

2019 ANNUAL REPORT



Investing in
GROWTH

LANCASTER COLONY CORPORATION



FINANCIAL HIGHLIGHTS

Years Ended June 30

(In Thousands, Except Per Share Figures)	2019	2018
Net Sales	\$ 1,307,787	\$ 1,222,925
Gross Profit	\$ 326,198	\$ 303,506
Income Before Income Taxes	\$ 195,542	\$ 174,203
Taxes Based on Income	\$ 44,993	\$ 38,889
Net Income	\$ 150,549	\$ 135,314
Per Common Share:		
Net Income – Diluted	\$ 5.46	\$ 4.92
Cash Dividends	\$ 2.55	\$ 2.35
Shareholders' Equity	\$ 26.44	\$ 23.73
Total Assets	\$ 905,399	\$ 804,491
Shareholders' Equity	\$ 726,873	\$ 652,282
Weighted Average Common Shares Outstanding – Diluted	27,537	27,459

Note: Financial results for the fiscal year ended June 30, 2019 include the favorable impact on Income Before Income Taxes of a \$17.1 million non-cash, pre-tax reduction to the fair value of the acquisition-related contingent consideration for Angelic Bakehouse, Inc. Please refer to the company's Form 10-K filing for additional details.

INNOVATION

In June 2019, Lancaster Colony Corporation opened a new state-of-the-art Innovation Center near our company headquarters in central Ohio. This 45,000 square foot facility brings together the best in culinary arts, food science and technology.

The Innovation Center also enables greater collaboration and innovation among our Foodservice and Retail teams to develop relevant, consumer-centric, on-trend products that serve to strengthen our existing customer relationships and build new ones.

Marzetti Culinary Team Featured on the Cover
 (From left to right): Culinary Specialists **Chris Domanik**, **Jack Cory** and **Joe Ciaciura**; and Director of Strategic Product Development, **Sandy Bichsel**.



TO OUR SHAREHOLDERS

Three years ago, we launched our Better Food Company Growth Plan, consisting of three simple pillars:

1. *Accelerate our base business growth;*
2. *Simplify our supply chain to reduce costs and grow margins; and*
3. *Identify and execute complementary M&A to grow our core.*

Since then, we have focused on strengthening our team, implementing our growth plan, and harvesting the results. Looking ahead, we will remain true to this strategy which we believe is appropriate, achievable, and will better position us to deliver top-quartile performance.

Fiscal year 2019 was a year of continued growth for Lancaster Colony and also marked the 50th anniversary of our company's initial public offering. In the first quarter of fiscal 2020, we reached another major milestone as we celebrated the 50th anniversary of Lancaster Colony's first food business acquisition, T. Marzetti Company. We also published our first formal Statement on Sustainability in September 2019, which can now be found in the Investors section of our website at www.lancastercolony.com. Our company mindset has always been that sustainability and long-term value creation go hand in hand, a conviction that has been manifest for decades in the values and behaviors of our founders, managers, and associates alike. Our belief, "Doing Well by Doing Good," lies at the very foundation of our aspiration to be **The Better Food Company**.

Looking Back – Fiscal 2019 Review

We were pleased to report record net sales of \$1.3 billion in fiscal 2019, led by our Foodservice segment's strong organic growth and contributions from the two acquisitions completed in our fiscal second quarter. Our supply chain team finished another successful year of reducing costs and improving operational efficiencies. Specific examples included numerous end-of-line automation projects; the launch of our new transportation management system; improved material yield and process controls; and various tactical procurement initiatives, including should-cost modeling and more extensive competitive bidding. The recent closure of one of our frozen bread facilities will also result in a better-optimized manufacturing footprint going forward.

While our Retail segment's financial results fell short of our expectations this past year, I am confident the new leadership now in place and other strategic initiatives completed in fiscal 2019, including our new Innovation Center, will position the Retail segment for improved performance going forward.

The two acquisitions we completed in fiscal 2019 – Bantam Bagels in October 2018 and the assets of Omni Baking in November 2018 – will play an important role in our company's future. Bantam Bagels is a rapidly-expanding manufacturer of bakery items sold to the retail and foodservice channels. Notably, Bantam Bagels® are available at Starbucks® cafes nationwide and provide us access to the large and fast-growing frozen breakfast category in retail. Omni Baking was a co-packer for our New York BRAND Bakery™ Texas Toast business that supplied roughly half of our frozen garlic bread volume. As you might recall, this particular co-packer experienced supply disruptions in fiscal 2018 that significantly affected our business. Our capable supply chain team has been implementing upgrades and automation projects at the former Omni Baking facility to help ensure it will remain a reliable and scalable source of our bread products for many years to come. Although these acquisitions have created some short-term headwinds for our business, we believe that both will serve as important contributors to our long-term growth.

In fiscal 2019, we formally commenced work on our ERP initiative, Project Ascent. This initiative will enable us to replace our current ERP system that was installed in 1995. We have assembled a top-caliber implementation team for Project Ascent led by Liam Durbin, our new CIO, and Doug Fell, our former CFO. This project will help drive cost savings and ensure that we have a reliable and scalable systems infrastructure well into the future.

Fiscal 2019 also included several notable retirements. While all of these dedicated associates will be missed, I would like to specifically acknowledge the enormous contributions of Tim Tate as leader of our Foodservice segment. Tim started his career with T. Marzetti Company upon his graduation from Ohio University in 1978. During the course of his 41-year career with us, Tim worked in Shipping and Receiving, advanced to National Account Sales, and ultimately finished his last eight years as our Senior Vice President of Foodservice. Tim's innumerable contributions and leadership have truly served us well in our journey to become **The Better Food Company**.

Looking Ahead - Fiscal 2020 Outlook

In fiscal 2020, Retail segment sales will benefit from new product introductions planned throughout the year, including our New York Bakery™ 3-Cheese Cheese Sticks and Sister Schubert's® sweet rolls in a variety of new flavors such as Pumpkin Spice and Lemon Blueberry. Our Marzetti® refrigerated dip lineup will also be reformulated to offer new great-tasting dips with a shorter and cleaner ingredient panel. In addition, we anticipate continued growth from shelf-stable dressings and sauces sold under license agreements along with incremental sales from the Bantam Bagels acquisition. In the Foodservice segment, we will maintain our focus on strengthening customer relationships through our culinary expertise in the preparation of custom-formulated dressings and dipping sauces while leveraging the added benefits of our new Innovation Center.

In the coming year, we will continue to make long-term investments in our business, including the completion of a significant capacity expansion project for our Sister Schubert's frozen dinner roll facility in Horse Cave, Kentucky. Beyond that expansion project and our ERP initiative, other investments planned for fiscal 2020 include added capacity and operational improvements for Bantam Bagels and increased production capacity for Foodservice dressings and sauces.

In closing, I'd like to extend my sincere thanks to the dedicated members of the Lancaster Colony team who work hard every day in support of our mission to be **The Better Food Company**.

Sincerely yours,



David A. Ciesinski
President & Chief Executive Officer
September 27, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2019

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.)

380 Polaris Parkway, Suite 400
Westerville, Ohio

(Address of principal executive offices)

43082

(Zip Code)

614-224-7141

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, without par value	LANC	NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant computed by reference to the price at which such Common Stock was last sold as of December 31, 2018 was \$3,315.5 million.

As of August 1, 2019, there were approximately 27,492,000 shares of Common Stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed for its November 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

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PART I

Item 1. *Business*

GENERAL

Lancaster Colony Corporation, an Ohio corporation, is a manufacturer and marketer of specialty food products for the retail and foodservice channels. We began our operations in 1961 as a Delaware corporation. In 1992, we reincorporated as an Ohio corporation. Our principal executive offices are located at 380 Polaris Parkway, Suite 400, Westerville, Ohio 43082 and our telephone number is 614-224-7141.

As used in this Annual Report on Form 10-K and except as the context otherwise may require, the terms “we,” “us,” “our,” “registrant,” or “the Company” mean Lancaster Colony Corporation and its consolidated subsidiaries, except where it is clear that the term only means the parent company. Unless otherwise noted, references to “year” pertain to our fiscal year which ends on June 30; for example, 2019 refers to fiscal 2019, which is the period from July 1, 2018 to June 30, 2019.

Available Information

Our Internet website address is <http://www.lancastercolony.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). The information contained on our website or connected to it is not incorporated into this Annual Report on Form 10-K.

The SEC also maintains a website, <http://www.sec.gov>, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

DESCRIPTION OF AND FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

Our financial results are presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied. The financial information relating to our business segments for the three years ended June 30, 2019, 2018 and 2017 is included in Note 10 to the consolidated financial statements, and located in Part II, Item 8 of this Annual Report on Form 10-K. Further description of each business segment within which we operate is provided below.

Retail Segment

The following table presents the primary Retail products we manufacture and sell under our brand names:

Products	Brand Names
<u>Frozen Breads</u>	
Frozen garlic breads	New York BRAND Bakery
Frozen Parkerhouse style yeast rolls and dinner rolls	Sister Schubert’s
Frozen mini stuffed bagels	Bantam Bagels
<u>Refrigerated Dressings, Dips and Other</u>	
Salad dressings	Marzetti, Simply Dressed, Simply 60
Vegetable dips and fruit dips	Marzetti
Flatbread wraps and pizza crusts	Flatout
Sprouted grain bakery products	Angelic Bakehouse
<u>Shelf-Stable Dressings and Croutons</u>	
Salad dressings	Marzetti, Cardini’s, Girard’s
Croutons and salad toppings	New York BRAND Bakery, Chatham Village, Marzetti

We also manufacture and sell other shelf-stable products pursuant to brand license agreements including Olive Garden[®] dressings and Buffalo Wild Wings[®] sauces. Additionally, a small portion of our Retail sales are products sold under private label to retailers.

The vast majority of the products we sell in the Retail segment are sold through sales personnel, food brokers and distributors in the United States. We have placement of products in grocery produce departments through our refrigerated salad dressings, vegetable dips and fruit dips. Our flatbread products and sprouted grain bakery products are generally placed in the specialty bakery/deli section of the grocery store. We also have products typically marketed in the shelf-stable section of the grocery store, which include salad dressing, slaw dressing and croutons. Within the frozen food section of the grocery store, we sell yeast rolls, garlic breads and mini stuffed bagels.

Our top five Retail customers accounted for 56%, 55% and 54% of this segment’s total net sales in 2019, 2018 and 2017, respectively.

We continue to rely upon our strong retail brands, innovation expertise, geographic and channel expansion and customer relationships for future growth. Our category-leading retail brands and commitment to new product development help drive increased consumer demand in our Retail segment. Strategic acquisitions are also part of our future growth plans, with a focus on fit and value.

Our quarterly Retail sales are affected by seasonal fluctuations, primarily in the fiscal second quarter and the Easter holiday season when sales of certain frozen retail products tend to be most pronounced. Our quarterly Retail sales can also be affected by the timing of seasonal shipments of certain fruit dips between the first and second quarters. The resulting impacts on working capital are not significant. We do not utilize any franchises or concessions. In addition to the owned and licensed trademarked brands discussed above, we also own and operate under innumerable other intellectual property rights, including patents, copyrights, formulas, proprietary trade secrets, technologies, know-how processes and other unregistered rights. We consider our owned and licensed intellectual property rights to be essential to our Retail business.

Foodservice Segment

The majority of our Foodservice sales are products sold under private label to restaurants. We also manufacture and sell various branded Foodservice products to distributors.

The following table presents the primary Foodservice products we manufacture and sell under our brand names:

Products	Brand Names
<u>Dressings and Sauces</u>	
Salad dressings	Marzetti, Simply Dressed
<u>Frozen Breads and Other</u>	
Frozen garlic breads	New York BRAND Bakery
Frozen Parkerhouse style yeast rolls and dinner rolls	Sister Schubert’s
Frozen pasta	Marzetti Frozen Pasta

The vast majority of the products we sell in the Foodservice segment are sold through sales personnel, food brokers and distributors in the United States. Most of the products we sell in the Foodservice segment are custom-formulated and include salad dressings, sandwich and dipping sauces, frozen breads and yeast rolls. Finally, within this segment, we sell other roll products under a transitional co-packing arrangement resulting from the November 2018 acquisition of Omni Baking Company LLC.

Our top five Foodservice direct customers accounted for 59%, 64% and 68% of this segment’s total net sales in 2019, 2018 and 2017, respectively. Within our Foodservice segment, typically our largest direct customers are distributors that distribute our products primarily to foodservice national chain restaurant accounts.

In the Foodservice segment, sales growth results from general volume gains or geographic expansion of our established customer base, and we also grow our business with existing and new customers by leveraging our culinary skills and experience to support the development of new products and menu offerings.

The operations of this segment are not affected to any material extent by seasonal fluctuations. We do not utilize any franchises or concessions. We own and operate under innumerable intellectual property rights, including patents, copyrights, formulas, proprietary trade secrets, technologies, know-how processes and other unregistered rights. We consider our owned intellectual property rights to be essential to our Foodservice business.

NET SALES BY CLASS OF PRODUCTS

The following table sets forth business segment information with respect to the percentage of net sales contributed by each class of similar products that account for at least 10% of our consolidated net sales in any year from 2017 through 2019:

	2019	2018	2017
Retail Segment:			
Frozen breads	20%	21%	21%
Refrigerated dressings, dips and other	17%	18%	18%
Shelf-stable dressings and croutons	13%	14%	14%
Foodservice Segment:			
Dressings and sauces	36%	35%	36%
Frozen breads and other	13%	12%	11%

Net sales attributable to Walmart Inc. (“Walmart”) totaled 17% of consolidated net sales for 2019, 2018 and 2017. Net sales attributable to McLane Company, Inc. (“McLane”), a wholesale distribution subsidiary of Berkshire Hathaway, Inc., totaled 15%, 15% and 16% of consolidated net sales for 2019, 2018 and 2017, respectively. McLane is a large, national distributor that sells and distributes our products to several of our foodservice national chain restaurant accounts, principally in the quick service, fast casual and casual dining channels. In general, these national chain restaurants have direct relationships with us for culinary research and development, menu development and production needs, but choose to buy our products through McLane, who acts as their distributor. McLane orders our products on behalf of these national chain restaurants, and we invoice McLane for these sales. No other direct customer accounted for more than 10% of consolidated net sales during these years.

MANUFACTURING

As of June 30, 2019, the majority of our products were manufactured and packaged at our 17 food plants located throughout the United States. Most of these plants produce products for both the Retail and Foodservice segments. Efficient and cost-effective production remains a key focus as evidenced by our lean six sigma initiative. Certain items are also manufactured and packaged by third parties located in the United States, Canada and Europe.

BACKLOG

Orders are generally filled in five to ten days. We do not view the amount of backlog at any particular point in time as a meaningful indicator of longer-term shipments.

COMPETITION

All of the markets in which we sell food products are highly competitive in the areas of price, quality and customer service. We face competition from a number of manufacturers of various sizes and capabilities. Our ability to compete depends upon a variety of factors, including the position of our branded goods within various categories, product quality, product innovation, promotional and marketing activity, pricing and our ability to service customers.

ENVIRONMENTAL MATTERS

Our operations are subject to various federal, state and local environmental protection laws. Based upon available information, compliance with these laws and regulations did not have a material effect upon the level of capital expenditures, earnings or our competitive position in 2019 and is not expected to have a material impact in 2020.

EMPLOYEES AND LABOR RELATIONS

As of June 30, 2019 we had 3,200 employees, 27% of which are represented under various collective bargaining contracts. 5% of our employees are represented under a collective bargaining contract that will expire within one year. While we believe that labor relations with all our employees are satisfactory, a prolonged labor dispute or an organizing attempt could have a material adverse effect on our business and results of operations.

RAW MATERIALS

During 2019, we obtained adequate supplies of raw materials and packaging. We rely on a variety of raw materials and packaging for the day-to-day production of our products, including soybean oil, various sweeteners, eggs, dairy-related products, flour, various films and plastic and paper packaging materials.

We purchase the majority of these materials on the open market to meet current requirements, but we also have some fixed-price contracts with terms generally one year or less. See further discussion in our “Risk Factors” section below and our contractual obligations disclosure in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”). Although the availability and price of certain of these materials are influenced by weather, disease and the level of global demand, we anticipate that future sources of supply for 2020 will generally be available and adequate for our needs.

