LANCASTER COLONY CORP
Form 10-Q
November 09, 2010

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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 September 30, 2010

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 þ 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 (Do not check if a smaller reporting company)	Smaller Reporting Company o

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 October 29, 2010, there were approximately 27,867,000 shares of Common Stock, without par value, outstanding.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except share data)	September 30 2010	June 30 2010
ASSETS		
Current Assets:		
Cash and equivalents	**$ 87,430**	$ 100,890
Receivables (less allowance for doubtful accounts, September $578 and June $516)	**82,927**	67,766
Inventories:		
Raw materials	**38,690**	36,812
Finished goods and work in process	**92,568**	84,697
Total inventories	**131,258**	121,509
Deferred income taxes and other current assets	**25,814**	27,234
Total current assets	**327,429**	317,399
Property, Plant and Equipment:		
Land, buildings and improvements	**129,789**	129,747
Machinery and equipment	**248,285**	242,024
Total cost	**378,074**	371,771
Less accumulated depreciation	**209,272**	205,674
Property, plant and equipment net	**168,802**	166,097
Other Assets:		
Goodwill	**89,840**	89,840
Other intangible assets net	**9,223**	9,514
Other noncurrent assets	**2,947**	3,603
Total	**$ 598,241**	$ 586,453
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	**$ 45,233**	$ 41,904
Accrued liabilities	**38,969**	36,049
Total current liabilities	**84,202**	77,953
Other Noncurrent Liabilities	**18,352**	19,138

Deferred Income Taxes		**6,477**		4,454
Shareholders Equity:				
Preferred stock authorized 3,050,000 shares; outstanding none				
Common stock authorized 75,000,000 shares; outstanding September 27,947,005 shares; June 28,167,549 shares		**95,484**		94,885
Retained earnings		**1,094,373**		1,080,015
Accumulated other comprehensive loss		**(9,720)**		(9,797)
Common stock in treasury, at cost		**(690,927)**		(680,195)
Total shareholders equity		**489,210**		484,908
Total	**$**	**598,241**	$	586,453

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)	Three Months Ended September 30 2010		Three Months Ended September 30 2009	
Net Sales	**$**	**265,051**	$	254,160
Cost of Sales		**206,980**		190,453
Gross Margin		**58,071**		63,707
Selling, General and Administrative Expenses		**23,245**		20,468
Restructuring and Impairment Charges				830
Operating Income		**34,826**		42,409
Interest Income and Other Net		**16**		25
Income Before Income Taxes		**34,842**		42,434
Taxes Based on Income		**12,075**		14,029
Net Income	**$**	**22,767**	$	28,405
Net Income Per Common Share:				
Basic and Diluted	**$**	**.81**	$	1.01
Cash Dividends Per Common Share	**$**	**.30**	$	.285
Weighted Average Common Shares Outstanding:				
Basic		**28,014**		28,081
Diluted		**28,037**		28,115

See accompanying notes to consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	Three Months Ended September 30 2010	2009
Cash Flows From Operating Activities:		
Net income	**$ 22,767**	$ 28,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**4,964**	5,422
Deferred income taxes and other noncash changes	**1,409**	(171)
Restructuring and impairment charges		952
Pension plan activity	**116**	117
Changes in operating assets and liabilities:		
Receivables	**(15,767)**	(17,248)
Inventories	**(9,749)**	(8,204)
Other current assets	**2,754**	(3,499)
Accounts payable and accrued liabilities	**2,768**	13,102
Net cash provided by operating activities	**9,262**	18,876
Cash Flows From Investing Activities:		
Payments on property additions	**(6,725)**	(1,919)
Other net	**435**	(275)
Net cash used in investing activities	**(6,290)**	(2,194)
Cash Flows From Financing Activities:		
Purchase of treasury stock	**(10,732)**	
Payment of dividends	**(8,409)**	(8,027)
Proceeds from the exercise of stock awards	**1**	2,985
Increase in cash overdraft balance	**2,708**	2,316
Net cash used in financing activities	**(16,432)**	(2,726)
Net change in cash and equivalents	**(13,460)**	13,956
Cash and equivalents at beginning of year	**100,890**	38,484
Cash and equivalents at end of period	**$ 87,430**	$ 52,440
Supplemental Disclosure of Operating Cash Flows:		
Cash paid during the period for income taxes	**$ 605**	$ 1,704

See accompanying notes to consolidated financial statements.

