LANCASTER COLONY CORP
Form 10-Q
February 05, 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 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 (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 January 29, 2010, there were approximately 28,203,000 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)	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.

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

(Amounts in thousands, except per share data)	Three Months Ended December 31 2009	Three Months Ended December 31 2008	Six Months Ended December 31 2009	Six Months Ended December 31 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.

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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.

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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.

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.

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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.

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.

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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 r