Item 1A. Risk Factors

An investment in our common stock is subject to certain risks inherent in our business. Before making an investment decision, investors should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K.

If any of the following risks occur, our business, results of operations, financial condition and cash flows could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly.

We may be subject to business disruptions, product recalls or other claims for real or perceived safety issues regarding our food products.

We can be impacted by both real and unfounded claims regarding the safety of our operations, or concerns regarding mislabeled, adulterated, contaminated or spoiled food products. Any of these circumstances could necessitate a voluntary or mandatory recall due to a substantial product hazard, a need to change a product’s labeling or other consumer safety concerns. A pervasive product recall may result in significant loss due to the costs of a recall, related legal claims, including claims arising from bodily injury or illness caused by our products, the destruction of product inventory, or lost sales due to product unavailability. A highly publicized product recall, whether involving us or any related products made by third parties, also could result in a loss of customers or an unfavorable change in consumer sentiment regarding our products or any category in which we operate. In addition, an allegation of noncompliance with federal or state food laws and regulations could force us to cease production, stop selling our products or create significant adverse publicity that could harm our credibility and decrease market acceptance of our products. Any of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows. While we believe our insurance related to these matters is consistent with industry practice, any potential claim under our policies may exceed our insurance coverage, may be subject to certain exceptions or may not be honored fully, in a timely manner, or at all.

We may be subject to a loss of sales or increased costs due to adverse publicity or consumer concern regarding the safety, quality or healthfulness of food products, whether with our products, competing products or other related food products.

We are highly dependent upon consumers’ perception of the safety, quality and possible dietary attributes of our products. As a result, substantial negative publicity concerning one or more of our products, or other foods similar to or in the same food group as our products, could lead to lower demand for our products and/or reduced prices and lost sales. Substantial negative publicity, even when false or unfounded, could also hurt the image of our brands or cause consumers to choose other products or avoid categories in which we operate. Any of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Certain negative publicity regarding the food industry or our products could also increase our cost of operations. The food industry has been subject to negative publicity concerning the health implications of genetically modified organisms, added sugars, trans fat, salt, artificial growth hormones, ingredients sourced from foreign suppliers and other supply chain concerns. Consumers may increasingly require that our products and processes meet stricter standards than are required by applicable governmental agencies, thereby increasing the cost of manufacturing our products. If we fail to adequately respond to any such consumer concerns, we could suffer lost sales and damage our brand image or our reputation. Any of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows.

A disruption of production at certain manufacturing facilities could result in an inability to meet our customers’ demands for certain products, which could also negatively impact our ability to maintain adequate levels of product placement with our customers on a long-term basis.

Because we source certain products from single manufacturing sites and use third party manufacturers for significant portions of our production needs for certain products, it is possible that we could experience a production disruption that results in a reduction or elimination of the availability of some of our products. If we are not able to obtain alternate production capability in a timely manner, or on favorable terms, it could have a negative impact on our business, results of operations, financial condition and cash flows, including the potential for long-term loss of product placement with various customers.

We are also subject to risks of other business disruptions associated with our dependence on production facilities and distribution systems. Natural disasters, terrorist activity, cyber attacks or other unforeseen events could interrupt production or

distribution and have a material adverse effect on our business, results of operations, financial condition and cash flows, including the potential for long-term loss of product placement with our customers.

Competitive conditions within our Retail and Foodservice markets could impact our sales volumes and operating profits.

Competition within all of our markets is expected to remain intense. Numerous competitors exist, many of which are larger than us in size. These competitive conditions could lead to significant downward pressure on the prices of our products, which could have a material adverse effect on our sales and profitability.

Competitive considerations in the various product categories in which we sell are numerous and include price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing, promotional activity and the ability to remain relevant to consumer preferences and trends. In order to maintain our existing market share or capture increased market share among our retail and foodservice channels, we may decide to increase our spending on marketing and promotional costs, advertising and new product innovation. The success of marketing, advertising and new product innovation is subject to risks, including uncertainties about trade and consumer acceptance. As a result, any such increased expenditures may not maintain or enhance market share and could result in lower profitability.

Walmart is our largest Retail customer. The loss of, or a significant reduction in, Walmart's business, or an adverse change in the financial condition of Walmart, could result in a material adverse effect on our business, results of operations, financial condition and cash flows.

Our net sales to Walmart represented 17% of consolidated net sales for the year ended June 30, 2019. Our accounts receivable balance from Walmart as of June 30, 2019 was \$20.9 million. While our relationship with Walmart has been long-standing and is believed to be good, it is important to recognize that we may not be able to maintain this relationship and Walmart is not contractually obligated to purchase from us. In addition, changes in Walmart's general business model, such as reducing the shelf space devoted to the branded products we market, or devoting more shelf space to competing products, could adversely affect the profitability of our business with Walmart, even if we maintain a good relationship. The loss of, or a significant reduction in, this business could have a material adverse effect on our sales and profitability. Unfavorable changes in Walmart's financial condition or other disruptions to Walmart's business, such as decreased consumer demand or stronger competition, could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

McLane is our largest Foodservice customer. An adverse change in the financial condition of McLane could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our net sales to McLane represented 15% of consolidated net sales for the year ended June 30, 2019. Our accounts receivable balance from McLane as of June 30, 2019 was \$6.9 million. McLane is a large, national distributor that sells and distributes our products to several of our foodservice national chain restaurant accounts, principally in the quick service, fast casual and casual dining channels. In general, these national chain restaurants have direct relationships with us for culinary research and development, menu development and production needs, but choose to buy our products through McLane, who acts as their distributor. McLane orders our products on behalf of these national chain restaurants, and we invoice McLane for these sales. Thus, unfavorable changes in the financial condition of McLane could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the loss of, or significant reduction in, our business with the underlying national chain restaurants, or other disruptions, such as decreased consumer demand or stronger competition, could also have a material adverse effect on our business, results of operations, financial condition and cash flows. We believe that our relationship with McLane and the underlying national chain restaurants is good, but we cannot ensure that we will be able to maintain these relationships. McLane and the underlying national chain restaurants are not typically committed to long-term contractual obligations with us, and they may switch to other suppliers that offer lower prices, differentiated products or customer service that McLane and/or the underlying national chain restaurants perceive to be more favorable. In addition, changes in the general business model of McLane, or the underlying national chain restaurants, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

A single indirect national chain restaurant account represents a significant portion of our Foodservice segment sales. The loss of, or a significant reduction in, this national chain restaurant's business, or an adverse change in the financial condition of this national chain restaurant, could result in a material adverse effect on our business, results of operations, financial condition and cash flows.

Our net sales to a single national chain restaurant account, which are made indirectly through several foodservice distributors, represented 14% of consolidated net sales for the year ended June 30, 2019. While our relationship has been long-standing and is believed to be very good, it is recognized that we may not be able to maintain this relationship in the future. We do not have any long-term purchase commitments, and we may be unable to continue to sell our products in the same quantities or on the same terms as in the past. The loss of, or a significant reduction in, this business could have a material adverse effect on our sales and profitability. Further, unfavorable changes in this national chain restaurant's financial condition or other

disruptions to its business, such as decreased consumer demand or stronger competition, could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

We rely on the performance of major retailers, mass merchants, wholesalers, food brokers, distributors and foodservice customers for the success of our business and, should they perform poorly or give higher priority to other brands or products, our business could be adversely affected.

Within our Retail and Foodservice segments, we sell our products principally to retail and foodservice channels, including traditional supermarkets, mass merchants, warehouse clubs, specialty food distributors, foodservice distributors and national chain restaurants. Poor performance by our customers, or our inability to collect accounts receivable from our customers, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, our future growth and profitability may be unfavorably impacted by recent changes in the competitive landscape for our Retail segment customers. As consolidation in the retail grocery industry continues and our retail customers also grow larger and become more sophisticated, they may demand improved efficiency, lower pricing, increased promotional programs, or specifically tailored products. Further, these customers are reducing their inventories and increasing their emphasis on private label products and other products holding top market positions. Traditional retail grocers are also being pressured by the growing presence of deep discount retailers that emphasize private label product offerings and lower price points. If we fail to use our sales and marketing expertise to maintain our category leadership positions to respond to these trends, or if we lower our prices or increase promotional support of our products and are unable to increase the volume of our products sold, our business, results of operations, financial condition and cash flows could be adversely affected.

Furthermore, within our Retail segment, many of our customers offer competitor branded products and their own store branded products that compete directly with our products for shelf space and consumer purchases. Accordingly, there is a risk that these customers give higher priority or promotional support to their store branded products or to our competitors' products or discontinue the use of our products in favor of their store branded products or other competing products. Likewise, our foodservice distributors often offer their own branded products that compete directly with our products. Failure to maintain our retail shelf space or priority with these customers and foodservice distributors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Emerging channels such as online retailers and home meal kit delivery services also continue to evolve and impact both the retail and foodservice industries. Our presence in these emerging channels is currently underdeveloped and while we have plans to pursue future opportunities in these emerging channels, our ultimate success and the resulting impacts to our financial results is uncertain.

We rely on the value of the brands we sell, and the failure to maintain and enhance these brands could adversely affect our business.

We rely on the success of our well-recognized brand names. Maintaining and enhancing our brand image and recognition is essential to our long-term success, and maintaining license agreements under which we market and sell certain brands is important to our business. The failure to do either could have a material adverse effect on our business, financial condition and results of operations. We seek to maintain and enhance our brands through a variety of efforts, including the delivery of quality products, extending our brands into new markets and new products and investing in marketing and advertising. The costs of maintaining and enhancing our brands, including maintaining our rights to brands under license agreements, may increase. These increased costs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We manufacture and sell numerous products pursuant to brand license agreements including Olive Garden[®] dressings and Buffalo Wild Wings[®] sauces. We believe that our relationships with our brand licensors are good, but we cannot ensure that we will maintain those relationships. Many of our brand license agreements can be terminated or not renewed at the option of the licensor upon short notice to us. The termination of our brand license agreements, the failure to renew our brand license agreements on terms favorable to us, or the impairment of our relationship with our brand licensors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, we increasingly rely on electronic marketing, such as social media platforms and the use of online marketing strategies, to support and enhance our brands. This "e-commerce" marketplace is growing and evolving quickly and allows for the rapid dissemination of information regarding our brands by us and consumers. We may not be able to successfully adapt our marketing efforts to this rapidly changing marketplace, which could have a material adverse impact on our business, financial condition and results of operations. Further, negative opinions or commentary posted online regarding our brands, regardless of their underlying merits or accuracy, could diminish the value of our brands and have a material adverse effect on our business, results of operations, financial condition and cash flows.

Increases in the costs or limitations to the availability of raw materials we use to produce and package our products could adversely affect our business by increasing our costs to produce goods.

Our principal raw-material needs include soybean oil, various sweeteners, eggs, dairy-related products, flour, water and various films, plastic and paper packaging materials. Our ability to manufacture and/or sell our products may be impaired by damage or disruption to our manufacturing or distribution capabilities, or to the capabilities of our suppliers or contract manufacturers, due to factors that are hard to predict or beyond our control, such as adverse weather conditions, natural disasters, fire, terrorism, pandemics, strikes or other events. Production of the agricultural commodities used in our business may also be adversely affected by drought, water scarcity, temperature extremes, scarcity of suitable agricultural land, worldwide demand, changes in international trade arrangements, livestock disease (for example, avian influenza), crop disease and/or crop pests.

We purchase a majority of our key raw materials on the open market. Our ability to avoid the adverse effects of a pronounced, sustained price increase in our raw materials is limited. We have observed increased volatility in the costs of many of these raw materials, including eggs, in recent years. Similarly, fluctuating petroleum prices and transportation capacity have, from time to time, impacted our costs of resin-based packaging and our costs of inbound freight on all purchased materials.

We try to limit our exposure to price fluctuations for raw materials by periodically entering into longer-term, fixed-price contracts for certain raw materials, but we cannot ensure success in limiting our exposure. We may experience further increases in the costs of raw materials, and we may try to offset such cost increases with higher prices or other measures. However, we may be unable to successfully implement offsetting measures or unable to do so in a timely manner. Such cost increases, as well as an inability to effectively implement additional measures to offset higher costs, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The availability and cost of transportation for our products is vital to our success, and the loss of availability or increase in the cost of transportation could have an unfavorable impact on our business, results of operations, financial condition and cash flows.

Our ability to obtain adequate and reasonably priced methods of transportation to distribute our products, including refrigerated trailers for many of our products, is a key factor to our success. Delays in transportation, including weather-related delays, could have a material adverse effect on our business and results of operations. Further, higher fuel costs and increased line haul costs due to industry capacity constraints, customer delivery requirements and a more restrictive regulatory environment could also negatively impact our financial results. We are often required to pay fuel surcharges that fluctuate with the price of diesel fuel to third-party transporters of our products, and such surcharges can be substantial. Any sudden or dramatic increases in the price of diesel fuel would serve to increase our fuel surcharges and our cost of goods sold. If we were unable to pass higher freight costs to our customers in the form of price increases, those higher costs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to federal, state and local government regulations that could adversely affect our business and results of operations.

Our business operations are subject to regulation by various federal, state and local government entities and agencies. As a producer of food products for human consumption, our operations are subject to stringent production, packaging, quality, labeling and distribution standards, including regulations promulgated under the Federal Food, Drug and Cosmetic Act and the Food Safety Modernization Act. We cannot predict whether future regulation by various federal, state and local government entities and agencies would adversely affect our business, results of operations, financial condition and cash flows.

In addition, our business operations and the past and present ownership and operation of our properties, including idle properties, are subject to extensive and changing federal, state and local environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Although most of our properties have been subjected to periodic environmental assessments, these assessments may be limited in scope and may not include or identify all potential environmental liabilities or risks associated with any particular property. We cannot be certain that our environmental assessments have identified all potential environmental liabilities or that we will not incur material environmental liabilities in the future.

We cannot be certain that environmental issues relating to presently known matters or identified sites, or to other unknown matters or sites, will not require additional, currently unanticipated investigation, assessment or expenditures. If we do incur or discover any material environmental liabilities or potential environmental liabilities in the future, we may face significant remediation costs and find it difficult to sell or lease any affected properties.

We may require significant capital expenditures to maintain, improve or replace aging infrastructure and facilities, which could adversely affect our cash flows.

Much of our infrastructure and facilities have been in service for many years, which may result in a higher level of future maintenance costs and unscheduled repairs. Further, our infrastructure and facilities may need to be improved or replaced to maintain or increase operational efficiency, sustain production capacity, or meet changing regulatory requirements. A significant increase in maintenance costs and capital expenditures could adversely affect our financial condition, results of operations and cash flows. In addition, a failure to operate our facilities optimally could result in declining customer service capabilities, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Manufacturing capacity constraints may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our current manufacturing resources may be inadequate to meet significantly increased demand for some of our food products. Our ability to increase our manufacturing capacity depends on many factors, including the availability of capital, steadily increasing consumer demand, equipment delivery, construction lead-times, installation, qualification, regulatory permitting and regulatory requirements. Increasing capacity through the use of third party manufacturers depends on our ability to develop and maintain such relationships and the ability of such third parties to devote additional capacity to fill our orders.

A lack of sufficient manufacturing capacity to meet demand could cause our customer service levels to decrease, which may negatively affect customer demand for our products and customer relations generally, which in turn could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, operating facilities at or near capacity may also increase production and distribution costs and negatively affect relations with our employees or contractors, which could result in disruptions in our operations.

We may experience difficulties in designing and implementing our new enterprise resource planning system.

We are in the early stages of a multi-year implementation of a new enterprise resource planning system (“ERP”), which will replace our existing financial and operating systems. The ERP will be designed to accurately maintain our financial records, enhance our operational functionality and provide timely information to our management team related to the operations of the business. The design and implementation of this new ERP requires an investment of significant personnel and financial resources, including substantial expenditures for outside consultants, system hardware and software in addition to other expenses in connection with the transformation of our organizational structure and financial and operating processes. We may not be able to implement the ERP successfully without experiencing delays, increased costs and other difficulties, including potential design defects, miscalculations, testing requirements, re-work due to changes in business plans or reporting standards, and the diversion of management’s attention from day-to-day business operations. If we are unable to design and implement the new ERP as planned, the effectiveness of our internal control over financial reporting could be adversely affected, our ability to assess those controls adequately could be delayed, and our business, results of operations, financial condition and cash flows could be negatively impacted.

Technology failures could disrupt our operations and negatively impact our business.

We increasingly rely on information technology systems to conduct and manage our business operations, including the processing, transmitting, and storing of electronic information. For example, our sales group and our production and distribution facilities utilize information technology to increase efficiencies and limit costs. Furthermore, a significant portion of the communications between our personnel, customers, and suppliers depends on information technology and an uninterrupted and functioning infrastructure, including telecommunications. Our information technology systems may be vulnerable to a variety of interruptions due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, cyber attacks and other security issues. If we are unable to adequately protect against these vulnerabilities, our operations could be disrupted, or we may suffer financial damage or loss because of lost or misappropriated information.

Cyber attacks, data breaches or other breaches of our information security systems could have an adverse effect on our business, results of operations, financial condition and cash flows.

Cyber attacks, data breaches or other breaches of our information security systems may cause equipment failures or disruptions to our operations. Our inability to operate our networks and information security systems as a result of such events, even for a limited period of time, may result in significant expenses. Cyber attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. While we have been subject to cyber attacks, none of these events has been material to our operations or financial condition. While we believe we take reasonable steps to protect the security of our information relative to our perceived risks, our preventative actions may be insufficient to defend against a major cyber attack in the future. The costs

associated with a major cyber attack could include increased expenditures on cyber security measures, lost revenues from business interruption, litigation, regulatory fines and penalties and damage to our reputation. The cost and effort involved with attempting to prevent cyber security attacks and data breaches could also be significant, and our efforts to prevent these attacks may not be successful. If we fail to prevent the theft of valuable information such as financial data, sensitive information about the Company and intellectual property, or if we fail to protect the privacy of customers', consumers' and employees' confidential data against breaches of network or information technology security, it could result in damage to our reputation and brand image, which could adversely impact our employee, customer and investor relations. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and cash flows. While we believe our insurance related to these matters is consistent with industry practice, any potential claim under our policies may be subject to certain exceptions; may not be honored fully, in a timely manner, or at all; and we may not have purchased sufficient insurance to cover all material losses.

We may not be able to successfully consummate proposed acquisitions or divestitures, and integrating acquired businesses may present financial, managerial and operational challenges.

We continually evaluate the acquisition of other businesses that would strategically fit within our operations. If we are unable to consummate, successfully integrate and grow these acquisitions or realize contemplated revenue growth, synergies and cost savings, our financial results could be adversely affected. In addition, we may, from time to time, divest businesses, product lines or other operations that are less of a strategic fit within our portfolio or do not meet our growth or profitability targets. As a result, our profitability may be adversely affected by losses on the sales of divested assets or lost operating income or cash flows from those businesses.

We may incur asset impairment or restructuring charges related to acquired or divested assets, which may reduce our profitability and cash flows. These potential acquisitions or divestitures present financial, managerial and operational challenges, including diversion of management attention from ongoing businesses, difficulty with integrating or separating personnel and financial and other systems, increased expenses, assumption of unknown liabilities, indemnities and potential disputes with the buyers or sellers.

Our inability to successfully renegotiate collective bargaining contracts and any prolonged work stoppages could have an adverse effect on our business, results of operations, financial condition and cash flows.

We believe that our labor relations with employees under collective bargaining contracts are satisfactory, but our inability to negotiate the renewal of any collective bargaining agreements, including the agreement at our Bedford Heights, Ohio facility, which is currently scheduled to expire in April 2020, or any prolonged work stoppages could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may incur liabilities related to multiemployer pension plans which could adversely affect our financial results.

Through 2017, we contributed to two multiemployer pension plans under certain collective bargaining agreements that provide pension benefits to employees and retired employees participating in the plans. On January 21, 2017, the employees at our Bedford Heights, Ohio plant voted to ratify a new collective bargaining agreement that provided for our complete withdrawal from the multiemployer pension plan associated with that facility. At this time, we still contribute to a multiemployer pension plan related to our facility in Milpitas, California.

As a contributor to the multiemployer pension plan associated with our Milpitas, California facility, we are responsible for making periodic contributions to this plan. Our required contributions to this plan could increase; however, any increase would be dependent upon a number of factors, including our ability to renegotiate the collective bargaining contract successfully, current and future regulatory requirements, the performance of the pension plan's investments, the number of participants who are entitled to receive benefits from the plan, the contribution base as a result of the insolvency or withdrawal of other companies that currently contribute to this plan, the inability or failure of withdrawing companies to pay their withdrawal liability, low interest rates and other funding deficiencies. We may also be required to pay a withdrawal liability if we exit from this plan. While we cannot determine whether and to what extent our contributions may increase or what our withdrawal liability may be, payments related to this plan could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Increases in energy-related costs could negatively affect our business by increasing our costs to produce goods.

We are subject to volatility in energy-related costs that affect the cost of producing and distributing our products, including our petroleum-derived packaging materials. Furthermore, any sudden and dramatic increases in electricity or natural gas costs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We limit our exposure to price fluctuations in energy-related costs by periodically entering into longer-term, fixed-price contracts for natural gas and electricity supply to some of our manufacturing facilities. However, due to the inherent variability of contractual terms and end dates, in addition to the extent to which the energy markets in which we operate have been

deregulated to allow for contracted supply, we will retain some level of exposure to future price fluctuations for our energy-related costs.

The loss of the services of one or more members of our senior management team could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our operations and prospects depend in large part on the performance of our senior management team, several of which are long-serving employees with significant knowledge of our business model and operations. Should we not be able to find qualified replacements for any of these individuals if their services were no longer available, our ability to manage our operations or successfully execute our business strategy may be materially and adversely affected.

Mr. Gerlach, Executive Chairman of our Board of Directors, has a significant ownership interest in our Company.

As of June 30, 2019, Mr. Gerlach owned or controlled 30% 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 may also 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. This conflict of interest may have an adverse effect on the price of our common stock.

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

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 acquire us or influence our Board of Directors. This may have the effect of delaying or preventing changes of control or management, 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 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 our voting shares and a majority of our 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.

Also, our Board of Directors has the authority to issue up to 1,150,000 shares of Class B Voting Preferred Stock and 1,150,000 shares of Class C Nonvoting Preferred Stock and to determine the price, rights, preferences, privileges and restrictions of those shares without any further vote or action by the shareholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any Class B Voting Preferred Stock and Class C Nonvoting Preferred Stock that may be issued in the future. The Company could use these rights to put in place a shareholder rights plan, or "poison pill," that could be used in connection with a bid or proposal of acquisition for an inadequate price.

Item 1B. Unresolved Staff Comments

None.

Item 2. *Properties*

We use 2.2 million square feet of space for our operations. Of this space, 0.8 million square feet are leased. These amounts exclude facilities operated by third-party service providers.

The following table summarizes our principal manufacturing locations (including aggregation of multiple facilities):

Location	Principal Products Produced	Business Segment(s)	Terms of Occupancy
Altoona, IA	Frozen pasta	Retail and Foodservice	Owned
Bedford Heights, OH	Frozen breads	Retail and Foodservice	Owned
Columbus, OH	Sauces, dressings, dips	Retail and Foodservice	Owned
Cudahy, WI	Sprouted grain bakery products	Retail	Owned
Horse Cave, KY	Sauces, dressings, frozen rolls	Retail and Foodservice	Owned
Luverne, AL	Frozen rolls	Retail and Foodservice	Owned
Milpitas, CA	Sauces and dressings	Retail and Foodservice	Owned
Saline, MI	Flatbread products	Retail and Foodservice	Owned
Vineland, NJ ⁽¹⁾	Frozen breads	Retail and Foodservice	Leased
Wareham, MA ⁽²⁾	Croutons	Retail and Foodservice	Leased

(1) Fully leased for term expiring in fiscal 2027.

(2) Fully leased for term expiring in fiscal 2024.

The following table summarizes our principal warehouses (including aggregation of multiple facilities), which are used to distribute products to our customers:

Location	Business Segment(s)	Terms of Occupancy
Altoona, IA ⁽¹⁾	Retail and Foodservice	Leased
Attalla, AL	Retail and Foodservice	Third-party service
Columbus, OH ⁽²⁾	Retail and Foodservice	Leased
Grove City, OH	Retail and Foodservice	Owned
Horse Cave, KY	Retail and Foodservice	Owned
Milpitas, CA ⁽³⁾	Retail and Foodservice	Leased

(1) Fully leased for term expiring in fiscal 2020.

(2) Fully leased for term expiring in fiscal 2022.

(3) Fully leased for term expiring in fiscal 2021.

Item 3. *Legal Proceedings*

From time to time we are a party to various legal proceedings. While we believe that the ultimate outcome of these various proceedings, individually and in the aggregate, will not have a material effect on our consolidated financial statements, litigation is always subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting us from manufacturing or selling one or more products or could lead to us altering the manner in which we manufacture or sell one or more products, which could have a material impact on net income for the period in which the ruling occurs and future periods.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market under the symbol LANC.

The number of shareholders of record as of August 1, 2019 was approximately 740. This is not the actual number of beneficial owners of our common stock, as shares are held in "street name" by brokers and others on behalf of individual owners.

We have increased our regular cash dividends for 56 consecutive years. Future dividends will depend on our earnings, financial condition and other factors.

Issuer Purchases of Equity Securities

In November 2010, our Board of Directors approved a share repurchase authorization of 2,000,000 common shares, of which 1,354,423 common shares remained authorized for future repurchases at June 30, 2019. This share repurchase authorization does not have a stated expiration date. In the fourth quarter, we made the following repurchases of our common stock:

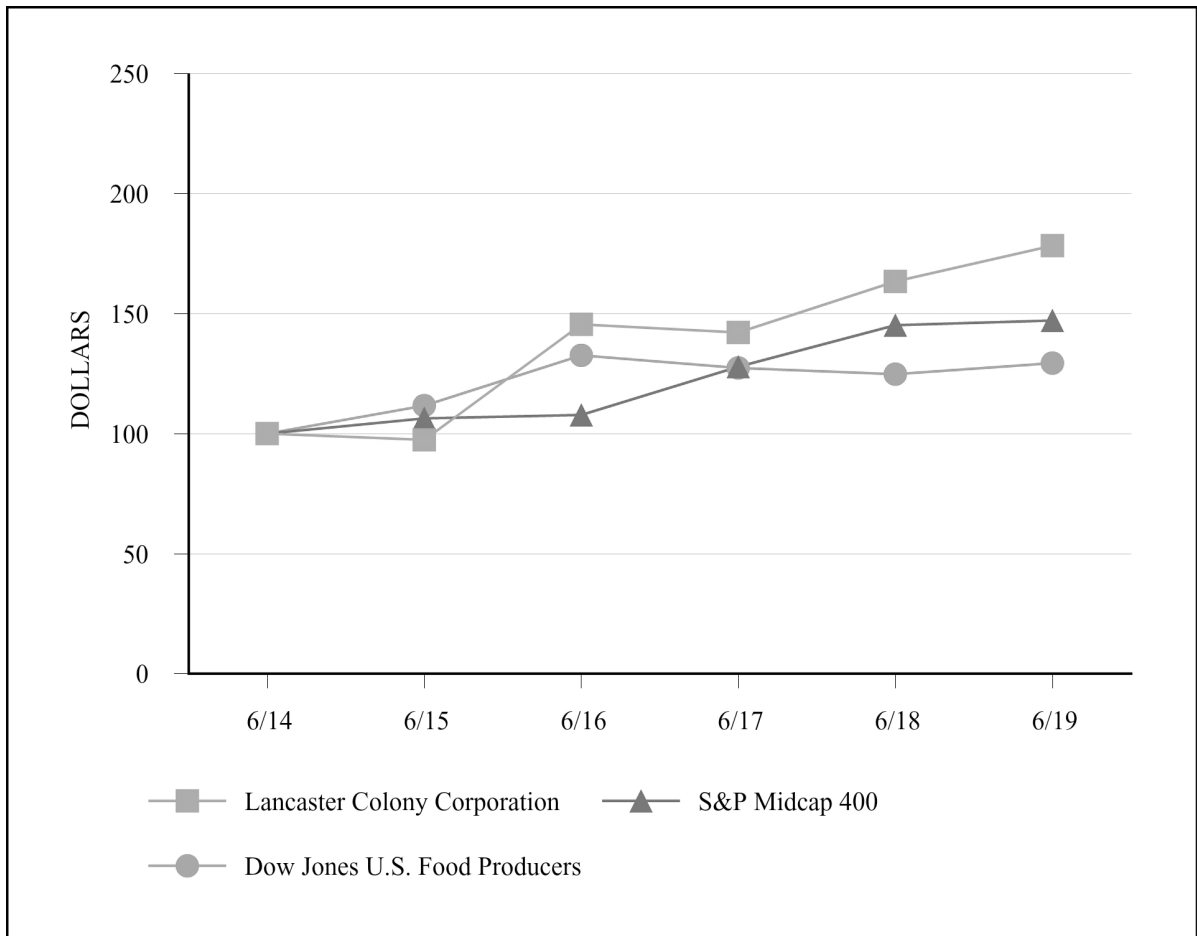
<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plans</u>
April 1-30, 2019 ⁽¹⁾	927	\$ 155.25	927	1,369,473
May 1-31, 2019 ⁽¹⁾	15,050	\$ 148.52	15,050	1,354,423
June 1-30, 2019	—	\$ —	—	1,354,423
Total	<u>15,977</u>	\$ 148.91	<u>15,977</u>	1,354,423

- (1) Includes 927 shares in April 2019 and 50 shares in May 2019 that were repurchased in satisfaction of tax withholding obligations arising from the vesting of restricted stock granted to employees under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan.

PERFORMANCE GRAPH

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN
OF LANCASTER COLONY CORPORATION, THE S&P MIDCAP 400 INDEX
AND THE DOW JONES U.S. FOOD PRODUCERS INDEX**

The graph set forth below compares the five-year cumulative total return from investing \$100 on June 30, 2014 in each of our Common Stock, the S&P Midcap 400 Index and the Dow Jones U.S. Food Producers Index. The total return calculation assumes that all dividends are reinvested, including any special dividends.



Cumulative Total Return (Dollars)

	6/14	6/15	6/16	6/17	6/18	6/19
Lancaster Colony Corporation	100.00	97.41	145.47	142.07	163.42	178.28
S&P Midcap 400	100.00	106.40	107.81	127.83	145.09	147.07
Dow Jones U.S. Food Producers	100.00	111.61	132.65	127.30	124.72	129.37

There can be no assurance that our stock performance will continue into the future with the same or similar trends depicted in the above graph.

Item 6. Selected Financial Data

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FIVE YEAR FINANCIAL SUMMARY

<u>(Thousands Except Per Share Figures)</u>	Years Ended June 30,				
	2019	2018	2017	2016	2015
Operations					
Net Sales	\$ 1,307,787	\$ 1,222,925	\$ 1,201,842	\$ 1,191,109	\$ 1,104,514
Gross Profit ⁽¹⁾	\$ 326,198	\$ 303,506	\$ 318,780	\$ 299,633	\$ 257,667
Percent of Net Sales	24.9%	24.8%	26.5%	25.2%	23.3%
Change in Contingent Consideration	\$ (16,180)	\$ 2,052	\$ 1,156	\$ —	\$ —
Multiemployer Pension Settlement and Related Costs	\$ —	\$ —	\$ 17,635	\$ —	\$ —
Income Before Income Taxes	\$ 195,542	\$ 174,203	\$ 175,516	\$ 184,633	\$ 154,552
Percent of Net Sales	15.0%	14.2%	14.6%	15.5%	14.0%
Taxes Based on Income ⁽²⁾	\$ 44,993	\$ 38,889	\$ 60,202	\$ 62,869	\$ 52,866
Net Income ⁽²⁾	\$ 150,549	\$ 135,314	\$ 115,314	\$ 121,764	\$ 101,686
Percent of Net Sales	11.5%	11.1%	9.6%	10.2%	9.2%
Diluted Net Income Per Common Share ⁽²⁾	\$ 5.46	\$ 4.92	\$ 4.20	\$ 4.44	\$ 3.72
Cash Dividends Per Common Share - Regular	\$ 2.55	\$ 2.35	\$ 2.15	\$ 1.96	\$ 1.82
Cash Dividends Per Common Share - Special	\$ —	\$ —	\$ —	\$ 5.00	\$ —
Financial Position					
Total Assets ⁽³⁾	\$ 905,399	\$ 804,491	\$ 716,405	\$ 634,732	\$ 702,156
Property, Plant and Equipment-Net ⁽⁴⁾	\$ 247,044	\$ 190,813	\$ 180,671	\$ 169,595	\$ 172,311
Property Additions ⁽⁵⁾	\$ 70,880	\$ 31,025	\$ 27,005	\$ 16,671	\$ 18,298
Depreciation and Amortization	\$ 31,848	\$ 26,896	\$ 24,906	\$ 24,147	\$ 21,111
Long-Term Debt	\$ —	\$ —	\$ —	\$ —	\$ —
Shareholders' Equity ⁽²⁾	\$ 726,873	\$ 652,282	\$ 575,977	\$ 513,598	\$ 580,918
Per Common Share	\$ 26.44	\$ 23.73	\$ 20.98	\$ 18.73	\$ 21.23
Weighted Average Common Shares Outstanding-Diluted ⁽²⁾	27,537	27,459	27,440	27,373	27,327

- (1) Certain prior-year amounts were reclassified in 2019 to reflect the impact of the adoption of new accounting guidance for the presentation of net periodic pension cost and net periodic postretirement benefit cost. This adoption resulted in changes in classification on the income statement such that net periodic pension cost and net periodic postretirement benefit cost are reported outside of income from operations for all periods presented.
- (2) In 2018, we adopted new accounting guidance for stock-based compensation, including the following provisions that were applied on a prospective basis: (a) the inclusion of the tax consequences related to stock-based compensation within the computation of income tax expense versus equity and (b) assumed proceeds used in the calculation of weighted average shares no longer include the amount of excess tax benefits.
- (3) Certain prior-year balances were reclassified in 2016 to reflect the impact of the adoption of new accounting guidance about the presentation of deferred tax assets and liabilities. With the adoption, our net deferred tax liability for all periods presented has been classified as noncurrent.
- (4) Amount for 2019 includes capital leases of \$2.1 million. The related liability is \$2.0 million.
- (5) Amounts for 2019, 2017 and 2015 exclude property obtained in acquisitions (\$4.8 million in the 2019 acquisition of Omni Baking Company; \$1.9 million in the 2019 acquisition of Bantam Bagels; \$5.1 million in the 2017 acquisition of Angelic Bakehouse; and \$6.9 million in the 2015 acquisition of Flatout).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, 2019 refers to fiscal 2019, which is the period from July 1, 2018 to June 30, 2019.

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in Item 8 of this Annual Report on Form 10-K. The forward-looking statements in this section and other parts of this report involve risks, uncertainties and other factors, 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" and those set forth in Item 1A of this Annual Report on Form 10-K.

Our discussion of results for 2019 compared to 2018 is included herein. For discussion of results for 2018 compared to 2017, see our 2018 Annual Report on Form 10-K.

OVERVIEW

Business Overview

Lancaster Colony Corporation is a manufacturer and marketer of specialty food products for the retail and foodservice channels.

Our financial results are presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied.

Over 95% of our products are sold in the United States. Foreign operations and export sales have not been significant in the past and are not expected to be significant in the future based upon existing operations. We do not have any fixed assets located outside of the United States.

Our business has the potential to achieve future growth in sales and profitability due to attributes such as:

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

Our goal is to grow both Retail and Foodservice segment sales over time by:

- introducing new products and expanding distribution;
- leveraging the strength of our Retail brands to increase current product sales;
- expanding Retail growth through strategic licensing agreements;
- continuing to rely upon the strength of our reputation in Foodservice product development and quality; and
- acquiring complementary businesses.

With respect to long-term growth, we continually evaluate the future opportunities and needs for our business specific to our plant infrastructure, IT platforms and other initiatives to support and strengthen our operations. Recent examples of resulting investments include a significant capacity expansion project for our Sister Schubert's frozen dinner roll facility in Horse Cave, Kentucky that we expect to complete in mid-2020; a new R&D center that was completed near the end of 2019; and the establishment of a Transformation Program Office in 2019 that will serve to coordinate our various capital and integration efforts, including our enterprise resource planning system ("ERP") that is now underway.

We also continue to review potential acquisitions that we believe will complement our existing product lines, enhance our profitability and/or offer good expansion opportunities in a manner that fits our overall strategic goals. Consistent with this acquisition strategy, in November 2018 we acquired, using available cash on hand, substantially all of the assets of Omni Baking Company LLC ("Omni"), a long-time supplier of products to our frozen garlic bread operations. In October 2018 we acquired, using available cash on hand, all the assets of Bantam Bagels, LLC ("Bantam"), a producer and marketer of frozen mini stuffed bagels and mini stuffed pancakes sold to both the retail and foodservice channels. In November 2016 we acquired substantially all of the assets of Angelic Bakehouse, Inc. ("Angelic"), a manufacturer and marketer of premium sprouted grain bakery products based near Milwaukee, Wisconsin. See further discussion of these acquisitions in Note 2 to the consolidated financial statements.

RESULTS OF CONSOLIDATED OPERATIONS

(Dollars in thousands, except per share data)	Years Ended June 30,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Net Sales	\$1,307,787	\$1,222,925	\$1,201,842	\$ 84,862	7%	\$ 21,083	2 %
Cost of Sales	981,589	919,419	883,062	62,170	7%	36,357	4 %
Gross Profit	326,198	303,506	318,780	22,692	7%	(15,274)	(5)%
Gross Margin	24.9%	24.8%	26.5%				
Selling, General and Administrative Expenses	149,811	129,906	125,635	19,905	15%	4,271	3 %
Change in Contingent Consideration	(16,180)	2,052	1,156	(18,232)	N/M	896	78 %
Restructuring and Impairment Charges	1,643	—	—	1,643	N/M	—	N/M
Multiemployer Pension Settlement and Related Costs	—	—	17,635	—	N/M	(17,635)	N/M
Operating Income	190,924	171,548	174,354	19,376	11%	(2,806)	(2)%
Operating Margin	14.6%	14.0%	14.5%				
Other, Net	4,618	2,655	1,162	1,963	74%	1,493	128 %
Income Before Income Taxes	195,542	174,203	175,516	21,339	12%	(1,313)	(1)%
Taxes Based on Income	44,993	38,889	60,202	6,104	16%	(21,313)	(35)%
Effective Tax Rate	23.0%	22.3%	34.3%				
Net Income	\$ 150,549	\$ 135,314	\$ 115,314	\$ 15,235	11%	\$ 20,000	17 %
Diluted Net Income Per Common Share	\$ 5.46	\$ 4.92	\$ 4.20	\$ 0.54	11%	\$ 0.72	17 %

Net Sales

Consolidated net sales for the year ended June 30, 2019 increased 7% to a new record of \$1,308 million from the prior-year record total of \$1,223 million. This growth was driven by increases in both Retail and Foodservice net sales. Excluding net sales attributed to the acquisitions of Bantam and Omni, consolidated net sales increased 5% for the year.

The relative proportion of sales contributed by each of our business segments can impact a year-to-year comparison of the consolidated statements of income. The following table summarizes the sales mix over each of the last three years:

	2019	2018	2017
Segment Sales Mix:			
Retail	50%	53%	53%
Foodservice	50%	47%	47%

See discussion of net sales by segment following the discussion of “Earnings Per Share” below.

Gross Profit

Consolidated gross profit increased to \$326.2 million in 2019 compared to \$303.5 million in 2018 driven by increased sales volumes in Foodservice, cost savings from our lean six sigma program and improved net price realization. These benefits were partially offset by incremental costs, including facility upgrades, associated with the Omni operations, investments to support expanding retail distribution of Bantam, and higher warehousing costs.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased 15% in 2019. The increase in these costs was driven by increased investments in personnel and business initiatives to support future growth, including ERP expenses, and the impact of our two acquisitions. ERP expenses are included within Corporate Expenses.

(Dollars in thousands)	Year Ended June 30,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
SG&A Expenses - Excluding ERP	\$ 148,031	\$ 129,906	\$ 125,635	\$ 18,125	14%	\$ 4,271	3%
ERP Expenses	1,780	—	—	1,780	N/M	—	N/M
Total SG&A Expenses	\$ 149,811	\$ 129,906	\$ 125,635	\$ 19,905	15%	\$ 4,271	3%

Change in Contingent Consideration

The change in contingent consideration resulted in a net benefit of \$16.2 million in 2019, which reflects a \$17.1 million reduction in the fair value of Angelic's contingent consideration liability as a result of our 2019 fair value measurements. See further discussion in Note 3 to the consolidated financial statements.

Given the nature of Angelic's sales and historical accounting treatment, the entire adjustment related to Angelic's contingent consideration was reflected within the Retail segment.

Restructuring and Impairment Charges

In the fourth quarter of 2019, we committed to a plan to close our frozen bread manufacturing plant located in Saraland, Alabama. This decision is intended to provide greater production efficiency by consolidating most of this facility's operations into other existing plants, outsourcing certain requirements and discontinuing less profitable frozen bread products. Production at the plant ceased in July 2019. Certain plant clean-up and closure activities are expected to continue into August 2019. The Saraland plant is a leased facility with the lease term ending in November 2020. The operations of this plant have not been classified as discontinued operations as the closure does not represent a strategic shift that would have a major effect on our operations or financial results.

During 2019, we recorded restructuring and impairment charges of \$1.6 million, as well as \$0.2 million recorded in Cost of Sales for the write-down of inventories. The restructuring and impairment charges, which consisted of one-time termination benefits, fixed asset impairment charges and other closing costs, were not allocated to our two reportable segments due to their unusual nature.

Operating Income

Operating income increased 11% in 2019 driven by gross profit growth and the change in contingent consideration, as partially offset by the increase in SG&A expenses and restructuring and impairment charges. See discussion of operating results by segment following the discussion of "Earnings Per Share" below.

Taxes Based on Income

Our effective tax rate was 23.0% and 22.3% in 2019 and 2018, respectively. The current-year and prior-year rates were favorably impacted by the Tax Cuts and Jobs Act of 2017 ("Tax Act"), which was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. Since we file our tax return based on our fiscal year, the statutory federal income tax rate for our 2018 tax return was a blended rate of 28.1%. In addition to the effect of the lower overall federal tax rate, the Tax Act resulted in a \$9.5 million one-time benefit for the re-measurement of our net deferred tax liability in 2018. The statutory federal income tax rate for our 2019 tax return will be 21%. See Note 9 to the consolidated financial statements for a reconciliation of the statutory rate to the effective rate for 2019, 2018 and 2017.

The SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017. SAB 118 allowed for a measurement period in which companies could either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates could not be determined at the time of the preparation of the financial statements until the actual impacts could be determined. We recorded an initial estimate of the impact of the Tax Act within our December 31, 2017 financial statements, and the adjustments recorded in the second half of 2018 were not material. The measurement period has ended, and we have completed the accounting for all the impacts of the Tax Act.

We include the tax consequences related to stock-based compensation within the computation of income tax expense. We may experience increased volatility to our income tax expense and resulting net income, dependent upon, among other variables, the price of our common stock and the timing and volume of share-based payment award activity such as employee exercises of stock-settled stock appreciation rights and vesting of restricted stock awards. For 2019 and 2018, the impact of net windfall tax benefits from stock-based compensation reduced our effective tax rate by 0.8% and 0.4%, respectively.

Earnings Per Share

As influenced by the factors discussed above, particularly the impact of the reduction in fair value of Angelic's contingent consideration in 2019 and the Tax Act in 2018, diluted net income per share totaled \$5.46 in 2019, an increase from the 2018 total of \$4.92 per diluted share. Diluted weighted average common shares outstanding for each of the years ended June 30, 2019, 2018 and 2017 have remained relatively stable.

In 2019, the after-tax benefit from the reduction in the fair value of Angelic's contingent consideration liability was \$0.48 per diluted share while spend for the ERP reduced diluted earnings per share by \$0.05 and the restructuring and impairment charge had an unfavorable impact of \$0.05 per diluted share. In 2018, the Tax Act resulted in a one-time deferred tax benefit of \$0.35 per diluted share from the re-measurement of our net deferred tax liability.

RESULTS OF OPERATIONS - SEGMENTS

Retail Segment

(Dollars in thousands)	Year Ended June 30,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Net Sales	\$ 656,621	\$ 650,234	\$ 641,417	\$ 6,387	1%	\$ 8,817	1 %
Operating Income	\$ 135,093	\$ 126,400	\$ 138,489	\$ 8,693	7%	\$ (12,089)	(9)%
Operating Margin	20.6%	19.4%	21.6%				

In 2019, net sales for the Retail segment reached \$656.6 million, a 1% increase from the prior-year total of \$650.2 million. Excluding the incremental sales from Bantam, Retail net sales improved 0.5% as influenced by volume gains for shelf-stable dressings and sauces sold under license agreements, improved net price realization and lower coupon expense. Notable offsets to Retail sales growth included volume declines in flatbread wraps and our decision to selectively exit some low-margin private-label business.

In 2019, Retail segment operating income was favorably impacted by the \$17.1 million reduction in the fair value of Angelic's contingent consideration liability. Excluding this fair value reduction, Retail segment operating income declined to \$118.0 million as influenced by incremental costs, including facility upgrades, associated with the Omni operations, investments to strengthen the Retail leadership team and incremental spending to expand distribution for Bantam.

Foodservice Segment

(Dollars in thousands)	Year Ended June 30,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Net Sales	\$ 651,166	\$ 572,691	\$ 560,425	\$ 78,475	14%	\$ 12,266	2 %
Operating Income	\$ 73,828	\$ 58,440	\$ 66,234	\$ 15,388	26%	\$ (7,794)	(12)%
Operating Margin	11.3%	10.2%	11.8%				

In 2019, Foodservice net sales increased 14% to \$651.2 million from the 2018 total of \$572.7 million. Excluding incremental contributions of \$7.3 million from Bantam and \$19.4 million from Omni, Foodservice sales growth of 9% was widespread throughout the segment with national chain restaurant accounts, branded products and frozen pasta products all contributing to growth. The higher level of branded product sales was attributed in part to new product introductions and expanded distribution with colleges and universities. Note that all of the Omni sales are due to an interim agreement whereby, for a period of up to two years post-closing, we will be a supplier of bread products to an affiliated party of the seller.

In 2019, the increase in Foodservice segment operating income and related margins was driven by increased sales volumes, the benefit from continued cost savings in manufacturing and procurement attributed to our lean six sigma program and inflationary pricing as partially offset by higher costs for packaging materials and warehousing.

Corporate Expenses

The 2019 corporate expenses totaled \$16.4 million as compared to \$13.3 million in 2018. The increase was driven by ERP expenses, professional fees and increased investments in personnel.

LOOKING FORWARD

For 2020, we expect Retail segment sales will benefit from the incremental Bantam sales and continued growth from shelf-stable dressings and sauces sold under license agreements along with several new product introductions planned for launch throughout the year. In the Foodservice segment, we anticipate continued volume growth from select national chain restaurant accounts and sales of our branded products along with the added sales from the Omni and Bantam acquisitions. We expect to incur some incremental costs attributed to the Omni acquisition for ongoing operational improvements and upgrades to the facility in Vineland, New Jersey through the first half of the fiscal year as our supply chain team works to fully integrate that facility. In addition, SG&A expenses will continue to reflect incremental investments in our strategic initiatives, including ERP.

We will continue to consider acquisition opportunities that represent good value and are consistent with our growth strategy or otherwise provide significant strategic benefits.

