unfavorable relative changes in working capital components, including receivables, inventory and other current assets. The increase in receivables and decrease in inventories since June 2009 primarily relates to seasonal influences on sales within the Glassware and Candles segment. The change in other current assets reflects the shift from a large prepaid income tax position existing as of June 30, 2008 to an accrued income tax position due to the effect of the loss on the sale of an automotive operation in 2008.

Cash used in investing activities for the six months ended December 31, 2009 was approximately $4.4 million as compared to $6.5 million in the prior year. This decrease reflects a lower level of capital expenditures in 2010.

Cash used in financing activities for the six months ended December 31, 2009 of approximately $11.9 million decreased from the prior-year total of $45.5 million due primarily to decreases in treasury share repurchases and the net change in borrowing activity. At December 31, 2009, approximately 509,000 shares remained authorized for future buyback under the existing share repurchase program.

Under our unsecured revolving credit facility, we may borrow up to a maximum of $160 million at any one time. Loans may be used for general corporate purposes. We currently have no borrowings outstanding under this facility. The facility expires on October 5, 2012, and all outstanding amounts are due and payable on that day.

The facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. At December 31, 2009, we were in compliance with all applicable provisions and covenants of the facility, and we met the requirements of the financial covenants by substantial margins.

We currently expect to remain in compliance with the facility s covenants for the foreseeable future. A default under the facility could accelerate the repayment of any outstanding indebtedness and limit our access to additional credit available under the facility. Such an event could require curtailment of cash dividends or share repurchases, reduce or delay beneficial expansion or investment plans, or otherwise impact our ability to meet our obligations when due. At December 31, 2009, we were not aware of any event that would constitute a default under the facility.

Table of Contents

We believe that internally generated funds and our existing aggregate balances in cash and equivalents, in addition to our currently available bank credit arrangements, should be adequate to meet our foreseeable cash requirements. If we were to borrow outside of our credit facility under current market terms, our average interest rate may increase significantly and have an adverse effect on our results of operations.

For additional information regarding our credit facility, see Note 4 to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS

We have various contractual obligations that are appropriately recorded as liabilities in our consolidated financial statements. Certain other obligations, such as purchase obligations, are not recognized as liabilities in our consolidated financial statements. Examples of obligations not recognized as liabilities in our consolidated financial statements are commitments to purchase raw materials or inventory that have not yet been received as of December 31, 2009 and future minimum lease payments for the use of property and equipment under operating lease agreements. Aside from expected changes in raw-material needs due to changes in product demand, there have been no significant changes to the contractual obligations disclosed in our 2009 Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies from those disclosed in our 2009 Annual Report on Form 10-K.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2008, the Financial Accounting Standards Board (FASB) issued a FASB Staff Position (FSP) No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which is now part of Accounting Standards Codification (ASC) Topic 715, Compensation-Retirement Benefits. FSP FAS 132(R)-1 provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP expands the disclosure set forth in general accounting principles for retirement benefits by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentration of risk. Additionally, the FSP requires an employer to disclose information about the valuation of plan assets similar to that required under general accounting principles for fair value measurements. This FSP is effective for fiscal years ending after December 15, 2009, with earlier adoption permitted. We are currently reviewing the additional disclosure requirements regarding our benefit plans assets.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective July 1, 2009, we adopted the provisions of a FSP on the FASB s Emerging Issues Task Force Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which is now part of ASC Topic 260, Earnings Per Share. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in generally accepted accounting principles for EPS. The restricted stock we previously granted to employees was deemed to meet the definition of a participating security as the employees receive nonforfeitable dividends before the stock becomes vested. Our adoption of this FSP required that we retrospectively restate EPS for all periods presented. There was no impact on EPS for the three and six months ended December 31, 2008. See further discussion in Note 1 to the consolidated financial statements.

FORWARD-LOOKING STATEMENTS

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the PSLRA). This Quarterly Report on Form 10-Q contains various forward-looking statements within the meaning of the PSLRA and other applicable securities laws. Such statements can be identified by the use of the forward-looking words anticipate, estimate, project, believe, intend,

Table of Contents

plan, expect, hope, or similar words. These statements discuss future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments, and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, you should not place undue reliance on such statements that are based on current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such forward-looking statements. More detailed statements regarding significant events that could affect our financial results are included in Item 1A of our Annual Report on Form 10-K and also our Quarterly Reports on Form 10-Q, as filed with the Securities and Exchange Commission.

Specific influences relating to these forward-looking statements include, but are not limited to:

- the potential for loss of larger programs or key customer relationships;
- the effect of consolidation of customers within key market channels;
- the continued solvency of key customers;
- the success and cost of new product development efforts;
- the lack of market acceptance of new products;
- the reaction of customers or consumers to the effect of price increases we may implement;
- changes in demand for our products, which may result from loss of brand reputation or customer goodwill;
- changes in market trends;
- the extent to which future business acquisitions are completed and acceptably integrated;
- the possible occurrence of product recalls;
- efficiencies in plant operations, including the ability to optimize overhead utilization in candle operations;
- the overall strength of the economy;
- changes in financial markets;
- slower than anticipated sales growth;
- the extent of operational efficiencies achieved;
- price and product competition;

the uncertainty regarding the effect or outcome of any decision to explore further strategic alternatives among our nonfood operations;

fluctuations in the cost and availability of raw materials;

adverse changes in energy costs and other factors that may affect costs of producing, distributing or transporting our products;

the impact of fluctuations in our pension plan asset values on funding levels, contributions required and benefit costs;

maintenance of competitive position with respect to other manufacturers, including import sources of production;
dependence on key personnel;

stability of labor relations;

fluctuations in energy costs;

dependence on contract copackers;

effect of governmental regulations, including environmental matters;

Table of Contents

legislation and litigation affecting the future administration of the CDSOA;

access to any required financing;

changes in income tax laws;

unexpected costs relating to the holding or disposition of idle real estate;

changes in estimates in critical accounting judgments; and

innumerable other factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks have not changed materially from those disclosed in our 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2009 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is 1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and 2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

(b) *Changes in Internal Control Over Financial Reporting.* No changes were made to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under Item 1A in our 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) In August 2007, our Board of Directors approved a share repurchase authorization of 2,000,000 shares, of which approximately 509,000 shares remained authorized for future repurchases at December 31, 2009. In the second quarter, we made no repurchases of our common stock. This share repurchase authorization does not have a stated expiration date.

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

We held our 2009 Annual Meeting of the Shareholders on November 16, 2009. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934. The following three incumbent directors, whose terms will expire in 2012, were elected at the annual meeting:

	Shares Voted For	Shares Withheld	Shares Not Voted
James B. Bachmann	26,515,101	122,201	1,534,459
Neeli Bendapudi	25,962,135	675,167	1,534,459
John L. Boylan	25,180,818	1,456,484	1,534,459

The shareholders also ratified the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending June 30, 2010. This proposal was ratified by 26,542,649 shares voted for; 71,817 shares voted against; and 22,836 shares abstained.

Item 6. Exhibits

See Index to Exhibits following Signatures.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lancaster Colony Corporation
(Registrant)

Date: February 5, 2010

By: /s/ John B. Gerlach, Jr.
John B. Gerlach, Jr.
Chairman, Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: February 5, 2010

By: /s/ John L. Boylan
John L. Boylan
Treasurer, Vice President, Assistant Secretary, Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FORM 10-Q
DECEMBER 31, 2009

INDEX TO EXHIBITS

Exhibit Number	Description	Located at
31.1	Certification of CEO under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of CFO under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of CEO and CFO under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith