

LANCASTER COLONY CORP

Form 10-Q

February 09, 2009

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended December 31, 2008**

**or**

**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**

*(State or other jurisdiction of  
incorporation or organization)*

**13-1955943**

*(I.R.S. Employer  
Identification No.)*

**37 West Broad Street  
Columbus, Ohio**

*(Address of principal executive offices)*

**43215**

*(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  No

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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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  No

As of January 30, 2009, there were approximately 27,970,000 shares of Common Stock, without par value, outstanding.

**LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

<u>Item 1. Consolidated Financial Statements:</u>	3
<u>Consolidated Balance Sheets December 31, 2008 and June 30, 2008</u>	3
<u>Consolidated Statements of Income Three and Six Months Ended December 31, 2008 and 2007</u>	4
<u>Consolidated Statements of Cash Flows Six Months Ended December 31, 2008 and 2007</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 4. Controls and Procedures</u>	22

**PART II OTHER INFORMATION**

<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	24
<u>Item 6. Exhibits</u>	24

<b><u>SIGNATURES</u></b>	25
--------------------------	----

<b><u>INDEX TO EXHIBITS</u></b>	26
---------------------------------	----

<u>EX-3.1</u>
<u>EX-3.2</u>
<u>EX-10.1</u>
<u>EX-10.2</u>
<u>EX-31.1</u>
<u>EX-31.2</u>
<u>EX-32</u>

**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)	<b>December 31 2008</b>	<b>June 30 2008</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and equivalents	\$ 30,340	\$ 19,417
Receivables (less allowance for doubtful accounts, December \$1,156 and June \$1,069)	75,064	59,409
Inventories:		
Raw materials	32,450	34,787
Finished goods and work in process	63,409	85,516
Total inventories	95,859	120,303
Deferred income taxes and other current assets	24,648	34,545
Total current assets	225,911	233,674
<b>Property, Plant and Equipment:</b>		
Land, buildings and improvements	128,178	138,771
Machinery and equipment	243,180	240,490
Total cost	371,358	379,261
Less accumulated depreciation	195,846	199,688
Property, plant and equipment net	175,512	179,573
<b>Other Assets:</b>		
Goodwill	89,840	89,840
Other intangible assets net	11,259	11,841
Other noncurrent assets	4,837	5,250
<b>Total</b>	<b>\$ 507,359</b>	<b>\$ 520,178</b>

**LIABILITIES AND SHAREHOLDERS EQUITY****Current Liabilities:**

Accounts payable	\$ 34,309	\$ 45,964
Accrued liabilities	42,983	42,785
Total current liabilities	77,292	88,749

<b>Long-Term Debt</b>	<b>45,000</b>	55,000
<b>Other Noncurrent Liabilities</b>	<b>15,543</b>	14,547
<b>Deferred Income Taxes</b>	<b>3,122</b>	2,664
<b>Shareholders' Equity:</b>		
Preferred stock authorized 3,050,000 shares; outstanding none		
Common stock authorized 75,000,000 shares; outstanding - December 31, 2008 27,970,230 shares; June 30, 2008 - 28,452,237 shares	<b>83,032</b>	82,652
Retained earnings	<b>964,839</b>	941,244
Accumulated other comprehensive loss	<b>(5,672)</b>	(5,775)
Common stock in treasury, at cost	<b>(675,797)</b>	(658,903)
Total shareholders' equity	<b>366,402</b>	359,218
<b>Total</b>	<b>\$ 507,359</b>	\$ 520,178

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		Six Months Ended	
	December 31		December 31	
	2008	2007	2008	2007
Net Sales	\$ 288,242	\$ 269,447	\$ 552,079	\$ 513,405
Cost of Sales	230,079	225,837	454,247	424,963
Gross Margin	58,163	43,610	97,832	88,442
Selling, General and Administrative Expenses	21,917	21,217	42,178	42,259
Restructuring and Impairment Charges	(8)	46	1,606	182
Operating Income	36,254	22,347	54,048	46,001
<b>Other (Expense) Income:</b>				
Interest expense	(639)	(966)	(1,130)	(1,924)
Other income - Continued Dumping and Subsidy Offset Act	8,696	2,533	8,696	2,533
Interest income and other - net	(271)	241	(196)	396
Income from Continuing Operations Before Income Taxes	44,040	24,155	61,418	47,006
Taxes Based on Income	15,588	8,881	21,946	17,085
Income from Continuing Operations	28,452	15,274	39,472	29,921
Income from Discontinued Operations, Net of Tax		724		1,647
Net Income	\$ 28,452	\$ 15,998	\$ 39,472	\$ 31,568
<b>Income Per Common Share from Continuing Operations:</b>				
Basic and Diluted	\$ 1.02	\$ .51	\$ 1.40	\$ .99
<b>Income Per Common Share from Discontinued Operations:</b>				
Basic and Diluted	\$	\$ .02	\$	\$ .05

**Net Income Per Common Share:**

Basic and Diluted	\$	<b>1.02</b>	\$	.54	\$	<b>1.40</b>	\$	1.05
-------------------	----	-------------	----	-----	----	-------------	----	------

**Cash Dividends Per Common Share**

	\$	<b>.285</b>	\$	.28	\$	<b>.565</b>	\$	.55
--	----	-------------	----	-----	----	-------------	----	-----

**Weighted Average Common Shares Outstanding:**

Basic		<b>27,948</b>		29,855		<b>28,105</b>		30,133
-------	--	---------------	--	--------	--	---------------	--	--------

Diluted		<b>27,959</b>		29,860		<b>28,113</b>		30,140
---------	--	---------------	--	--------	--	---------------	--	--------

See accompanying notes to consolidated financial statements.

**Table of Contents**

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

<b>(Amounts in thousands)</b>	<b>Six Months Ended</b>	
	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 39,472	\$ 31,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations		(1,647)
Depreciation and amortization	10,970	12,925
Deferred income taxes and other noncash changes	(420)	608
Restructuring and impairment charge	(1,221)	(129)
Gain on sale of property	(776)	(150)
Loss on sale of business		5,705
Pension plan activity	(28)	2,638
Changes in operating assets and liabilities:		
Receivables	(15,834)	(16,780)
Inventories	24,444	11,240
Other current assets	11,949	(1,405)
Accounts payable and accrued liabilities	(5,663)	5,457
Net cash provided by operating activities from continuing operations	<b>62,893</b>	50,030
<b>Cash Flows From Investing Activities:</b>		
Payments on property additions	(6,749)	(11,881)
Proceeds from sale of property	1,263	217
Proceeds from sale of business		19,817
Other net	(964)	(1,787)
Net cash (used in) provided by investing activities from continuing operations	<b>(6,450)</b>	6,366
<b>Cash Flows From Financing Activities:</b>		
Net repayment of \$100 million credit facility		(42,500)
Proceeds from debt	25,000	96,104
Payments on debt	(35,000)	(48,504)
Purchase of treasury stock	(16,894)	(49,809)
Payment of dividends	(15,877)	(16,489)
Proceeds from the exercise of stock options		188
Decrease in cash overdraft balance	(2,749)	(4,949)
Net cash used in financing activities from continuing operations	<b>(45,520)</b>	(65,959)
<b>Cash Flows From Discontinued Operations:</b>		
Net cash provided by operating activities from discontinued operations		6,114



Net cash used in investing activities from discontinued operations		(406)
Net cash provided by discontinued operations		5,708
Effect of exchange rate changes on cash		2
Net change in cash and equivalents	<b>10,923</b>	(3,853)
Cash and equivalents at beginning of year	<b>19,417</b>	8,316
Cash and equivalents at end of period	<b>\$ 30,340</b>	\$ 4,463
<b>Supplemental Disclosure Of Operating Cash Flows:</b>		
Cash paid during the period for income taxes	<b>\$ 2,964</b>	\$ 15,506

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 2008 Annual Report on Form 10-K. The prior-year results reflect the classification of sold Automotive operations as discontinued operations. 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, 2009 refers to fiscal 2009, which is the period from July 1, 2008 to June 30, 2009.

***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, 2008 and 2007 were less than \$0.1 million and approximately \$0.3 million, respectively. These purchases, less the preceding June 30 balances, have been excluded from the property additions in the Consolidated Statements of Cash Flows.

***Significant Accounting Policies***

There were no changes to our Significant Accounting Policies from those disclosed in our 2008 Annual Report on Form 10-K.

**Note 2 Impact of Recently Issued Accounting Standards**

In June 2008, the Financial Accounting Standards Board ( FASB ) issued a FASB Staff Position ( FSP ) on the FASB s Emerging Issues Task Force ( EITF ) Issue No. 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ( FSP EITF 03-06-1 ). 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 Statement of Financial Accounting Standards ( SFAS ) No. 128, Earnings Per Share. It affects entities that accrue or pay nonforfeitable cash dividends on share-based payment awards during the awards service period. FSP EITF 03-06-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and will require a retrospective adjustment to all prior period EPS. We are currently evaluating the impact this FSP will have on our calculation and presentation of EPS.

**Note 3 Goodwill and Other Intangible Assets**

Goodwill attributable to the Specialty Foods segment was approximately \$89.8 million at December 31, 2008 and June 30, 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)**

The following table summarizes our identifiable other intangible assets by segment as of December 31, 2008 and June 30, 2008:

	<b>December 31 2008</b>	<b>June 30 2008</b>
<b>Specialty Foods</b>		
Trademarks (40-year life)		
Gross carrying value	\$ 370	\$ 370
Accumulated amortization	(163)	(158)
Net Carrying Value	\$ 207	\$ 212
Customer Relationships (12 to 15-year life)		
Gross carrying value	\$ 13,020	\$ 13,020
Accumulated amortization	(2,650)	(2,182)
Net Carrying Value	\$ 10,370	\$ 10,838
Non-compete Agreements (5 to 8-year life)		
Gross carrying value	\$ 1,540	\$ 1,540
Accumulated amortization	(858)	(749)
Net Carrying Value	\$ 682	\$ 791
Total Net Carrying Value	\$ 11,259	\$ 11,841

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, 2008 and 2007, respectively. Total annual amortization expense is estimated to be approximately \$1.2 million for each of the next two years, \$1.1 million for the third year and \$0.9 million for the fourth and fifth years.

**Note 4 Long-Term Debt**

At December 31, 2008 and June 30, 2008, 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. The facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. Loans may be used for general corporate purposes. At December 31, 2008 and June 30, 2008, we were in compliance with all applicable provisions and covenants of the facility, and we had \$45.0 million and \$55.0 million, respectively, outstanding under the facility with a weighted average interest rate of 1.49% and 2.93%, respectively. Based on the long-term nature of this facility and in accordance with generally accepted accounting principles, we have classified the outstanding balance as long-term debt. We paid approximately \$0.7 million and \$1.1 million of interest for the three and six months ended December 31, 2008, respectively, as compared to approximately \$1.0 million and \$1.9 million in the corresponding periods of the prior year. Based on the borrowing rates currently available to us under the facility, the fair market value of our long-term debt is not materially different from the carrying value.

**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:

	<b>Three Months Ended December 31</b>		<b>Six Months Ended December 31</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 30	\$ 39	\$ 60	\$ 78
Interest cost	541	647	1,082	1,294
Expected return on plan assets	(602)	(805)	(1,204)	(1,610)
SFAS 88 settlement charge		2,972		2,972
Amortization of unrecognized net loss	62	43	124	86
Amortization of prior service cost	26	26	52	52
Amortization of unrecognized net obligation existing at transition	1	1	2	2
Net periodic benefit cost	\$ 58	\$ 2,923	\$ 116	\$ 2,874

In the second quarter of 2008, one of our plans experienced lump sum payments that exceeded the plan's annual service and interest costs. This resulted in an accelerated recognition of plan costs of approximately \$3.0 million for the three and six months ended December 31, 2007, as required under SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88). This charge was included in our corporate expenses within continuing operations because the costs are related to the retained liabilities of the sold companies.

For the three and six months ended December 31, 2008, we made less than \$0.1 million and approximately \$0.1 million in contributions to our pension plans, respectively. We expect to make approximately \$2.9 million more in contributions to our pension plans during the remainder of 2009. The recent deterioration in the securities markets has negatively impacted our plan asset values, the effect of which has not been reflected in the consolidated financial statements as, according to accounting guidance, the plans will not be remeasured until the end of 2009. Upon remeasurement, if the fair value of plan assets has not recovered, or declines further, we could experience an adverse change in the funded status of our plans which would lead to additional cash contributions and increased benefit costs for 2010. We will further assess the impact of these changes when we are evaluating the year-end pension remeasurement results.