Among the many factors that may impact our ability to improve sales and operating margins in the coming year are the success of our continued investment in innovation and new products, growth from existing product lines, the level of net price realization in the Retail segment and the extent of efficiency gains and cost savings resulting from our lean six sigma program and other supply chain initiatives.

Based on current market conditions, following a year in which commodity costs were generally flat, we anticipate an uptick in commodity costs in 2020. Pricing initiatives, in addition to ongoing savings from our lean six sigma program and other cost-out projects planned by our supply chain team, will help to offset these increased costs.

Overall, we continue to limit some of our exposure to volatile swings in food commodity costs through a strategic forward purchasing program for certain key materials such as soybean oil and flour. For a more-detailed discussion of the effect of commodity costs, see the “Impact of Inflation” section of this MD&A below. Changes in other notable recurring costs, such as marketing, transportation, production costs and introductory costs for new products, may also impact our overall results.

We will adopt new accounting guidance for leases on July 1, 2019. While the adoption of this guidance will result in a significant increase in the balances of right-of-use assets and lease liabilities on our Consolidated Balance Sheet, we do not expect the adoption to impact our results of operations or cash flows. See further discussion in Note 1 to the consolidated financial statements.

We will continue to periodically reassess our allocation of capital to ensure that we maintain adequate operating flexibility while providing appropriate levels of cash returns to our shareholders.

FINANCIAL CONDITION

Liquidity and Capital Resources

We maintain sufficient flexibility in our capital structure to ensure our capitalization is adequate to support our future internal growth prospects, acquire food businesses consistent with our strategic goals, and maintain cash returns to our shareholders through cash dividends and opportunistic share repurchases. Our balance sheet maintained fundamental financial strength during 2019 as we ended the year with \$196 million in cash and equivalents, along with shareholders’ equity of \$727 million and no debt.

Under our unsecured revolving credit facility (“Facility”), we may borrow up to a maximum of \$150 million at any one time. We had no borrowings outstanding under the Facility at June 30, 2019. At June 30, 2019, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. The Facility expires in April 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be classified as long-term debt.

The Facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. At June 30, 2019, we were in compliance with all applicable provisions and covenants of this facility, and we exceeded the requirements of the financial covenants by substantial margins. At June 30, 2019, there were no events that would constitute a default under this facility.

We currently expect to remain in compliance with the Facility’s covenants for the foreseeable future. However, a default under the Facility could accelerate the repayment of any then outstanding indebtedness and limit our access to \$75 million of additional credit available under the Facility. Such an event could require a reduction in or curtailment of cash dividends or share repurchases, reduce or delay beneficial expansion or investment plans, or otherwise impact our ability to meet our obligations when due.

We believe that cash provided by operating activities and our existing balances in cash and equivalents, in addition to that available under the Facility, should be adequate to meet our cash requirements through 2020, including the projected levels of capital expenditures and our historic trend of increasing annual dividend payments. Based on our current plans and expectations, we believe our capital expenditures for 2020 could total between \$80 and \$100 million, which includes estimated remaining payments of \$33 million for a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky that we expect to complete in mid-2020. If we were to borrow outside of the Facility under current market terms, our average interest rate may increase significantly and have an adverse effect on our results of operations.

Cash Flows

(Dollars in thousands)	Year Ended June 30,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Provided By Operating Activities	\$ 197,598	\$ 160,714	\$ 146,385	\$ 36,884	23 %	\$ 14,329	10 %
Used In Investing Activities	\$(126,861)	\$ (31,452)	\$ (60,608)	\$ (95,409)	N/M	\$ 29,156	48 %
Used In Financing Activities	\$ (80,201)	\$ (66,614)	\$ (60,753)	\$ (13,587)	(20)%	\$ (5,861)	(10)%

Cash provided by operating activities remains the primary source for funding our investing and financing activities, as well as financing our organic growth initiatives.

Cash provided by operating activities in 2019 totaled \$197.6 million, an increase of 23% as compared with the 2018 total of \$160.7 million. The 2019 increase was due to higher net income, a benefit from the change in deferred income taxes as a result of the prior-year impact of the Tax Act, and the year-over-year change in net working capital as offset by the reduction in the fair value of Angelic’s contingent consideration liability.

Cash used in investing activities totaled \$126.9 million in 2019 as compared to \$31.5 million in 2018. The 2019 increase in cash used in investing activities primarily reflects cash paid for the October 2018 acquisition of Bantam and the November 2018 acquisition of Omni, as well as a higher level of capital expenditures in 2019. Our 2019 capital expenditures include a substantial investment for a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky that we expect to complete in mid-2020. We have recently completed a dedicated R&D center in central Ohio that will benefit both the Retail and Foodservice segments, and we are also investing in production capacity and increased automation at Angelic to improve efficiencies in production. We also continue to invest in projects to expand packaging capacity and end-of-line automation for both segments. Payments for property additions totaled \$70.9 million in 2019 compared to \$31.0 million in 2018.

Financing activities used net cash totaling \$80.2 million and \$66.6 million in 2019 and 2018, respectively. In general, cash used in financing activities reflects the payment of dividends and share repurchases. The regular dividend payout rate for 2019 was \$2.55 per share, as compared to \$2.35 per share in 2018. This past fiscal year marked the 56th consecutive year in which our dividend rate was increased.

The future levels of share repurchases and declared dividends are subject to the periodic review of our Board of Directors and are generally determined after an assessment is made of various factors, such as anticipated earnings levels, cash flow requirements and general business conditions.

Our ongoing business activities continue to be subject to compliance with various laws, rules and regulations as may be issued and enforced by various federal, state and local agencies. With respect to environmental matters, costs are incurred pertaining to regulatory compliance and, upon occasion, remediation. Such costs have not been, and are not anticipated to become, material.

We are contingently liable with respect to lawsuits, taxes and various other matters that routinely arise in the normal course of business. We do not have any related party transactions that materially affect our results of operations, cash flows or financial condition.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “Variable Interest Entities,” that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures.

We have various contractual obligations that are appropriately recorded as liabilities in our consolidated financial statements. Certain other contractual obligations are not recognized as liabilities in our consolidated financial statements. Examples of such items are commitments to purchase raw materials or packaging inventory that has not yet been received as of June 30, 2019 and future minimum lease payments for the use of property and equipment under operating lease agreements.

The following table summarizes our contractual obligations as of June 30, 2019 (dollars in thousands):

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital Lease Obligations ⁽¹⁾	\$ 2,129	\$ 505	\$ 1,010	\$ 614	\$ —
Operating Lease Obligations ⁽¹⁾	38,254	8,261	13,481	9,611	6,901
Purchase Obligations ⁽²⁾	239,014	218,848	15,238	4,498	430
Other Noncurrent Liabilities (as reflected on Consolidated Balance Sheet) ⁽³⁾	11,317	—	2,314	9,003	—
Total	\$ 290,714	\$ 227,614	\$ 32,043	\$ 23,726	\$ 7,331

- (1) Capital leases are primarily entered into for certain equipment. Operating leases are primarily entered into for warehouse and office facilities and certain equipment. See Note 5 to the consolidated financial statements for further information.
- (2) Purchase obligations represent purchase orders and longer-term purchase arrangements related to the procurement of raw materials, supplies, services, and property, plant and equipment.
- (3) This amount does not include \$23.1 million of other noncurrent liabilities recorded on the balance sheet, which largely consist of the underfunded defined benefit pension liability, other post employment benefit obligations, tax liabilities, noncurrent workers compensation obligations, deferred compensation and interest on deferred compensation. These items are excluded, as it is not certain when these liabilities will become due. See Notes 9, 12 and 13 to the consolidated financial statements for further information.

IMPACT OF INFLATION

Our business results can be influenced by significant changes in the costs of our raw materials, packaging and freight. We attempt to mitigate the impact of inflation on our raw materials by entering into longer-term fixed-price contracts for a portion of our most significant commodities, soybean oil and flour. We also recently implemented a procurement strategy for a portion of our egg needs through the use of grain-based pricing contracts to reduce our exposure to egg market spot prices. With regard to freight costs, during 2019 we added more dedicated carriers to our overall transportation network to help reduce our exposure to spot freight rates. In 2019 we also implemented a transportation management system which improved the efficiency of our internal freight management processes and also allowed us to secure more competitive freight rates. Nonetheless, we remain exposed to events and trends in the marketplace for our other raw-material, packaging and freight costs. While we attempt to pass through sustained increases in raw-material costs, any such price adjustments will often lag the changes in the related input costs.

In 2018, we experienced increased commodity costs across many ingredient and packaging materials, most notably for eggs. The increase in egg costs was principally due to egg-producing issues in Europe which resulted in significantly higher exports from the United States. Additionally, freight costs increased significantly due to capacity constraints in the transportation industry. We implemented pricing actions in both our Retail and Foodservice segments in the second half of 2018. In 2019, commodity cost inflation moderated to nearly flat compared to 2018 while packaging and freight costs were modestly inflationary.

Looking ahead to 2020, under current market conditions we foresee inflation in commodities, packaging and freight with commodities and packaging imposing the greatest headwind. Net price realization in 2020 will help to offset these inflationary costs along with the cost savings from our lean six sigma program, including our strategic procurement initiatives and the beneficial impact of our new transportation management system.

Although typically less notable, we are also exposed to the unfavorable effects of general inflation beyond material and freight costs, especially in the areas of annual wage adjustments and benefit costs. Over time, we attempt to minimize the exposure to such cost increases through ongoing improvements and greater efficiencies throughout our manufacturing operations, including benefits gained through our lean six sigma program and strategic investments in plant equipment.

With regard to the impact of commodity and freight costs on Foodservice segment operating income, most of our supply contracts with national chain restaurant accounts incorporate pricing adjustments to account for changes in ingredient and freight costs. These supply contracts may vary by account with regard to the time lapse between the actual change in ingredient and freight costs we incur and the effective date of the associated price increase or decrease. As a result, the reported operating margins of the Foodservice segment are subject to increased volatility during periods of rapidly rising or falling ingredient and/or freight costs because at least some portion of the change in ingredient and/or freight costs is reflected in the segment's results prior to the impact of any associated change in pricing. In addition, the Foodservice segment has an inherently higher degree of margin volatility from changes in ingredient costs when compared to the Retail segment due to its overall lower margin profile and higher ratio of ingredient pounds to net sales.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A discusses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including, but not limited to, those related to accounts receivable allowances, distribution costs, asset impairments and self-insurance reserves. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Historically, the aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements. While a summary of our significant accounting policies can be found in Note 1 to the consolidated financial statements, we believe the following critical accounting policies reflect those areas in which more significant judgments and estimates are used in the preparation of our consolidated financial statements.

Receivables and Related Allowances

We evaluate the adequacy of our allowances for customer deductions considering several factors including historical experience, specific trade programs and existing customer relationships.

Goodwill and Other Intangible Assets

Goodwill is not amortized. It is evaluated annually at April 30 by applying impairment testing procedures. Other intangible assets are amortized on a straight-line basis over their estimated useful lives to Selling, General and Administrative Expenses. We evaluate the future economic benefit of the recorded goodwill and other intangible assets when events or circumstances indicate potential recoverability concerns. Carrying amounts are adjusted appropriately when determined to have been impaired.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements and their impact on our consolidated financial statements are disclosed in Note 1 to the consolidated financial statements.

FORWARD-LOOKING STATEMENTS

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”). This Annual Report on Form 10-K 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. These statements discuss future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, one 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, except as required by law.

Items which could impact these forward-looking statements include, but are not limited to, those risk factors identified in Item 1A and:

- the ability to successfully grow recently acquired businesses;
- the extent to which recent and future business acquisitions are completed and acceptably integrated;
- difficulties in designing and implementing our new enterprise resource planning system;
- cyber-security incidents, information technology disruptions, and data breaches;
- price and product competition;
- the reaction of customers or consumers to price increases we may implement;
- adverse changes in freight, energy or other costs of producing, distributing or transporting our products;
- fluctuations in the cost and availability of ingredients and packaging;
- the impact of customer store brands on our branded retail volumes;
- dependence on contract manufacturers, distributors and freight transporters;
- the success and cost of new product development efforts;
- dependence on key personnel and changes in key personnel;
- the effect of consolidation of customers within key market channels;
- the lack of market acceptance of new products;
- the possible occurrence of product recalls or other defective or mislabeled product costs;
- the potential for loss of larger programs or key customer relationships;
- changes in demand for our products, which may result from loss of brand reputation or customer goodwill;
- capacity constraints that may affect our ability to meet demand or may increase our costs;
- maintenance of competitive position with respect to other manufacturers;
- changes in estimates in critical accounting judgments;
- the impact of any regulatory matters affecting our food business, including any required labeling changes and their impact on consumer demand;
- the outcome of any litigation or arbitration;
- efficiencies in plant operations;
- stability of labor relations;
- adequate supply of skilled labor;
- the impact, if any, of certain contingent liabilities associated with our withdrawal from a multiemployer pension plan;

- the impact of fluctuations in our pension plan asset values on funding levels, contributions required and benefit costs; and
- certain other risk factors, including those discussed in other filings we have submitted to the Securities and Exchange Commission.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We have exposure to market risks primarily from changes in raw material prices. In recent years, due to the absence of any borrowings, we have not had exposure to changes in interest rates. We also have not had exposure to market risk associated with derivative financial instruments or derivative commodity instruments as we do not utilize any such instruments.

RAW MATERIAL PRICE RISK

We purchase a variety of commodities and other raw materials, such as soybean oil, flour, eggs and dairy-based materials, which we use to manufacture our products. The market prices for these commodities are subject to fluctuation based upon a number of economic factors and may become volatile at times. While we do not use any derivative commodity instruments to hedge against commodity price risk, we do actively manage a portion of the risk through a structured forward purchasing program for certain key materials such as soybean oil and flour. In addition, we recently implemented a procurement strategy for a portion of our egg needs through the use of grain-based pricing contracts to reduce our exposure to egg market spot prices. These programs, coupled with short-term fixed price arrangements on other significant raw materials, provide us more predictable input costs, which, in addition to the supply contracts with our foodservice customers that allow us to pass along price increases for commodities, help to stabilize our margins during periods of significant volatility in the commodity markets.

Item 8. *Financial Statements and Supplementary Data*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Lancaster Colony Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lancaster Colony Corporation and subsidiaries (the “Company”) as of June 30, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended June 30, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018 and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 27, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Fair Value - Contingent Consideration (Level 3 Liabilities) - Refer to Note 3 in the Financial Statements

Critical Audit Matter Description

The Company has contingent consideration liabilities whose estimated fair values are based on complex proprietary models and unobservable inputs. The contingent consideration liabilities resulted from the earn-out provisions associated with the Company’s October 19, 2018, acquisition of Bantam Bagels and November 17, 2016, acquisition of Angelic Bakehouse. The terms of these acquisitions specify that the sellers may receive an earn-out payment as part of the overall consideration in the transactions based upon a pre-determined contractual formula at a specified future date. Under accounting principles generally accepted in the United States of America, these liabilities are generally classified as Level 3 liabilities and are marked to fair value on a recurring basis.

Unlike the fair value of other assets and liabilities with readily observable, and therefore, more independently corroborated inputs, the valuation of Level 3 liabilities is inherently subjective, and often involves the use of complex proprietary models and unobservable inputs. The contingent consideration of Bantam Bagels is valued using a Monte Carlo

simulation that randomly changes revenue growth, adjusted earnings before interest, taxes, depreciation, and amortization (“EBITDA”), and other uncertain variables to estimate fair value using a discount rate. The contingent consideration of Angelic Bakehouse is valued using a present value approach that incorporates factors such as a revenue growth rate, discount rate, and forecasted adjusted EBITDA projections to estimate fair value. Due to unfavorable events and market conditions in the current year, it became probable that previous adjusted EBITDA projections would not be attained thus resulting in a decrease in the fair value of the contingent consideration of Angelic Bakehouse.