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

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP 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 2010 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, 2011 refers to fiscal 2011, which is the period from July 1, 2010 to June 30, 2011.

Subsequent Events

We have evaluated events occurring between the end of our most recent fiscal quarter and the date the financial statements were issued and noted no events that would require recognition or disclosure in these financial statements.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Purchases of property, plant and equipment included in accounts payable at September 30, 2010 and 2009 were less than $0.1 million and approximately $0.1 million, respectively. These purchases, less the preceding June 30 balances, have been excluded from the property additions and the change in accounts payable in the Consolidated Statements of Cash Flows.

Earnings Per Share

Earnings per share (EPS) is computed based on the weighted average number of shares of common stock and common stock equivalents (stock options, restricted stock and stock-settled stock appreciation rights) outstanding during each period. Unvested shares of restricted stock granted to employees are considered participating securities since employees receive nonforfeitable dividends prior to vesting and, therefore, are included in the earnings allocation in computing EPS under the two-class method. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to common shareholders by the diluted weighted average number of common shares outstanding during the period, which includes the dilutive potential common shares associated with outstanding stock options, restricted stock and stock-settled stock appreciation rights.

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

	Three Months Ended September 30	
	2010	**2009**
Net income	**$ 22,767**	$ 28,405
Net income available to participating securities	**(41)**	(29)
Net income available to common shareholders	**$ 22,726**	$ 28,376
Weighted average common shares outstanding basic	**28,014**	28,081
Incremental share effect from:		
Stock options		8
Restricted stock	**6**	11
Stock-settled stock appreciation rights	**17**	15
Weighted average common shares outstanding diluted	**28,037**	28,115
Net income per common share basic and diluted	**$ .81**	$ 1.01

Comprehensive Income

Total comprehensive income for the three months ended September 30, 2010 and 2009 was approximately $22.8 million and $28.7 million, respectively. The September 30, 2010 and 2009 comprehensive income consists of net income and the amortization of pension and postretirement losses.

Significant Accounting Policies

There were no changes to our Significant Accounting Policies from those disclosed in our 2010 Annual Report on Form 10-K.

Note 2 Impact of Recently Issued Accounting Standards

There were no recently issued accounting pronouncements that impact our consolidated financial statements.

Note 3 Goodwill and Other Intangible Assets

Goodwill attributable to the Specialty Foods segment was approximately $89.8 million at September 30, 2010 and June 30, 2010.

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The following table summarizes our identifiable other intangible assets, all included in the Specialty Foods segment:

	September 30 2010	June 30 2010
Trademarks (40-year life)		
Gross carrying value	**$ 370**	$ 370
Accumulated amortization	**(179)**	(177)
Net Carrying Value	**$ 191**	$ 193
Customer Relationships (12 to 15-year life)		
Gross carrying value	**$ 13,020**	$ 13,020
Accumulated amortization	**(4,289)**	(4,054)
Net Carrying Value	**$ 8,731**	$ 8,966
Non-compete Agreements (5 to 8-year life)		
Gross carrying value	**$ 1,540**	$ 1,540
Accumulated amortization	**(1,239)**	(1,185)
Net Carrying Value	**$ 301**	$ 355
Total Net Carrying Value	**$ 9,223**	$ 9,514

Amortization expense relating to these assets was approximately $0.3 million for the three months ended September 30, 2010 and 2009. Total annual amortization expense is estimated to be approximately $1.1 million next year, $0.9 million for each of the following three years and $0.8 million for the fifth year.

Note 4 Long-Term Debt

At September 30, 2010 and June 30, 2010, 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 in October 2012, and all outstanding amounts are then due and payable. At September 30, 2010 and June 30, 2010, 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, when we have outstanding borrowings under this facility, we classify the outstanding balance as long-term debt. We paid no interest for the three months ended September 30, 2010 and 2009.

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 September 30, 2010 and June 30, 2010.

Note 5 Pension Benefits

We and certain of our operating subsidiaries have sponsored multiple defined benefit pension plans covering union workers at certain locations. As a result of restructuring activities in recent years, at September 30, 2010 there were no active employees continuing to accrue service cost or otherwise eligible to receive plan benefits. Benefits being paid under the plans are primarily based on negotiated rates and years of service. We contribute to these plans at least the minimum amount required by regulation or contract.