**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:

	<b>Three Months Ended December 31</b>		<b>Six Months Ended December 31</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 5	\$ 7	\$ 9	\$ 13
Interest cost	50	57	99	115

Edgar Filing: LANCASTER COLONY CORP - Form 10-Q

Amortization of unrecognized gain	(5)		(9)	
Amortization of prior service asset	(2)	(1)	(3)	(2)
Net periodic benefit cost	\$ 48	\$ 63	\$ 96	\$ 126

8

---

**Table of Contents**

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

For the three and six months ended December 31, 2008, we made approximately \$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 2009.

**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 options 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 and Stock-Settled Stock Appreciation Rights***

Under SFAS No. 123R, Share-Based Payment, we calculate fair value of option grants using the Black-Scholes option-pricing model.

In February 2008, we granted 153,550 stock-settled stock appreciation rights ( SSSARs ) to various employees under the terms of the 2005 Plan mentioned above. The weighted average per share fair value of the SSSARs grant was \$6.00 and was estimated at the date of grant using the Black-Scholes option-pricing model. Assumptions used in the model for this prior-year grant are described in our 2008 Annual Report on Form 10-K. These SSSARs vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date and one-third on the third anniversary of the grant date. We are assuming a forfeiture rate of four percent for this grant.

There were no grants of stock options or SSSARs in the six months ended December 31, 2008 and 2007.

We recognize compensation expense over the requisite service period. Total compensation cost related to these share-based payment arrangements for the three and six months ended December 31, 2008 was less than \$0.1 million and approximately \$0.1 million, respectively, as compared to less than \$0.1 million for the three and six months ended December 31, 2007. These amounts were reflected in Selling, General and Administrative Expenses and were allocated to each segment appropriately. A tax benefit of less than \$0.1 million and approximately \$0.1 million was recorded for the three and six months ended December 31, 2008, respectively, compared to zero for the comparable periods of 2008. No initial tax benefits are 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.

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

During the three and six months ended December 31, 2007, we received approximately \$0.2 million in cash from the exercise of stock options. The aggregate intrinsic value of these options was less than \$0.1 million for the three and six months ended December 31, 2007. A related tax benefit of less than \$0.1 million was recorded in the three and six months ended December 31, 2007. 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, 2007.

**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 summarizes the activity relating to stock options granted under the 1995 Plan and SSSARs granted under the 2005 Plan mentioned above for the six months ended December 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at beginning of period	392,550	\$ 40.26		
Exercised				
Granted				
Forfeited	(18,250)	41.43		
Outstanding at end of period	374,300	\$ 40.21	2.39	\$
Exercisable and vested at end of period	220,459	\$ 41.52	1.16	\$
Vested and expected to vest at end of period	368,658	\$ 40.24	2.36	\$

The following summarizes the status of, and changes to, unvested options and SSSARs during the six months ended December 31, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	155,117	\$ 6.02
Granted		
Vested		
Forfeited	(1,276)	7.30
Unvested at end of period	153,841	\$ 6.01

At December 31, 2008, there was approximately \$0.6 million of total unrecognized compensation cost related to stock options and SSSARs that we will recognize over a weighted-average period of approximately 2.16 years.

**Restricted Stock**

On November 17, 2008, we granted a total of 14,000 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 \$29.38. This restricted stock vests over a one-year period, and all of these shares are expected to vest. Dividends earned on the stock 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 3,000 shares of restricted stock that were granted to our seven nonemployee directors on November 19, 2007 vested during the second quarter of 2009, and the directors were paid the related dividends that had been held in escrow.



On February 27, 2008, we granted a total of 23,600 shares of restricted stock to various key employees under the terms of the 2005 Plan discussed above. The restricted stock had a grant date fair value of approximately \$0.9 million based on a per share closing stock price of \$38.31. The restricted stock vests on the third anniversary of the grant date. We are assuming a forfeiture rate of four percent for this grant. Under the terms of the grant, employees will receive dividends on unforfeited restricted stock regardless of their vesting status.

**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 summarizes the activity related to restricted stock transactions for the six-month period ended December 31, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at beginning of period	26,600	\$ 38.29
Granted	14,000	29.38
Vested	(3,000)	38.14
Forfeited	(300)	38.31
Unvested restricted stock at end of period	37,300	\$ 34.96
Vested and exercisable restricted stock at end of period		
Vested and expected to vest restricted stock at end of period	36,662	\$ 34.90

We recognize compensation expense over the requisite service period. Compensation expense of approximately \$0.1 million and \$0.2 million was recorded for the three and six months ended December 31, 2008, respectively, in Selling, General and Administrative Expenses, as compared to less than \$0.1 million and approximately \$0.1 million in the corresponding periods of the prior year. A tax benefit of less than \$0.1 million and approximately \$0.1 million was recorded for the three and six months ended December 31, 2008, respectively, as compared to less than \$0.1 million for the three and six months ended December 31, 2007 related to this restricted stock.

At December 31, 2008, there was approximately \$1.0 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted average period of 1.69 years.

**Note 8 Restructuring and Impairment Charges*****Specialty Foods Segment***

In the first quarter of 2009, we began consolidating our Atlanta dressing operation into our other existing food facilities as part of our cost-reduction efforts within the Specialty Foods segment. During the three months ended December 31, 2008, we recorded an adjustment to the restructuring and impairment charges that resulted in a reduction of the charges of less than \$0.1 million. During the six months ended December 31, 2008, we recorded restructuring and impairment charges of approximately \$0.8 million (\$0.5 million after taxes). The majority of these charges resulted in cash outlays and consisted of one-time termination benefits. This closure was essentially complete at September 30, 2008, except for the disposition of the associated real estate, which occurred in December 2008 and resulted in a gain of approximately \$0.5 million, which is recorded in cost of sales. No other costs or cash expenditures are expected related to this closure. The operations of this closed location have not been reclassified to discontinued operations under the guidance provided in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ).

An analysis of the restructuring activity for the six months ended December 31, 2008 recorded within the Specialty Foods segment follows:

Accrual at	2009	Accrual at December
June 30,	2009	31,
	Cash	

	<b>2008</b>	<b>Charge</b>	<b>Outlays</b>	<b>2008</b>
<b>Restructuring and Impairment Charges</b>				
Employee Separation Costs	\$	\$ 555	\$ (555)	\$
Other Costs		162	(162)	
Subtotal	\$	717	\$ (717)	\$
Fixed Asset Impairment		47		
Total		\$ 764		

**Table of Contents**

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

**Other Segments**

In the third quarter of 2007, we announced our plan to close our industrial glass operation located in Lancaster, Ohio. During 2007, we recorded restructuring and impairment charges, within the Glassware and Candles segment, of approximately \$3.5 million (\$2.3 million after taxes) including \$1.4 million recorded in cost of sales for the write-down of inventories. Active business operations have ceased for this operation. The operations of this closed unit have not been reclassified to discontinued operations under the guidance provided in SFAS 144. During 2008, we recorded additional charges of approximately \$1.3 million (\$0.8 million after taxes), including less than \$0.1 million recorded in cost of sales for the write-down of inventories, for costs incurred during the period. The majority of these charges were for disposal-related activities associated with idle real property.

During the three and six months ended December 31, 2008, we recorded additional restructuring and impairment charges of less than \$0.1 million and approximately \$0.8 million (\$0.5 million after taxes), respectively, for costs incurred during the period. The majority of these charges were for disposal-related activities associated with idle real property. These charges were recorded within corporate expenses as the remaining assets and liabilities from this closed operation are now considered corporate assets and liabilities.

The total costs associated with this plant closure were approximately \$5.7 million and include all of the above-noted costs. This closure was essentially complete at September 30, 2008. No other costs or cash expenditures are expected related to this closure.

An analysis of the restructuring activity for the six months ended December 31, 2008 recorded within corporate expenses follows:

	<b>Accrual at</b>		<b>2009</b>		<b>Accrual at December 31, 2008</b>
	<b>June 30, 2008</b>		<b>2009 Charge</b>	<b>Cash Outlays</b>	
<b>Restructuring and Impairment Charges</b>					
Employee Separation Costs	\$ 69		\$	(69)	\$
Other Costs	1,184		842	(2,026)	
Total	\$ 1,253		\$ 842	\$ (2,095)	\$

During 2009, certain real property previously used by our divested consumer and floral glass operations met the criteria defined in SFAS 144 to be considered held for sale. During the quarter ended December 31, 2008, we sold certain of these held for sale properties with a net book value of less than \$0.1 million for a gain of \$0.4 million, which is recorded in cost of sales. The remaining properties, along with other previously-deemed held for sale properties, with a total net book value of approximately \$3.1 million, 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 SFAS 144, we are no longer depreciating these held for sale assets.

**Note 9 Income Taxes**

The gross tax contingency reserve at December 31, 2008 was approximately \$2.7 million and consisted of tax liabilities of approximately \$1.6 million and penalties and interest of approximately \$1.1 million. In accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, these liabilities have been classified in the Consolidated Balance Sheet as long-term since payment is not expected to occur 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 do not have any unrecognized tax benefits for uncertain tax positions. We recognize interest and penalties related to these tax liabilities in income tax

expense.

**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 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, 2008 consolidated financial statements:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net Sales</b>				
Specialty Foods	<b>\$ 245,393</b>	\$ 215,150	<b>\$ 466,179</b>	\$ 399,939
Glassware and Candles	<b>42,849</b>	54,297	<b>85,900</b>	113,466
Total	<b>\$ 288,242</b>	\$ 269,447	<b>\$ 552,079</b>	\$ 513,405
<b>Operating Income (Loss)</b>				
Specialty Foods	<b>\$ 39,651</b>	\$ 28,309	<b>\$ 63,140</b>	\$ 52,083
Glassware and Candles	<b>(1,007)</b>	(780)	<b>(3,869)</b>	1,633
Corporate Expenses	<b>(2,390)</b>	(5,182)	<b>(5,223)</b>	(7,715)
Total	<b>\$ 36,254</b>	\$ 22,347	<b>\$ 54,048</b>	\$ 46,001

**Note 11 Commitments and Contingencies**

In addition to the items discussed below, at December 31, 2008, 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 \$8.7 million in the second quarter of 2009, as compared to a distribution of approximately \$2.5 million in the corresponding period of 2008. These remittances related to certain candles being imported from the People's Republic of China.

The CDSOA has faced a growing number of legal challenges. In February 2006, legislation was enacted to repeal the applicability of the CDSOA to duties collected on imported products after September 2007. This legislation is expected to reduce overall distributions, with distributions eventually ceasing. In addition, the U.S. Court of International Trade ( CIT ) ruled in two separate cases that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The CIT rulings are still under appeal, and other cases have been brought, from time to time, challenging various aspects of the CDSOA. The ultimate resolution of ongoing litigation concerning the CDSOA and the effects, if any, the litigation will have on our financial results or receipt of future CDSOA distributions, are uncertain. Based on the current legal challenges, we cannot predict the amount of future distributions and it is possible that we may not receive any further distributions.

**Note 12 Comprehensive Income**

Total comprehensive income for the three and six months ended December 31, 2008 was approximately \$28.5 million and \$39.6 million, respectively. Total comprehensive income for the three and six months ended December 31, 2007 was approximately \$16.9 million and \$32.6 million, respectively. The December 31, 2008 comprehensive income consists of net income and pension amortization. The December 31, 2007 comprehensive income consists of net income, foreign currency translation adjustments and pension 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, 2008 and our financial condition as of December 31, 2008. 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, 2009 refers to fiscal 2009, which is the period from July 1, 2008 to June 30, 2009. In the discussion that follows, we analyze the results of our operations for the three and six months ended December 31, 2008, 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 primarily a manufacturer and marketer of consumer goods. Our focus is manufacturing and marketing specialty foods for the retail and foodservice markets. We also manufacture and market candles for the food, drug and mass markets. Less significantly, we have operations engaged in the distribution of various products, including glassware and candles, to commercial markets. Our operating businesses 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. Fiscal 2008 marked another significant year in implementing this strategy as we continued to divest nonfood operations and focus our capital investment in the Specialty Foods segment. In June 2008, we sold substantially all of the assets of our remaining automotive operations. In November 2007, we sold most of our consumer and floral glass operating assets. These transactions, combined with other strategic dispositions and investments in 2007 and 2008, have resulted in transforming our company into a food-focused business.

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 continue 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;



continuing to grow our foodservice sales through the strength of our reputation in product development and quality; and

**Table of Contents**

pursuing acquisitions that meet our strategic criteria.

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 2009 will not exceed \$15 million.

**Summary of 2009 Results**

The following is an overview of our consolidated operating results for the three and six months ended December 31, 2008. The prior-year results reflect the classification of the sold automotive operations as discontinued operations.

Net sales for the second quarter ended December 31, 2008 increased 7% to approximately \$288.2 million from the prior-year total of \$269.4 million. This sales growth was driven by increased sales in the Specialty Foods segment as partially offset by a decline in sales of the Glassware and Candles segment. The Specialty Foods segment's growth reflected higher volumes of foodservice products, as well as price increases. The decrease in sales of the Glassware and Candles segment is primarily due to prior-year sales attributable to divested operations. Gross margin increased 33% to approximately \$58.2 million from the prior-year second quarter total of \$43.6 million, as influenced by the approximately \$5.7 million prior-year loss on the sale of the glass businesses and the approximately \$3.0 million prior-year pension settlement charge. Our manufacturing costs have been influenced by higher costs for various commodities and other raw materials. Within our Specialty Foods segment, we began implementing price increases in 2008, to offset the segment's higher costs. Other income for the current-year second quarter totaled approximately \$7.8 million compared to \$1.8 million in the prior-year comparative period. These figures included Continued Dumping and Subsidy Offset Act of 2000 ( CDSOA ) receipts totaling approximately \$8.7 million in the second quarter of 2009 and approximately \$2.5 million in the corresponding period of 2008. Income from continuing operations for the current-year second quarter was approximately \$28.5 million, or \$1.02 per diluted share, compared to \$15.3 million, or \$.51 per diluted share, in the prior year. Net income for the three months ended December 31, 2008 also totaled approximately \$28.5 million, or \$1.02 per diluted share. Net income totaled approximately \$16.0 million in the second quarter of 2008, or \$.54 per diluted share, which was net of after-tax income from discontinued operations of approximately \$0.7 million, or \$.02 per diluted share. There was no impact of discontinued operations in the current quarter of 2009.

Year-to-date net sales for the period ended December 31, 2008 increased 8% to approximately \$552.1 million from the prior year-to-date total of \$513.4 million. Gross margin increased to approximately \$97.8 million from the prior year-to-date total of \$88.4 million. Income from continuing operations for the current year-to-date period was approximately \$39.5 million or \$1.40 per diluted share, compared to \$29.9 million, or \$.99 per diluted share, in the prior year. Net income for the six months ended December 31, 2008 also totaled approximately \$39.5 million, or \$1.40 per diluted share. Net income totaled approximately \$31.6 million in the six months ended December 31, 2007, or \$1.05 per diluted share, which was net of after-tax income from discontinued operations of approximately \$1.6 million, or \$.05 per diluted share. There was no impact of discontinued operations in the six months ended December 31, 2008.

**RESULTS OF CONSOLIDATED OPERATIONS****Net Sales and Gross Margin**

	Three Months Ended				Six Months Ended			
	December 31		Change		December 31		Change	
	2008	2007			2008	2007		
<b>Net Sales</b>								
Specialty Foods	\$ 245,393	\$ 215,150	\$ 30,243	14%	\$ 466,179	\$ 399,939	\$ 66,240	17%
Glassware and Candles	42,849	54,297	(11,448)	(21)%	85,900	113,466	(27,566)	(24)%
<b>Total</b>	<b>\$ 288,242</b>	<b>\$ 269,447</b>	<b>\$ 18,795</b>	<b>7%</b>	<b>\$ 552,079</b>	<b>\$ 513,405</b>	<b>\$ 38,674</b>	<b>8%</b>

**Gross Margin**    \$ **58,163**    \$ 43,610    \$ **14,553**    **33%**    \$ **97,832**    \$ 88,442    \$ **9,390**    **11%**

**Gross Margin  
as a  
Percentage of  
Sales**

**20.2%**    16.2%    **17.7%**    17.2%

Consolidated net sales for the second quarter increased 7%, reflecting 14% growth in sales of the Specialty Foods segment, as partially offset by lower sales in the Glassware and Candles segment. The

**Table of Contents**

Specialty Foods segment sales increase occurred in both the retail and foodservice markets. The November 2007 sale of our consumer and floral glass operations and lower candle sales contributed to the decline in sales of the Glassware and Candles segment.

For both the three and six months ended December 31, 2008, net sales of the Specialty Foods segment reflected higher pricing that added approximately 10% over the net sales of the prior-year's comparative periods. Volume growth was also achieved across many foodservice and frozen retail products, including several recently-introduced items. All such growth was internally generated.

The decline in net sales of the Glassware and Candles segment for both the three and six months ended December 31, 2008 was influenced by the sale of our consumer and floral glass operations in November 2007. Comparative year-to-date sales were also adversely impacted by the prior-year disposition of inventory related to closing our industrial glassware facility. Net sales attributable to these divested and closed operations totaled approximately \$7.6 million and \$22.3 million for the three and six months ended December 31, 2007, respectively. Candle sales have encountered unsettled and competitive retail market conditions and such sales were lower during the second quarter holiday season, which also contributed to lower year-to-date sales.

As a percentage of sales, our consolidated gross margin for the three and six months ended December 31, 2008 was 20.2% and 17.7%, respectively, as compared to 16.2% and 17.2% achieved in the prior-year comparative periods. Pricing improvements that mitigated the higher costs experienced over the last year contributed to the current year's higher gross margins. Prior-year gross margins for the quarter and year-to-date periods also reflect the approximately \$5.7 million loss on the sale of our consumer and floral glass operations and an approximately \$3.0 million pension settlement charge that was recorded in corporate expenses.

In the Specialty Foods segment, gross margin percentages improved in both the three and six months ended December 31, 2008, benefiting from the higher sales volumes and improvements in pricing, which offset the adverse impact of higher ingredient costs, such as for soybean oil, flour and egg products. We estimate the year-over-year impact of such higher costs at approximately \$11 million and \$31 million for the comparative three and six-month periods, respectively. For our third and fourth fiscal quarters, we anticipate our ingredient costs will be lower than the unprecedented highs of the prior year.

Gross margin percentages in the Glassware and Candles segment declined from the prior-year period due to increases in paraffin wax costs and lower capacity utilization, as partially offset by the prior-year loss on the sale of our consumer and floral glass operations. The prior-year margins were positively impacted by the contribution provided by the glass operations we have since exited. We are in the process of implementing higher pricing on various candle products. We anticipate that recent declines in wax and other related costs may continue in the near term, although the benefit of such reductions will not become evident in cost of goods sold until near fiscal year end.

***Selling, General and Administrative Expenses***

	Three Months Ended December 31			Six Months Ended December 31				
	2008	2007	Change	2008	2007	Change		
<b>Selling, General and Administrative Expenses</b>	<b>\$ 21,917</b>	\$ 21,217	<b>\$ 700</b>	<b>3%</b>	<b>\$ 42,178</b>	\$ 42,259	<b>\$ (81)</b>	<b>0%</b>
<b>SG&amp;A Expenses as a Percentage of Sales</b>	<b>7.6%</b>	7.9%		<b>7.6%</b>	8.2%			

Consolidated selling, general and administrative costs of approximately \$21.9 million and \$42.2 million for the three and six months ended December 31, 2008 increased by 3% and decreased by less than 1%, respectively, from the \$21.2 million and \$42.3 million incurred for the three and six months ended December 31, 2007. The decrease in

selling, general and administrative expenses as a percentage of sales was influenced by the nature and extent of the sales growth achieved through pricing, sales mix and minimal year-over-year changes in selling, general and administrative expenses.

**Table of Contents****Restructuring and Impairment Charges****Specialty Foods Segment**

In the first quarter of 2009, we began consolidating our Atlanta dressing operation into our other existing food facilities as part of our cost-reduction efforts within the Specialty Foods segment. During the three months ended December 31, 2008, we recorded an adjustment to the restructuring and impairment charges that resulted in a reduction of the charges of less than \$0.1 million. During the six months ended December 31, 2008, we recorded restructuring and impairment charges of approximately \$0.8 million (\$0.5 million after taxes). The majority of these charges resulted in cash outlays and consisted of one-time termination benefits. This closure was essentially complete at September 30, 2008, except for the disposition of the associated real estate, which occurred in December 2008. No other costs or cash expenditures are expected related to this closure. The operations of this closed location have not been reclassified to discontinued operations under the guidance provided in Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ).

An analysis of the restructuring activity for the six months ended December 31, 2008 recorded within the Specialty Foods segment follows:

	Accrual at		2009		Accrual at December
	June 30, 2008	2009 Charge	Cash Outlays		31, 2008
<b>Restructuring and Impairment Charges</b>					
Employee Separation Costs	\$	\$ 555	\$ (555)		\$
Other Costs		162	(162)		
Subtotal	\$	717	\$ (717)		\$
Fixed Asset Impairment		47			
Total		\$ 764			

**Other Segments**

In the third quarter of 2007, we announced our plan to close our industrial glass operation located in Lancaster, Ohio. During 2007, we recorded restructuring and impairment charges, within the Glassware and Candles segment, of approximately \$3.5 million (\$2.3 million after taxes) including \$1.4 million recorded in cost of sales for the write-down of inventories. Active business operations have ceased for this operation. The operations of this closed unit have not been reclassified to discontinued operations under the guidance provided in SFAS 144. During 2008, we recorded additional charges of approximately \$1.3 million (\$0.8 million after taxes), including less than \$0.1 million recorded in cost of sales for the write-down of inventories, for costs incurred during the period. The majority of these charges were for disposal-related activities associated with idle real property.

During the three and six months ended December 31, 2008, we recorded additional restructuring and impairment charges of less than \$0.1 million and approximately \$0.8 million (\$0.5 million after taxes), respectively, for costs incurred during the period. The majority of these charges were for disposal-related activities associated with idle real property. These charges were recorded within corporate expenses as the remaining assets and liabilities from this closed operation are now considered corporate assets and liabilities.

The total costs associated with this plant closure were approximately \$5.7 million and include all of the above-noted costs. This closure was essentially complete at September 30, 2008. No other costs or cash expenditures are expected related to this closure.

An analysis of the restructuring activity for the six months ended December 31, 2008 recorded within corporate expenses follows:

	<b>Accrual at</b>		<b>2009</b>		<b>Accrual at December 31, 2008</b>
	<b>June 30, 2008</b>		<b>2009 Charge</b>		
				<b>Cash Outlays</b>	
<b>Restructuring and Impairment Charges</b>					
Employee Separation Costs	\$ 69		\$	\$ (69)	\$
Other Costs	1,184		842	(2,026)	
Total	\$ 1,253		\$ 842	\$ (2,095)	\$

17

---

**Table of Contents**

During 2009, certain real property previously used by our divested consumer and floral glass operations met the criteria defined in SFAS 144 to be considered held for sale. These properties, along with other previously-deemed held for sale properties, with a total net book value of approximately \$3.1 million, 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 SFAS 144, we are no longer depreciating these held for sale assets.

**Operating Income (Loss)**

The foregoing factors contributed to consolidated operating income totaling approximately \$36.3 million and \$54.0 million for the three and six months ended December 31, 2008, respectively. These amounts represent increases of 62% and 17% from the corresponding periods of the prior year. By segment, our operating income can be summarized as follows:

	Three Months Ended December 31			Change	Six Months Ended December 31			Change
	2008	2007			2008	2007		
<b>Operating Income (Loss)</b>								
Specialty Foods	\$ 39,651	\$ 28,309	\$ 11,342	40%	\$ 63,140	\$ 52,083	\$ 11,057	21%
Glassware and Candles	(1,007)	(780)	(227)	(29)%	(3,869)	1,633	(5,502)	(337)%
Corporate Expenses	(2,390)	(5,182)	2,792	(54)%	(5,223)	(7,715)	2,492	(32)%
Total	\$ 36,254	\$ 22,347	\$ 13,907	62%	\$ 54,048	\$ 46,001	\$ 8,047	17%

**Operating Income (Loss) as a Percentage of Sales**

Specialty Foods	16.2%	13.2%	13.5%	13.0%
Glassware and Candles	(2.4)%	(1.4)%	(4.5)%	1.4%
Consolidated	12.6%	8.3%	9.8%	9.0%

**Interest Expense**

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. We incurred interest expense of approximately \$1.0 million and \$1.9 million for the three and six months ended December 31, 2007, respectively, related to borrowings during these periods. The decrease in interest expense was due to lower interest rates on our debt in the current year.

**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 \$8.7 million in the second quarter of 2009, as compared to a distribution of approximately \$2.5 million in the corresponding period of 2008. These remittances related to certain candles being imported from the People's Republic of China.



The CDSOA has faced a growing number of legal challenges. In February 2006, legislation was enacted to repeal the applicability of the CDSOA to duties collected on imported products after September 2007. This legislation is expected to reduce overall distributions, with distributions eventually ceasing. In addition, the U.S. Court of International Trade ( CIT ) ruled in two separate cases that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The CIT rulings are still under appeal, and other cases have been brought, from time to time, challenging various aspects of the CDSOA. The ultimate resolution of ongoing litigation concerning the CDSOA and the effects, if any, the litigation will have on our financial results or receipt of future CDSOA distributions, are uncertain. Based on the current legal challenges, we cannot predict the amount of future CDSOA distributions and it is possible that we may not receive any further distributions.

**Table of Contents*****Interest Income and Other Net***

Interest income and other was approximately \$(0.3) million and \$(0.2) million for the three and six months ended December 31, 2008, respectively, as compared to approximately \$0.2 million and \$0.4 million in the corresponding periods of the prior year. The decrease for the quarter and year-to-date periods reflects a lower level of interest income due to lower interest rates.

***Income from Continuing Operations Before Income Taxes***

As impacted by the factors discussed above, income from continuing operations before income taxes for the three months ended December 31, 2008 increased by approximately \$19.8 million to \$44.0 million from the prior-year total of \$24.2 million. Income from continuing operations before income taxes for the six months ended December 31, 2008 and 2007 was approximately \$61.4 million and \$47.0 million, respectively.

***Income from Continuing Operations***

Second quarter income from continuing operations for 2009 of approximately \$28.5 million increased from the preceding year's income from continuing operations for the quarter of \$15.3 million, as influenced by the factors noted above. Year-to-date income from continuing operations of approximately \$39.5 million increased from the prior year-to-date total of \$29.9 million. Our effective tax rate of 35.7% for the six months ended December 31, 2008 decreased from the prior-year rate of 36.3% due to a lower state tax rate.

Income from continuing operations per share for the second quarter of 2009 totaled \$1.02 per basic and diluted share, as compared to \$.51 per basic and diluted share recorded in the prior year. This amount was influenced by our share repurchase program, which contributed to a 6% year-over-year reduction in weighted average shares outstanding. Year-to-date income from continuing operations per share was \$1.40 on a basic and diluted basis compared to \$.99 for the prior-year period.

***Discontinued Operations***

There were no discontinued operations in 2009. Income from discontinued operations, net of tax, totaled approximately \$0.7 million and \$1.6 million for the three and six months ended December 31, 2007, respectively, or approximately \$.02 and \$.05 per basic and diluted share, respectively.

***Net Income***

Second quarter net income for 2009 of approximately \$28.5 million increased from the preceding year's net income for the quarter of \$16.0 million, as influenced by the factors noted above. Year-to-date net income of approximately \$39.5 million was higher than the prior year-to-date total of \$31.6 million. Net income per share for the second quarter of 2009 totaled \$1.02 per basic and diluted share, as compared to \$.54 per basic and diluted share recorded in the prior year. Year-to-date net income per share was \$1.40 per basic and diluted share, as compared to \$1.05 per basic and diluted share for the prior-year period.

**FINANCIAL CONDITION**

The prior-year cash flows reflect the classification of the sold Automotive operations as discontinued operations.

For the six months ended December 31, 2008, net cash provided by operating activities from continuing operations totaled approximately \$62.9 million as compared to \$50.0 million in the prior-year period. The increase results from a higher level of net income and comparatively favorable relative changes in working capital components, including inventory and other current assets, as partially offset by the prior-year noncash impacts of the pension settlement charge and loss on the sale of the glass businesses, as well as the comparatively unfavorable relative change in accounts payable and accrued liabilities. The increase in receivables and decrease in inventories since June 2008 primarily relates to seasonal influences on sales within the Glassware and Candles segment.

Cash used in investing activities from continuing operations for the six months ended December 31, 2008 was approximately \$6.5 million as compared to \$6.4 million provided in the prior year. This decrease

**Table of Contents**

reflects the impact of the prior-year net proceeds from the sale of the glass businesses of approximately \$19.8 million, as partially offset by a lower level of capital expenditures in 2009.

Cash used in financing activities from continuing operations for the six months ended December 31, 2008 of approximately \$45.5 million decreased from the prior-year total of \$66.0 million due primarily to a decrease in treasury share repurchases, as partially offset by the net change in borrowing activity. At December 31, 2008, approximately 509,000 shares remained authorized for future buyback under the existing buyback program.

On October 5, 2007, we entered into a new unsecured revolving credit facility, which replaced the credit facility existing on September 30, 2007. Under the new facility, we may borrow up to a maximum of \$160 million at any one time, with potential to expand the total credit availability to \$260 million based on consent of the issuing bank and certain other conditions. We currently have \$45.0 million 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, 2008, we were in compliance with all applicable provisions and covenants of the facility. Loans may be used for general corporate purposes.

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.

**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, 2008 and future minimum lease payments for the use of property and equipment under operating lease agreements. Aside from additional borrowings under our credit facility and 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 2008 Annual Report on Form 10-K.

**CRITICAL ACCOUNTING POLICIES**

There have been no changes in critical accounting policies from those disclosed in our 2008 Annual Report on Form 10-K.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2008, the Financial Accounting Standards Board ( FASB ) issued a FASB Staff Position ( FSP ) on the FASB s Emerging Issues Task Force ( EITF ) Issue No. 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ( FSP EITF 03-06-1 ). 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 SFAS No. 128, Earnings Per Share. It affects entities that accrue or pay nonforfeitable cash dividends on share-based payment awards during the awards service period. FSP EITF 03-06-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and will require a retrospective adjustment to all prior period EPS. We are currently evaluating the impact this FSP will have on our calculation and presentation of EPS.

**RECENTLY ADOPTED ACCOUNTING STANDARDS**

Effective July 1, 2008, we adopted the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ), and SFAS No. 157, Fair Value Measurements ( SFAS 157 ). The adoption of SFAS 159 and SFAS 157 did not have a material impact on our financial position or results of operations.

**Table of Contents**

**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, plan, expect, hope, or similar words. 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 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;
- maintenance of competitive position with respect to other manufacturers, including import sources of production;

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

dependence on key personnel;

stability of labor relations;

fluctuations in energy costs;

dependence on contract copackers;

effect of governmental regulations, including environmental matters;

legislation and litigation affecting the future administration of the Continued Dumping and Subsidy Offset Act of 2000;

access to any required financing;

**Table of Contents**

changes in income tax laws;

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

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 2008 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, 2008 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.