We identified these Level 3 liabilities as a critical audit matter because of the complex proprietary models and unobservable inputs management used to estimate fair value. This required a high degree of auditor judgment and an increased extent of our effort, including the need to involve our fair value specialists who possess significant quantitative and modeling expertise to audit and evaluate the appropriateness of the models and inputs.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the proprietary models and unobservable inputs used by management to estimate the fair value of the Level 3 liabilities included the following, among others:

- We tested the effectiveness of controls over management’s valuation of Level 3 liabilities, including those related to the complex proprietary models and the significant inputs that are not readily observable.
- We evaluated management’s ability to accurately estimate fair value by comparing management’s historical estimates to subsequent results, taking into account changes in market conditions.
- We compared management’s assumptions to external sources. These assumptions included the discount rates and future revenue growth affecting the forecasted adjusted EBITDA used in the valuation models for both Bantam Bagels and Angelic Bakehouse.
- With the assistance of our fair value specialists, we developed independent fair value estimates using a Monte Carlo simulation for Bantam Bagels and a present value approach for Angelic Bakehouse and compared our estimates to the Company’s estimates.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Columbus, Ohio
August 27, 2019

We have served as the Company’s auditor since 1961.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<u>(Amounts in thousands, except share data)</u>	June 30,	
	2019	2018
ASSETS		
Current Assets:		
Cash and equivalents	\$ 196,288	\$ 205,752
Receivables	75,691	72,960
Inventories:		
Raw materials	30,647	32,673
Finished goods	55,425	58,188
Total inventories	86,072	90,861
Other current assets	10,518	9,304
Total current assets	368,569	378,877
Property, Plant and Equipment:		
Land, buildings and improvements	163,094	132,318
Machinery and equipment	340,232	293,409
Total cost	503,326	425,727
Less accumulated depreciation	256,282	234,914
Property, plant and equipment-net	247,044	190,813
Other Assets:		
Goodwill	208,371	168,030
Other intangible assets-net	70,277	56,176
Other noncurrent assets	11,138	10,595
Total	\$ 905,399	\$ 804,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 76,670	\$ 57,978
Accrued liabilities	43,036	35,789
Total current liabilities	119,706	93,767
Other Noncurrent Liabilities	35,938	41,638
Deferred Income Taxes	22,882	16,804
Commitments and Contingencies		
Shareholders' Equity:		
Preferred stock-authorized 3,050,000 shares; outstanding-none		
Common stock-authorized 75,000,000 shares; outstanding-2019-27,491,497 shares; 2018-27,487,989 shares	122,844	119,232
Retained earnings	1,359,782	1,279,343
Accumulated other comprehensive loss	(10,308)	(8,259)
Common stock in treasury, at cost	(745,445)	(738,034)
Total shareholders' equity	726,873	652,282
Total	\$ 905,399	\$ 804,491

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<u>(Amounts in thousands, except per share data)</u>	Years Ended June 30,		
	2019	2018	2017
Net Sales	\$ 1,307,787	\$ 1,222,925	\$ 1,201,842
Cost of Sales	981,589	919,419	883,062
Gross Profit	326,198	303,506	318,780
Selling, General and Administrative Expenses	149,811	129,906	125,635
Change in Contingent Consideration	(16,180)	2,052	1,156
Restructuring and Impairment Charges	1,643	—	—
Multiemployer Pension Settlement and Related Costs	—	—	17,635
Operating Income	190,924	171,548	174,354
Other, Net	4,618	2,655	1,162
Income Before Income Taxes	195,542	174,203	175,516
Taxes Based on Income	44,993	38,889	60,202
Net Income	\$ 150,549	\$ 135,314	\$ 115,314
Net Income Per Common Share:			
Basic	\$ 5.48	\$ 4.93	\$ 4.21
Diluted	\$ 5.46	\$ 4.92	\$ 4.20
Weighted Average Common Shares Outstanding:			
Basic	27,438	27,403	27,376
Diluted	27,537	27,459	27,440

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<u>(Amounts in thousands)</u>	Years Ended June 30,		
	2019	2018	2017
Net Income	\$ 150,549	\$ 135,314	\$ 115,314
Other Comprehensive (Loss) Income:			
Defined Benefit Pension and Postretirement Benefit Plans:			
Net (loss) gain arising during the period, before tax	(2,902)	3,041	3,334
Amortization of loss, before tax	410	536	677
Amortization of prior service credit, before tax	(182)	(182)	(182)
Total Other Comprehensive (Loss) Income, Before Tax	(2,674)	3,395	3,829
Tax Attributes of Items in Other Comprehensive (Loss) Income:			
Net (loss) gain arising during the period, tax	678	(710)	(1,231)
Amortization of loss, tax	(96)	(180)	(250)
Amortization of prior service credit, tax	43	61	66
Total Tax Benefit (Expense)	625	(829)	(1,415)
Other Comprehensive (Loss) Income, Net of Tax	(2,049)	2,566	2,414
Comprehensive Income	\$ 148,500	\$ 137,880	\$ 117,728

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<u>(Amounts in thousands)</u>	Years Ended June 30,		
	2019	2018	2017
Cash Flows From Operating Activities:			
Net income	\$ 150,549	\$ 135,314	\$ 115,314
Adjustments to reconcile net income to net cash provided by operating activities:			
Impacts of noncash items:			
Depreciation and amortization	31,848	26,896	24,906
Change in contingent consideration	(16,180)	2,052	1,156
Deferred income taxes and other changes	7,336	(8,502)	2,347
Stock-based compensation expense	5,972	5,039	4,248
Restructuring and impairment charges	1,643	—	—
Gain on sale of property	(13)	(10)	(629)
Pension plan activity	(749)	(434)	(244)
Changes in operating assets and liabilities:			
Receivables	(748)	(3,040)	(2,598)
Inventories	6,282	(14,485)	150
Other current assets	(3,085)	2,164	(2,958)
Accounts payable and accrued liabilities	14,743	15,720	4,693
Net cash provided by operating activities	197,598	160,714	146,385
Cash Flows From Investing Activities:			
Payments for property additions	(70,880)	(31,025)	(27,005)
Cash paid for acquisitions, net of cash acquired	(55,364)	(318)	(35,169)
Proceeds from sale of property	169	38	1,475
Other-net	(786)	(147)	91
Net cash used in investing activities	(126,861)	(31,452)	(60,608)
Cash Flows From Financing Activities:			
Payment of dividends	(70,110)	(64,531)	(58,980)
Purchase of treasury stock	(7,411)	(1,102)	(866)
Tax withholdings for stock-based compensation	(2,360)	(981)	(907)
Other-net	(320)	—	—
Net cash used in financing activities	(80,201)	(66,614)	(60,753)
Net change in cash and equivalents	(9,464)	62,648	25,024
Cash and equivalents at beginning of year	205,752	143,104	118,080
Cash and equivalents at end of year	\$ 196,288	\$ 205,752	\$ 143,104

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands, except per share data)	Common Stock Outstanding		Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
	Shares	Amount				
Balance, June 30, 2016	27,424	\$ 110,677	\$ 1,150,337	\$ (11,350)	\$ (736,066)	\$ 513,598
Net income			115,314			115,314
Net pension and postretirement benefit gains, net of \$1,415 tax effect				2,414		2,414
Cash dividends - common stock (\$2.15 per share)			(58,980)			(58,980)
Purchase of treasury stock	(6)				(866)	(866)
Stock-based plans, including excess tax benefits	30	249				249
Stock-based compensation expense		4,248				4,248
Balance, June 30, 2017	27,448	115,174	1,206,671	(8,936)	(736,932)	575,977
Net income			135,314			135,314
Net pension and postretirement benefit gains, net of \$829 tax effect				2,566		2,566
Tax Cuts and Jobs Act of 2017, Reclassification from accumulated other comprehensive loss to retained earnings			1,889	(1,889)		—
Cash dividends - common stock (\$2.35 per share)			(64,531)			(64,531)
Purchase of treasury stock	(9)				(1,102)	(1,102)
Stock-based plans	49	(981)				(981)
Stock-based compensation expense		5,039				5,039
Balance, June 30, 2018	27,488	119,232	1,279,343	(8,259)	(738,034)	652,282
Net income			150,549			150,549
Net pension and postretirement benefit losses, net of (\$625) tax effect				(2,049)		(2,049)
Cash dividends - common stock (\$2.55 per share)			(70,110)			(70,110)
Purchase of treasury stock	(48)				(7,411)	(7,411)
Stock-based plans	51	(2,360)				(2,360)
Stock-based compensation expense		5,972				5,972
Balance, June 30, 2019	27,491	\$ 122,844	\$ 1,359,782	\$ (10,308)	\$ (745,445)	\$ 726,873

See accompanying notes to consolidated financial statements.

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

Note 1 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Lancaster Colony Corporation and our wholly-owned subsidiaries, collectively referred to as “we,” “us,” “our,” “registrant,” or the “Company.” Intercompany transactions and accounts have been eliminated in consolidation. 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, 2019 refers to fiscal 2019, which is the period from July 1, 2018 to June 30, 2019.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires that we make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates included in these consolidated financial statements include allowances for customer deductions, net realizable value of inventories, useful lives for the calculation of depreciation and amortization, distribution accruals, pension and postretirement assumptions and self-insurance accruals. Actual results could differ from these estimates.

Cash and Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amounts of our cash and equivalents approximate fair value due to their short maturities and are considered level 1 investments, which have quoted market prices in active markets for identical assets. As a result of our cash management system, checks issued but not presented to the banks for payment may create negative book cash balances. When such negative balances exist, they are included in Accrued Liabilities.

Receivables and Related Allowances

We evaluate the adequacy of our allowances for customer deductions considering several factors including historical experience, specific trade programs and existing customer relationships. We also provide an allowance for doubtful accounts based on the aging of accounts receivable balances, historical write-off experience and on-going reviews of our trade receivables. Measurement of potential losses requires credit review of existing customer relationships, consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and the economic health of customers. Our allowance for doubtful accounts was immaterial for all periods presented.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and equivalents and trade accounts receivable. By policy, we limit the amount of credit exposure to any one institution or issuer. Our concentration of credit risk with respect to trade accounts receivable is mitigated by our credit evaluation process and by having a large and diverse customer base. However, see Note 10 with respect to our accounts receivable with Walmart Inc. and McLane Company, Inc., a wholesale distribution subsidiary of Berkshire Hathaway, Inc.

Inventories

Inventories are valued at the lower of cost or net realizable value and are costed by various methods that approximate actual cost on a first-in, first-out basis. Due to the nature of our business, work in process inventory is not a material component of inventory. When necessary, we provide allowances to adjust the carrying value of our inventory to the lower of cost or net realizable value, including any costs to sell or dispose. The determination of whether inventory items are slow moving, obsolete or in excess of needs requires estimates about the future demand for our products. The estimates as to future demand used in the valuation of inventory are subject to the ongoing success of our products and may differ from actual due to factors such as changes in customer and consumer demand.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for those acquired as part of a business combination, which are recorded at fair value at the time of purchase. We use the straight-line method of computing depreciation for financial reporting purposes based on the estimated useful lives of the corresponding assets. Estimated useful lives for buildings and improvements range generally from 10 to 40 years, machinery and equipment, excluding technology-related equipment, range generally from 3 to 15 years and technology-related equipment range generally from 3 to 5 years. For tax purposes, we generally compute depreciation using accelerated methods.

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

Purchases of property, plant and equipment included in Accounts Payable and excluded from the property additions and the change in accounts payable in the Consolidated Statements of Cash Flows at June 30 were as follows:

	2019	2018	2017
Construction in progress in Accounts Payable	\$ 7,852	\$ 2,070	\$ 622

The following table sets forth depreciation expense, including capital lease amortization, in each of the years ended June 30:

	2019	2018	2017
Depreciation expense	\$ 26,751	\$ 22,168	\$ 20,430

Deferred Software Costs

We capitalize certain costs related to hosting arrangements that are service contracts (cloud computing arrangements). Costs incurred during the application development stage are capitalized. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Training costs are also expensed as incurred. Capitalized costs are included in Other Noncurrent Assets and are amortized on a straight-line basis over the estimated useful life. In 2019, we capitalized \$1.7 million of deferred software costs related to cloud computing arrangements.

Long-Lived Assets

We monitor the recoverability of the carrying value of our long-lived assets by periodically considering whether indicators of impairment are present. If such indicators are present, we determine if the assets are recoverable by comparing the sum of the undiscounted future cash flows to the assets' carrying amounts. Our cash flows are based on historical results adjusted to reflect our best estimate of future market and operating conditions. If the carrying amounts are greater, then the assets are not recoverable. In that instance, we compare the carrying amounts to the fair value to determine the amount of the impairment to be recorded.

Goodwill and Other Intangible Assets

Goodwill is not amortized. It is evaluated annually at April 30 by applying impairment testing procedures. Other intangible assets are amortized on a straight-line basis over their estimated useful lives to Selling, General and Administrative Expenses. We evaluate the future economic benefit of the recorded goodwill and other intangible assets when events or circumstances indicate potential recoverability concerns. Carrying amounts are adjusted appropriately when determined to have been impaired. See further discussion regarding goodwill and other intangible assets in Note 7.

Accrued Distribution

We incur various freight and other related costs associated with shipping products to our customers and warehouses. We provide accruals for unbilled shipments from carriers utilizing historical or projected freight rates and other relevant information.

Accruals for Self-Insurance

Self-insurance accruals are made for certain claims associated with employee health care, workers' compensation and general liability insurance. These accruals include estimates that are primarily based on historical loss development factors.

Shareholders' Equity

We are authorized to issue 3,050,000 shares of preferred stock consisting of 750,000 shares of Class A Participating Preferred Stock with \$1.00 par value, 1,150,000 shares of Class B Voting Preferred Stock without par value and 1,150,000 shares of Class C Nonvoting Preferred Stock without par value. Our Board of Directors approved a share repurchase authorization of 2,000,000 common shares in November 2010. At June 30, 2019, 1,354,423 common shares remained authorized for future purchase.

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

Revenue Recognition

When Performance Obligations Are Satisfied

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The singular performance obligation of our customer contracts is determined by each individual purchase order and the respective food products ordered, with revenue being recognized at a point-in-time when the obligation under the terms of the agreement is satisfied and product control is transferred to our customer. Specifically, control transfers to our customers when the product is delivered to or picked up by our customers based upon applicable shipping terms, as our customers can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time. The performance obligations in our customer contracts are generally satisfied within 30 days. As such, we have not disclosed the transaction price allocated to remaining performance obligations as of June 30, 2019.

Significant Payment Terms

In general, within our customer contracts, the purchase order identifies the product, quantity, price, pick-up allowances, payment terms and final delivery terms. Payment terms usually include early pay discounts. We grant payment terms consistent with industry standards. Although some payment terms may be more extended, presently the majority of our payment terms are less than 60 days. As a result, we have used the available practical expedient and, consequently, do not adjust our revenues for the effects of a significant financing component.

Shipping

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in our cost of sales; this includes shipping and handling costs incurred after control over a product has transferred to a customer, as we have chosen to use the available practical expedient to account for these costs within our cost of sales.

Variable Consideration

In addition to fixed contract consideration, our contracts include some form of variable consideration, including sales discounts, returns, trade promotions and certain other sales and consumer incentives, including rebates and coupon redemptions. In general, variable consideration is treated as a reduction in revenue when the related revenue is recognized. Depending on the specific type of variable consideration, we use either the expected value or most likely amount method to determine the variable consideration. We believe there will be no significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. We review and update our estimates and related accruals of variable consideration each period based on historical experience and any recent changes in the market.

Warranties & Returns

We provide all customers with a standard or assurance type warranty. Either stated or implied, we provide assurance the related products will comply with all agreed-upon specifications and other warranties provided under the law. No services beyond an assurance warranty are provided to our customers.

We do not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies may include either a cash refund or an exchange of the product. As a result, the right of return and related refund liability is estimated and recorded as a reduction in revenue. This return estimate is reviewed and updated each period and is based on historical sales and return experience.

Contract Balances

We do not have deferred revenue or unbilled receivable balances and thus do not have any related contract asset and liability balances as of June 30, 2019.

Contract Costs

We have identified sales commissions as an incremental cost incurred to obtain a customer contract. These costs are required to be capitalized under the new revenue recognition standard. We have chosen to use the available practical expedient to continue to expense these costs as incurred as the amortization period for such costs is one year or less. We do not incur significant fulfillment costs related to customer contracts which would require capitalization.