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

	Three Months Ended September 30	
	2010	**2009**
Components of net periodic benefit cost		
Service cost	**$**	$ 27
Interest cost	**487**	529
Expected return on plan assets	**(507)**	(538)
Curtailment charge		349
Amortization of unrecognized net loss	**137**	124
Amortization of prior service cost		5
Net periodic benefit cost	**$ 117**	$ 496

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. This charge was recorded in Restructuring and Impairment Charges and related to our Specialty Foods segment.

For the three months ended September 30, 2010, we made no contributions to our pension plans. We expect to make approximately $1.8 million in contributions to our pension plans during 2011.

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 September 30	
	2010	**2009**
Components of net periodic benefit cost		
Service cost	**$ 6**	$ 4
Interest cost	**34**	48
Amortization of unrecognized gain	**(12)**	(3)
Amortization of prior service asset	**(1)**	(1)
Net periodic benefit cost	**$ 27**	$ 48

For the three months ended September 30, 2010, we made less than $0.1 million 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 2011.

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 were options issued under this plan that were exercisable through February 2010. In general,

options granted under the 1995 Plan vested immediately and had a maximum term of five years.
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

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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. We calculated the fair value of option grants using the Black-Scholes option-pricing model. There were no grants of stock options during the three months ended September 30, 2010 and 2009.

We recognized compensation expense over the requisite service period. Total compensation cost related to stock options was zero for the three months ended September 30, 2010 and 2009. There were no stock option exercises during the three months ended September 30, 2010, and there are no outstanding stock options at September 30, 2010. During the three months ended September 30, 2009, we received approximately $2.8 million in cash from the exercise of stock options. The aggregate intrinsic value of these options was approximately $0.6 million. A related tax benefit of approximately $0.2 million was recorded in the three months ended September 30, 2009. 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 included less than $0.1 million of gross windfall tax benefits for the three months ended September 30, 2009.

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. We calculate the fair value of SSSARs grants using the Black-Scholes option-pricing model. Our policy is to issue shares upon SSSAR exercise from new shares that had been previously authorized. There were no grants of SSSARs during the three months ended September 30, 2010 and 2009.

We recognize compensation expense over the requisite service period. Total compensation cost related to SSSARs was approximately $0.3 million and $0.1 million for the three months ended September 30, 2010 and 2009, respectively. These amounts were reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees salaries expense classification and were allocated to each segment appropriately. We recorded a tax benefit of approximately $0.1 million and less than $0.1 million for the three months ended September 30, 2010 and 2009, respectively. We also recorded gross windfall tax benefits of less than $0.1 million for the three months ended September 30, 2010 and 2009. These windfall tax benefits were included in the financing section of the Consolidated Statements of Cash Flows.

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The following table summarizes the activity relating to SSSARs granted under the 2005 Plan for the three months ended September 30, 2010:

	Number of Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	**309**	**$ 49.55**		
Exercised	**(1)**	**$ 38.31**		
Granted		**$**		
Forfeited	**(5)**	**$ 50.78**		
Outstanding at end of period	**303**	**$ 49.53**	**3.67**	**$ 1,208**
Exercisable and vested at end of period	**42**	**$ 38.64**	**2.63**	**$ 376**
Vested and expected to vest at end of period	**299**	**$ 49.66**	**3.68**	**$ 1,176**

The following table summarizes the status of, and changes to, unvested SSSARs during the three months ended September 30, 2010:

	Number of Rights	Weighted Average Grant Date Fair Value
Unvested at beginning of period	**266**	**$ 9.77**
Granted		**$**
Vested		**$**
Forfeited	**(5)**	**$ 9.65**
Unvested at end of period	**261**	**$ 9.78**

At September 30, 2010, there was approximately $1.9 million of unrecognized compensation cost related to SSSARs that we will recognize over a weighted-average period of approximately 2.15 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. There were no grants of restricted stock during the three months ended September 30, 2010 and 2009.

We recognize compensation expense over the requisite service period. Total compensation cost related to restricted stock for the three months ended September 30, 2010 and 2009 was approximate