**PART II - OTHER INFORMATION**

**Item 1A. Risk Factors**

We are adding the following risk factors to those disclosed under Item 1A in our 2008 Annual Report on Form 10-K:

***Mr. Gerlach, our Chairman of our board of directors and Chief Executive Officer, has a significant ownership interest in our Company.***

As of September 19, 2008, Mr. Gerlach owned or controlled approximately 29% of the outstanding shares of our common stock. Accordingly, Mr. Gerlach has significant influence on all matters submitted to a vote of the holders of our common stock, including the election of directors. Mr. Gerlach's voting power also may have the effect of discouraging transactions involving an actual or a potential change of control of our Company, regardless of whether a premium is offered over then-current market prices.

The interests of Mr. Gerlach may conflict with the interests of other holders of our common stock.

***Anti-takeover provisions could make it more difficult for a third party to acquire us.***

We have adopted a shareholder rights plan and initially declared a dividend distribution of one right for each outstanding share of common stock to shareholders of record as of April 20, 2000, including any transfer or new issuance of common shares of the Company. Under certain circumstances, if a person or group acquires 15 percent or more of our outstanding common stock, holders of the rights (other than the person or group triggering their exercise) will be entitled to purchase one one-hundredth of a share of Series A Participating Preferred Share at a price of \$185 per unit, subject to certain adjustments. The rights

**Table of Contents**

expire on April 20, 2010, unless extended by our Board of Directors. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors, our rights plan could make it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our Board of Directors regarding that acquisition. Further, certain provisions of our charter documents, including provisions limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice and provisions classifying our Board of Directors, may make it more difficult for a third party to gain control of our Board of Directors. This may have the effect of delaying or preventing changes of control or management of the Company, which could have an adverse effect on the market price of our stock.

Additionally, Ohio corporate law contains certain provisions that could have the effect of delaying or preventing a change of control. The Ohio Control Share Acquisition Act found in Chapter 1701 of the Ohio Revised Code provides that certain notice and informational filings and a special shareholder meeting and voting procedures must be followed prior to consummation of a proposed control share acquisition, as defined in the Ohio Revised Code. Assuming compliance with the prescribed notice and information filings, a proposed control share acquisition may be accomplished only if, at a special meeting of shareholders, the acquisition is approved by both a majority of the voting power of the Company represented at the meeting and a majority of the voting power remaining after excluding the combined voting power of the interested shares, as defined in the Ohio Revised Code. The Interested Shareholder Transactions Act found in Chapter 1704 of the Ohio Revised Code generally prohibits certain transactions, including mergers, majority share acquisitions and certain other control transactions, with an interested shareholder, as defined in the Ohio Revised Code, for a three-year period after becoming an interested shareholder, unless our Board of Directors approved the initial acquisition. After the three year waiting period, such a transaction may require additional approvals under this Act, including approval by two-thirds of all of the Company's voting shares and a majority of the Company's voting shares not owned by the interested shareholder. The application of these provisions of the Ohio Revised Code, or any similar anti-takeover law adopted in Ohio, could have the effect of delaying or preventing a change of control, which could have an adverse effect on the market price of our stock.

**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, 2008. In the second quarter, we made the following repurchases of our common stock:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs</b>
October 1-31, 2008	200,000	\$34.03	200,000	509,077
November 1-30, 2008		\$		509,077
December 1-31, 2008		\$		509,077
<b>Total</b>	<b>200,000</b>	<b>\$34.03</b>	<b>200,000</b>	<b>509,077</b>

This share repurchase authorization does not have a stated expiration date.



**Table of Contents****Item 4. Submission of Matters to a Vote of Security Holders**

We held our 2008 Annual Meeting of the Shareholders on November 17, 2008. 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 2011, were elected at the annual meeting:

	<b>Shares Voted For</b>	<b>Shares Withheld</b>	<b>Shares Not Voted</b>
Robert L. Fox	26,774,241	223,034	1,189,100
John B. Gerlach, Jr.	26,781,921	215,354	1,189,100
Edward H. Jennings	26,774,699	222,576	1,189,100

The shareholders also ratified the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending June 30, 2009. This proposal was ratified by 26,857,974 shares voted for; 127,583 shares voted against; and 11,718 shares abstained.

The shareholders also approved an amendment to the articles of incorporation regarding control share acquisition provisions. This proposal was approved by 24,646,453 shares voted for; 122,050 shares voted against; 33,820 shares abstained; and 2,194,955 broker non-votes. The amended articles of incorporation is attached to this Form 10-Q as Exhibit 3.1.

The shareholders approved another amendment to the articles of incorporation eliminating certain supermajority shareholder approval requirements. This proposal was approved by 24,676,731 shares voted for; 80,646 shares voted against; 44,947 shares abstained; and 2,194,955 broker non-votes.

The shareholders approved an amendment to the code of regulations clarifying shareholder meeting authority and revising advance notice requirements for shareholder proposals. This proposal was approved by 24,901,646 shares voted for; 2,068,014 shares voted against; and 27,612 shares abstained. The amended code of regulations is attached to this Form 10-Q as Exhibit 3.2.

The shareholders approved another amendment to the code of regulations allowing for alternative proxy formats. This proposal was approved by 26,923,228 shares voted for; 53,100 shares voted against; and 20,949 shares abstained.

The shareholders approved another amendment to the code of regulations adding additional information and covenant requirements regarding director nominations by shareholders. This proposal was approved by 25,943,574 shares voted for; 1,033,877 shares voted against; and 19,824 shares abstained.

The shareholders approved another amendment to the code of regulations allowing the board of directors to adopt certain amendments to the code of regulations. This proposal was approved by 22,680,068 shares voted for; 2,102,070 shares voted against; 20,186 shares abstained; and 2,194,956 broker non-votes.

**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 9, 2009

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

Date: February 9, 2009

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, 2008  
INDEX TO EXHIBITS**

<b>Exhibit</b>		<b>Located</b>
<b>Number</b>	<b>Description</b>	<b>at</b>
3.1	Amended and Restated Articles of Incorporation of Lancaster Colony Corporation approved by the shareholders November 17, 2008	Filed herewith
3.2	Amended and Restated Regulations of Lancaster Colony Corporation approved by the shareholders November 17, 2008	Filed herewith
10.1*	Key Employee Severance Agreement between Lancaster Colony Corporation and John L. Boylan	Filed herewith
10.2*	Key Employee Severance Agreement between Lancaster Colony Corporation and Bruce L. Rosa	Filed herewith
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

\* Indicates a management contract or compensatory plan, contract or arrangement in which any Director or any Executive Officer participates.