Disaggregation of Revenue

See Note 10 for disaggregation of our net sales by class of similar product and type of customer.

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

Advertising Expense

We expense advertising as it is incurred. The following table summarizes advertising expense as a percentage of net sales in each of the years ended June 30:

	2019	2018	2017
Advertising expense as a percentage of net sales	2%	2%	3%

Research and Development Costs

We expense research and development costs as they are incurred. The estimated amount spent during each of the last three years on research and development activities was less than 1% of net sales.

Distribution Costs

Distribution fees billed to customers are included in Net Sales, while our distribution costs incurred are included in Cost of Sales.

Stock-Based Employee Compensation Plans

We account for our stock-based employee compensation plans in accordance with GAAP for stock-based compensation, which requires the measurement and recognition of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of the employee services is recognized as compensation expense over the period that an employee provides service in exchange for the award, which is typically the vesting period. See further discussion and disclosure in Note 11.

Income Taxes

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in numerous domestic jurisdictions.

Our annual effective tax rate is determined based on our income, statutory tax rates and the permanent tax impacts of items treated differently for tax purposes than for financial reporting purposes. Tax law requires certain items be included in the tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A change in tax rates may result in stranded tax effects when the effect of the change is required to be included in income even when the related income tax effects of items in accumulated other comprehensive income/loss were originally recognized in other comprehensive income rather than in income. Our accounting policy is to release stranded tax effects from accumulated other comprehensive loss.

Realization of certain deferred tax assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to the expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not that our deferred tax assets will be realized and thus we have not recorded any valuation allowance for the years ended June 30, 2019 or 2018.

In accordance with accounting literature related to uncertainty in income taxes, tax benefits and liabilities from uncertain tax positions that are recognized in the financial statements are measured based on the largest attribute that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on our results of operations, cash flows or financial position. See further discussion in Note 9.

Earnings Per Share

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

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

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

	2019	2018	2017
Net income	\$ 150,549	\$ 135,314	\$ 115,314
Net income available to participating securities	(259)	(271)	(196)
Net income available to common shareholders	<u>\$ 150,290</u>	<u>\$ 135,043</u>	<u>\$ 115,118</u>
Weighted average common shares outstanding - basic	27,438	27,403	27,376
Incremental share effect from:			
Nonparticipating restricted stock	2	3	3
Stock-settled stock appreciation rights	97	53	61
Weighted average common shares outstanding - diluted	<u>27,537</u>	<u>27,459</u>	<u>27,440</u>
Net income per common share - basic	\$ 5.48	\$ 4.93	\$ 4.21
Net income per common share - diluted	\$ 5.46	\$ 4.92	\$ 4.20

Comprehensive Income and Accumulated Other Comprehensive Loss

Comprehensive income includes changes in equity that result from transactions and economic events from non-owner sources. Comprehensive income is composed of two subsets – net income and other comprehensive income (loss). Included in other comprehensive income (loss) are pension and postretirement benefits adjustments.

The following table presents the amounts reclassified out of accumulated other comprehensive loss by component:

	2019	2018
Accumulated other comprehensive loss at beginning of year	\$ (8,259)	\$ (8,936)
Defined Benefit Pension Plan Items:		
Net (loss) gain arising during the period	(2,771)	2,987
Amortization of unrecognized net loss ⁽¹⁾	447	572
Postretirement Benefit Plan Items: ⁽²⁾		
Net (loss) gain arising during the period	(131)	54
Amortization of unrecognized net gain	(37)	(36)
Amortization of prior service credit	(182)	(182)
Total other comprehensive (loss) income, before tax	<u>(2,674)</u>	3,395
Total tax benefit (expense)	625	(829)
Other comprehensive (loss) income, net of tax	<u>(2,049)</u>	2,566
Tax Cuts and Jobs Act of 2017, Reclassification from accumulated other comprehensive loss to retained earnings	—	(1,889)
Accumulated other comprehensive loss at end of year	<u>\$ (10,308)</u>	<u>\$ (8,259)</u>

(1) Included in the computation of net periodic benefit income/cost. See Note 12 for additional information.

(2) Additional disclosures for postretirement benefits are not included as they are not considered material.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months and issued subsequent clarifications of this new guidance. This guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record a right-of-use asset and a lease liability based upon the present value of the lease payments. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the consolidated financial statements. In July 2018, the FASB issued guidance that allows for an alternate

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transition method whereby companies can recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than restating comparative periods. We will adopt the new guidance on July 1, 2019 using this alternate transition method, but we will not record a cumulative-effect adjustment from initially applying the standard. We will elect the package of practical expedients that permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs and will make an accounting policy election to keep short-term leases with an initial term of 12 months or less off our Consolidated Balance Sheets. As a result of adoption, we expect to recognize a lease liability and related right-of-use asset of \$30 million to \$40 million. We do not expect the adoption to impact our results of operations or cash flows. During the first quarter of 2020, we will have completed the implementation of a lease accounting system to enable the preparation of financial information and will have implemented relevant accounting policies and internal controls surrounding the lease accounting process. There will be additional required disclosures in the notes to the consolidated financial statements upon adoption.

In August 2018, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements. The guidance removes, modifies and adds disclosures related to fair value. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. This guidance will be effective for us in fiscal 2021, including interim periods. As the guidance only relates to disclosures, there will be no impact on our financial position or results of operations.

Recently Adopted Accounting Standards

In May 2014, the FASB issued new accounting guidance for the recognition of revenue and issued subsequent clarifications of this new guidance in 2016 and 2017. The core principle of the new guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model is based on a control approach. We completed a review of customer contracts and evaluated the impact of the new standard on certain common practices employed by us. We also finalized our assessment of the impact on our accounting policies, processes, system requirements, internal controls and disclosures using internal resources and the assistance of a qualified third party expert. We adopted the new guidance on July 1, 2018 using a modified retrospective approach; however, we did not record a cumulative-effect adjustment from initially applying the standard as the adoption did not have a material impact on our financial position or results of operations. See disclosure of our revenue recognition policies in Note 1.

In March 2017, the FASB issued new accounting guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by disaggregating the service cost component from the other components of net periodic benefit cost. The amendments require an employer to present service cost in the same line item(s) as compensation costs for the pertinent employees whereas the other components of net periodic benefit cost must be reported separately from service cost and outside of income from operations. The amendments also allow only the service cost component to be eligible for capitalization. The amendments require retrospective application for the income statement presentation provisions and prospective application for the capitalization of the service cost component. However, as a result of prior years' restructuring activities, we no longer have any active employees continuing to accrue service cost. Therefore, the service cost provisions are not applicable to us. We adopted the new guidance on July 1, 2018, and this adoption resulted in changes in classification on the income statement for all periods presented. The changes were not material.

In August 2018, the FASB issued new accounting guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and postimplementation stages are expensed as the activities are performed. The guidance also requires such capitalized implementation costs to be expensed over the term of the hosting arrangement and advises on related presentation within the statement of financial position, the statement of income and statement of cash flows. The guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. We adopted this guidance in the first quarter of fiscal 2019 on a prospective basis. The adoption resulted in a change in accounting principle, to capitalize certain costs instead of expensing them immediately. The costs capitalized under this new guidance were not material to our consolidated financial statements.

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In August 2018, the FASB issued new accounting guidance related to the disclosure requirements for defined benefit plans. The guidance removes, adds and clarifies disclosure requirements related to defined benefit pension or other postretirement plans. The guidance will be effective for fiscal years ending after December 15, 2020 and should be applied on a retrospective basis to all periods presented. Early adoption is permitted. We adopted this guidance in the first quarter of fiscal 2019. As the guidance only relates to disclosures, there was no impact on our financial position or results of operations. See disclosures for defined benefit pension plans in Note 12.

Note 2 – Acquisitions

Omni Baking Company LLC

On November 16, 2018, we acquired substantially all of the assets of Omni Baking Company LLC (“Omni”). Omni has been a long-time supplier of products to our frozen garlic bread operations and is based in Vineland, New Jersey. The purchase price of \$22.3 million, which includes the post-closing working capital adjustment, was funded with cash on hand. Omni’s results of operations are allocated between our Retail and Foodservice segments in a manner consistent with our current segment allocations. These results have been included in our consolidated financial statements from the date of acquisition. This acquisition is not significant to our financial position or results of operations.

The following table summarizes the purchase price allocation based on the fair value of the net assets acquired.

Purchase Price Allocation

Inventories	\$ 809
Other current assets	86
Machinery and equipment	4,777
Goodwill (tax deductible)	19,664
Current liabilities	(3,083)
Net assets acquired	<u>\$ 22,253</u>

Further adjustments are not expected to the allocation above.

The goodwill recognized above arose because the purchase price for Omni reflects a number of factors including the production capabilities of the leased facility and the ability to expand production in the future. Goodwill also resulted from the workforce acquired with Omni. Due to the transitional nature of the foodservice operations, which are related to an interim supply agreement, no goodwill was allocated to the Foodservice segment.

Due to the unique nature of this acquisition, we did not identify any intangible assets apart from goodwill.

Pro forma results of operations have not been presented herein as the acquisition was not material to our results of operations.

Bantam Bagels, LLC

On October 19, 2018, we acquired all the assets of Bantam Bagels, LLC (“Bantam”). Bantam, a producer and marketer of frozen mini stuffed bagels and mini stuffed pancakes sold to both the retail and foodservice channels, is based in New York, New York. The base purchase price of \$33.1 million, which includes the post-closing working capital adjustment, was funded with cash on hand. This purchase price excludes contingent consideration relating to an additional earn-out payment which is tied to performance-based conditions. In general, the terms of the acquisition specify that the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Bantam for the twelve months ending December 31, 2023. We are unable to provide a range for the amount of this earn-out because it is based on the future adjusted EBITDA of Bantam, and the earn-out does not contain a minimum or maximum value. See further discussion of the earn-out in Note 3. Bantam’s results of operations are allocated between our Retail and Foodservice segments in a manner consistent with our current segment allocations. These results have been included in our consolidated financial statements from the date of acquisition. This acquisition is not significant to our financial position or results of operations.

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The following table summarizes the consideration related to the acquisition and the purchase price allocation based on the fair value of the net assets acquired. The initial fair value of the contingent consideration is a noncash investing activity.

Consideration

Cash paid for acquisition	\$ 33,111
Contingent consideration - fair value of earn-out at date of closing	8,000
Fair value of total consideration	\$ 41,111

Purchase Price Allocation

Receivables	\$ 1,937
Inventories	684
Other current assets	95
Machinery and equipment	1,896
Goodwill (tax deductible)	20,677
Other intangible assets	18,700
Current liabilities	(2,256)
Other noncurrent liabilities	(622)
Net assets acquired	\$ 41,111

Further adjustments are not expected to the allocation above.

The goodwill recognized above arose because the purchase price for Bantam reflects a number of factors including the future earnings and cash flow potential of Bantam, as well as the impact of the inclusion of the initial fair value of the earn-out associated with the acquisition. Bantam is a fast growing, on-trend business with distribution in traditional grocery, club stores, e-commerce and foodservice. Notably, in the foodservice channel, Bantam Bagels[®] bagel bites are available at corporate-owned Starbucks[®] cafes nationwide. Bantam also provides innovation opportunities within and beyond our present product lines. A small amount of goodwill also resulted from the workforce acquired with Bantam.

We have determined values and lives of the other intangible assets listed in the allocation above as: \$12.8 million for the tradename with a 20-year life; \$3.3 million for the customer relationships with a 10-year life and \$2.6 million for the technology / know-how with a 10-year life.

Pro forma results of operations have not been presented herein as the acquisition was not material to our results of operations.

Angelic Bakehouse, Inc.

On November 17, 2016, we acquired substantially all of the assets of Angelic Bakehouse, Inc. (“Angelic”). Angelic, a privately owned manufacturer and marketer of premium sprouted grain bakery products, is based near Milwaukee, Wisconsin. The purchase price of \$35.5 million was funded by cash on hand, but excludes contingent consideration relating to an additional earn-out payment which is tied to performance-based conditions. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Angelic for fiscal 2021. We are unable to provide a range for the amount of this earn-out because it is based on the future adjusted EBITDA of Angelic, and the earn-out does not contain a minimum or maximum value. See further discussion of the earn-out in Note 3. Angelic is reported in our Retail segment, and its results of operations have been included in our consolidated financial statements from the date of acquisition.

Note 3 – Fair Value

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP sets forth a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels are as follows:

Level 1 – defined as observable inputs, such as quoted market prices in active markets.

Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

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Our financial assets and liabilities subject to the three-level fair value hierarchy consist principally of cash and equivalents, accounts receivable, accounts payable, contingent consideration payable and defined benefit pension plan assets. The estimated fair value of cash and equivalents, accounts receivable and accounts payable approximates their carrying value. See Note 12 for fair value disclosures related to our defined benefit pension plan assets.

Our contingent consideration, which resulted from the earn-outs associated with our acquisitions of Bantam and Angelic, is measured at fair value on a recurring basis and is included in Other Noncurrent Liabilities on the Consolidated Balance Sheets. The following table summarizes our contingent consideration as of June 30:

	Fair Value Measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Contingent consideration - Bantam	\$ —	\$ —	\$ 8,900	\$ 8,900
Contingent consideration - Angelic	—	—	—	—
Total contingent consideration	\$ —	\$ —	\$ 8,900	\$ 8,900

	Fair Value Measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Contingent consideration - Angelic	\$ —	\$ —	\$ 17,080	\$ 17,080

Bantam Contingent Consideration

This contingent consideration resulted from the earn-out associated with our October 19, 2018 acquisition of Bantam. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Bantam for the twelve months ending December 31, 2023. The initial fair value of the contingent consideration was determined to be \$8.0 million. The fair value is measured on a recurring basis using a Monte Carlo simulation that randomly changes revenue growth, forecasted adjusted EBITDA and other uncertain variables to estimate an expected value. We record the present value of this amount by applying a discount rate. As this fair value measurement is based on significant inputs not observable in the market, it represents a Level 3 measurement within the fair value hierarchy.

The following table represents our Level 3 fair value measurements using significant other unobservable inputs for Bantam's contingent consideration:

	2019
Contingent consideration at beginning of year	\$ —
Initial fair value - additions	8,000
Change in contingent consideration included in operating income	900
Contingent consideration at end of year	\$ 8,900

Angelic Contingent Consideration

This contingent consideration resulted from the earn-out associated with our November 17, 2016 acquisition of Angelic. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Angelic for fiscal 2021. The initial fair value of the contingent consideration was determined to be \$13.9 million. The fair value is measured on a recurring basis using a present value approach, which incorporates factors such as revenue growth and forecasted adjusted EBITDA, to estimate an expected value. We record the present value of this amount by applying a discount rate. As this fair value measurement is based on significant inputs not observable in the market, it represents a Level 3 measurement within the fair value hierarchy. Our 2019 fair value measurements resulted in a \$17.1 million reduction in the fair value of Angelic's contingent consideration based on a change in Angelic's forecasted adjusted EBITDA for fiscal 2021. This adjustment was recorded in our Retail segment.

The following table represents our Level 3 fair value measurements using significant other unobservable inputs for Angelic's contingent consideration:

	2019	2018
Contingent consideration at beginning of year	\$ 17,080	\$ 15,028
Change in contingent consideration included in operating income	(17,080)	2,052
Contingent consideration at end of year	\$ —	\$ 17,080

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Note 4 – Long-Term Debt

At June 30, 2019 and 2018, we had an unsecured credit facility (“Facility”) under which we could borrow, on a revolving credit basis, up to a maximum of \$150 million at any one time, with potential to expand the total credit availability to \$225 million subject to us obtaining consent of the issuing banks and certain other conditions. The Facility expires on April 8, 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be classified as long-term debt.

At June 30, 2019 and 2018, we had no borrowings outstanding under the Facility. At June 30, 2019 and 2018, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. We paid no interest in 2019 and 2018.

The Facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions. There are 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 consolidated leverage ratio not greater than 3 to 1 at all times. The interest coverage ratio is calculated by dividing Consolidated EBIT by Consolidated Interest Expense, and the leverage ratio is calculated by dividing Consolidated Debt by Consolidated EBITDA. All financial terms used in the covenant calculations are defined more specifically in the Facility.

Note 5 – Commitments

We have operating and capital leases with initial noncancelable lease terms in excess of one year covering the rental of various facilities and equipment, which expire at various dates through fiscal year 2029. Certain of these leases contain renewal options and some provide options to purchase during the lease term. The future minimum rental commitments due under these leases are summarized as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2020	\$ 8,261	\$ 505
2021	7,136	505
2022	6,345	505
2023	4,992	493
2024	4,619	121
Thereafter	6,901	—
Total minimum payments	<u>\$ 38,254</u>	<u>\$ 2,129</u>
Less amount representing interest		(178)
Present value of capital lease obligations		<u>\$ 1,951</u>

Total rent expense, including short-term cancelable leases, during the years ended June 30 is summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating leases:			
Minimum rentals	\$ 8,258	\$ 6,663	\$ 6,529
Contingent rentals	—	—	4
Short-term cancelable leases	1,665	1,257	1,508
Total	<u>\$ 9,923</u>	<u>\$ 7,920</u>	<u>\$ 8,041</u>

Capital leases, which are included in Property, Plant and Equipment on the Consolidated Balance Sheets, at June 30 were composed of:

	<u>2019</u>
Machinery and equipment	\$ 2,273
Less accumulated amortization	(223)
Net	<u>\$ 2,050</u>

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Note 6 – Contingencies

In addition to the items discussed below, at June 30, 2019, we were a party to various claims and litigation matters arising in the ordinary course of business. Such matters did not have a material effect on the current-year results of operations and, in our opinion, their ultimate disposition will not have a material effect on our consolidated financial statements.

Our acquisitions of Angelic and Bantam included provisions for contingent consideration for the earn-outs associated with these transactions. See further discussion in Note 3.

27% of our employees are represented under various collective bargaining contracts. The labor contract for our Bedford Heights, Ohio plant facility, which produces various garlic bread products, will expire on April 30, 2020. 5% of our employees are represented under this collective bargaining contract. None of our other collective bargaining contracts will expire within one year.

Note 7 – Goodwill and Other Intangible Assets

Goodwill attributable to the Retail and Foodservice segments was \$157.4 million and \$51.0 million, respectively, at June 30, 2019 compared to \$119.3 million and \$48.7 million, respectively, at June 30, 2018. The increase in goodwill is the result of the acquisitions of Bantam in October 2018 and Omni in November 2018. See further discussion in Note 2.

The following table is a rollforward of goodwill by reportable segment from June 30, 2018 to June 30, 2019:

	<u>Retail</u>	<u>Foodservice</u>	<u>Total</u>
Goodwill at beginning of year	\$ 119,301	\$ 48,729	\$ 168,030
Goodwill acquired during the year - Bantam	18,431	2,246	20,677
Goodwill acquired during the year - Omni	19,664	—	19,664
Goodwill at end of year	<u>\$ 157,396</u>	<u>\$ 50,975</u>	<u>\$ 208,371</u>

The following table summarizes our identifiable other intangible assets at June 30. The intangible asset values and lives related to the acquisition of Bantam are included in the table below. See further discussion in Note 2.

	<u>2019</u>	<u>2018</u>
Tradenames (20 to 30-year life)		
Gross carrying value	\$ 63,121	\$ 50,321
Accumulated amortization	(7,335)	(5,071)
Net carrying value	<u>\$ 55,786</u>	<u>\$ 45,250</u>
Customer Relationships (10 to 15-year life)		
Gross carrying value	\$ 17,507	\$ 14,207
Accumulated amortization	(9,641)	(8,283)
Net carrying value	<u>\$ 7,866</u>	<u>\$ 5,924</u>
Technology / Know-how (10-year life)		
Gross carrying value	\$ 8,950	\$ 6,350
Accumulated amortization	(2,501)	(1,682)
Net carrying value	<u>\$ 6,449</u>	<u>\$ 4,668</u>
Non-compete Agreements (5-year life)		
Gross carrying value	\$ 791	\$ 791
Accumulated amortization	(615)	(457)
Net carrying value	<u>\$ 176</u>	<u>\$ 334</u>
Total net carrying value	<u>\$ 70,277</u>	<u>\$ 56,176</u>

Amortization expense for our other intangible assets, which is reflected in Selling, General and Administrative Expenses, was as follows in each of the years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Amortization expense	\$ 4,599	\$ 3,986	\$ 3,453

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Total annual amortization expense for each of the next five years is estimated to be as follows:

2020	\$	5,061
2021	\$	4,976
2022	\$	4,902
2023	\$	4,343
2024	\$	4,343

Note 8 – Liabilities

Accrued liabilities at June 30 were composed of:

	2019	2018
Compensation and employee benefits	\$ 28,672	\$ 23,135
Distribution	7,730	8,579
Other taxes	1,219	1,306
Marketing	561	485
Other	4,854	2,284
Total accrued liabilities	<u>\$ 43,036</u>	<u>\$ 35,789</u>

Other noncurrent liabilities at June 30 were composed of:

	2019	2018
Workers compensation	\$ 11,732	\$ 12,850
Acquisition-related contingent consideration	8,900	17,080
Deferred compensation and accrued interest	4,740	4,611
Pension benefit liability	2,043	1,312
Postretirement benefit liability	1,075	926
Gross tax contingency reserve	942	1,298
Other	6,506	3,561
Total other noncurrent liabilities	<u>\$ 35,938</u>	<u>\$ 41,638</u>

Note 9 – Income Taxes

The Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. Since we file our tax return based on our fiscal year, the statutory federal income tax rate for our 2018 tax return was a blended rate of 28.1%. In addition to the effect of the lower overall federal tax rate, the Tax Act resulted in a \$9.5 million one-time benefit for the re-measurement of our net deferred tax liability in 2018. The statutory federal income tax rate for our 2019 tax return will be 21%.

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 allowed for a measurement period in which companies could either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates could not be determined at the time of the preparation of the financial statements until the actual impacts could be determined. We recorded an initial estimate of the impact of the Tax Act within our December 31, 2017 financial statements, and the adjustments recorded in the second half of 2018 were not material. The measurement period has ended, and we have completed the accounting for all the impacts of the Tax Act.

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We file a consolidated federal income tax return. Taxes based on income for the years ended June 30 have been provided as follows:

	2019	2018	2017
Currently payable:			
Federal	\$ 30,220	\$ 40,766	\$ 51,524
State and local	8,070	7,355	6,319
Total current provision	<u>38,290</u>	<u>48,121</u>	<u>57,843</u>
Deferred federal, state and local provision (benefit)	6,703	(9,232)	2,359
Total taxes based on income	<u>\$ 44,993</u>	<u>\$ 38,889</u>	<u>\$ 60,202</u>

In 2018, we adopted new accounting guidance for stock-based compensation. One of the changes resulting from this new guidance is the inclusion of the tax consequences related to stock-based compensation within the computation of income tax expense versus equity. We adopted this provision on a prospective basis. Prior to 2018, certain tax benefits were recorded directly to common stock, and these amounts totaled \$1.1 million for 2017.

For the years ended June 30, our effective tax rate varied from the statutory federal income tax rate as a result of the following factors:

	2019	2018	2017
Statutory rate	21.0%	28.1%	35.0%
State and local income taxes	3.5	3.0	2.4
Net windfall tax benefits - stock-based compensation	(0.8)	(0.4)	—
ESOP dividend deduction	(0.1)	(0.1)	(0.1)
One-time benefit on re-measurement of net deferred tax liability	—	(5.5)	—
Domestic manufacturing deduction for qualified income	—	(2.3)	(2.8)
Other	(0.6)	(0.5)	(0.2)
Effective rate	<u>23.0%</u>	<u>22.3%</u>	<u>34.3%</u>

Our net deferred tax liability for all periods presented in the Consolidated Balance Sheets has been classified as noncurrent. The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30 were comprised of:

	2019	2018
Deferred tax assets:		
Employee medical and other benefits	\$ 7,809	\$ 6,407
Receivables	2,332	3,992
Inventories	311	1,112
Other accrued liabilities	2,069	1,029
Total deferred tax assets	<u>12,521</u>	<u>12,540</u>
Deferred tax liabilities:		
Property, plant and equipment	(16,993)	(15,551)
Goodwill	(10,037)	(5,044)
Intangible assets	(8,295)	(8,518)
Other	(78)	(231)
Total deferred tax liabilities	<u>(35,403)</u>	<u>(29,344)</u>
Net deferred tax liability	<u>\$ (22,882)</u>	<u>\$ (16,804)</u>

Prepaid federal income taxes of \$5.2 million and \$3.6 million were included in Other Current Assets at June 30, 2019 and 2018, respectively. Prepaid state and local income taxes of \$0.1 million and \$0.9 million were included in Other Current Assets at June 30, 2019 and 2018, respectively.

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Net cash payments for income taxes for each of the years ended June 30 were as follows:

	2019	2018	2017
Net cash payments for income taxes	\$ 38,644	\$ 46,198	\$ 59,008

The gross tax contingency reserve at June 30, 2019 was \$1.7 million and consisted of estimated tax liabilities of \$1.0 million and interest and penalties of \$0.7 million. The unrecognized tax benefits recorded as the gross tax contingency reserve noted in the following table for June 30, 2019 and 2018 would affect our effective tax rate, if recognized.

The following table sets forth changes in our total gross tax contingency reserve (including interest and penalties):

	2019	2018
Balance, beginning of year	\$ 1,298	\$ 1,808
Tax positions related to the current year:		
Additions	87	12
Reductions	—	—
Tax positions related to prior years:		
Additions	694	86
Reductions	(26)	(41)
Lapse of statute of limitations	—	(567)
Settlements	(383)	—
Balance, end of year	\$ 1,670	\$ 1,298

We included \$0.8 million of the gross tax contingency reserve at June 30, 2019 in Accrued Liabilities as these amounts are expected to be resolved within the next 12 months. The remaining liability of \$0.9 million was included in Other Noncurrent Liabilities. We expect that the amount of these liabilities will change within the next 12 months; however, we do not expect the change to have a significant effect on our financial position or results of operations.

We recognize interest and penalties related to these tax liabilities in income tax expense. For each of the years ended June 30, we recognized the change in the accrual for net tax-related interest and penalties as follows:

	2019	2018
Expense (benefit) recognized for net tax-related interest and penalties	\$ 64	\$ (78)

We had accrued interest and penalties at June 30 as follows:

	2019	2018
Accrued interest and penalties included in the gross tax contingency reserve	\$ 669	\$ 605

We file federal and various state and local income tax returns in the United States. With limited exceptions, we are no longer subject to examination of U.S. federal or state and local income taxes for years prior to 2016.

The American Jobs Creation Act provided a tax deduction calculated as a percentage of qualified income from manufacturing in the United States. This deduction was repealed by the Tax Act. Therefore, 2018 was the final year that we were able to claim this deduction.

Note 10 – Business Segment Information

Our financial results are presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied. We evaluate our segments based on net sales and operating income.

Retail - The vast majority of the products we sell in the Retail segment are sold through sales personnel, food brokers and distributors in the United States. We have placement of products in grocery produce departments through our refrigerated salad dressings, vegetable dips and fruit dips. Our flatbread products and sprouted grain bakery products are generally placed in the specialty bakery/deli section of the grocery store. We also have products typically marketed in the shelf-stable section of the grocery store, which include salad dressing, slaw dressing and croutons. Within the frozen food section of the grocery store, we sell yeast rolls, garlic breads and mini stuffed bagels.

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Foodservice - The vast majority of the products we sell in the Foodservice segment are sold through sales personnel, food brokers and distributors in the United States. Most of the products we sell in the Foodservice segment are custom-formulated and include salad dressings, sandwich and dipping sauces, frozen breads and yeast rolls. The majority of our Foodservice sales are products sold under private label to restaurants. We also manufacture and sell various branded Foodservice products to distributors. Finally, within this segment, we sell other roll products under a transitional co-packing arrangement resulting from the Omni acquisition.

As many of our products are similar between our two segments, our procurement, manufacturing, warehousing and distribution activities are substantially integrated across our operations in order to maximize efficiency and productivity. Consequently, we do not prepare, and our Chief Operating Decision Maker does not review, separate balance sheets for the reportable segments. As such, our external reporting does not include the presentation of identifiable assets, payments for property additions or depreciation and amortization by reportable segment.

The following table sets forth net sales disaggregated by class of similar products for the Retail and Foodservice segments in each of the years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retail			
Frozen breads	\$ 259,290	\$ 252,186	\$ 253,965
Refrigerated dressings, dips and other	219,614	226,276	221,422
Shelf-stable dressings and croutons	177,717	171,772	166,030
Total Retail net sales	<u>\$ 656,621</u>	<u>\$ 650,234</u>	<u>\$ 641,417</u>
Foodservice			
Dressings and sauces	\$ 467,364	\$ 430,944	\$ 427,017
Frozen breads and other	164,438	141,747	133,408
Other roll products	19,364	—	—
Total Foodservice net sales	<u>\$ 651,166</u>	<u>\$ 572,691</u>	<u>\$ 560,425</u>
Total net sales	<u>\$ 1,307,787</u>	<u>\$ 1,222,925</u>	<u>\$ 1,201,842</u>

The following table provides an additional disaggregation of Foodservice net sales by type of customer:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Foodservice			
National accounts	\$ 480,249	\$ 430,680	\$ 421,858
Branded and other	151,553	142,011	138,567
Other roll products	19,364	—	—
Total Foodservice net sales	<u>\$ 651,166</u>	<u>\$ 572,691</u>	<u>\$ 560,425</u>

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The following sets forth certain additional financial information attributable to our reportable segments, certain amounts not allocated among our reportable segments and amounts retained at the corporate level for the years ended June 30:

	2019	2018	2017
Net Sales ⁽¹⁾⁽²⁾			
Retail	\$ 656,621	\$ 650,234	\$ 641,417
Foodservice	651,166	572,691	560,425
Total	<u>\$ 1,307,787</u>	<u>\$ 1,222,925</u>	<u>\$ 1,201,842</u>
Operating Income ⁽²⁾			
Retail	\$ 135,093	\$ 126,400	\$ 138,489
Foodservice	73,828	58,440	66,234
Restructuring and Impairment Charges ⁽³⁾	(1,643)	—	—
Multiemployer Pension Settlement and Related Costs ⁽³⁾	—	—	(17,635)
Corporate Expenses ⁽⁴⁾	(16,354)	(13,292)	(12,734)
Total	<u>\$ 190,924</u>	<u>\$ 171,548</u>	<u>\$ 174,354</u>
Identifiable Assets ⁽¹⁾⁽⁵⁾			
Retail & Foodservice ⁽⁶⁾	\$ 695,872	\$ 589,509	\$ 577,509
Corporate	209,527	214,982	138,896
Total	<u>\$ 905,399</u>	<u>\$ 804,491</u>	<u>\$ 716,405</u>
Payments for Property Additions			
Retail & Foodservice ⁽⁶⁾	\$ 70,880	\$ 31,025	\$ 26,031
Corporate	—	—	974
Total	<u>\$ 70,880</u>	<u>\$ 31,025</u>	<u>\$ 27,005</u>
Depreciation and Amortization			
Retail & Foodservice ⁽⁶⁾	\$ 31,595	\$ 26,685	\$ 24,752
Corporate	253	211	154
Total	<u>\$ 31,848</u>	<u>\$ 26,896</u>	<u>\$ 24,906</u>

- (1) Net sales and long-lived assets are predominately domestic.
- (2) All intercompany transactions have been eliminated.
- (3) Restructuring and impairment charges and multiemployer pension settlement and related costs were not allocated to our two reportable segments due to their unusual nature.
- (4) Our Corporate Expenses include various expenses of a general corporate nature, ERP expenses and costs related to certain divested or closed nonfood operations. By their very nature, these costs have not been allocated to the Retail and Foodservice segments.
- (5) Retail and Foodservice identifiable assets include those assets used in our operations and other intangible assets allocated to purchased businesses. Corporate assets consist principally of cash and equivalents. The increase in Retail and Foodservice identifiable assets from June 30, 2018 to June 30, 2019 was due to the acquisitions of Bantam and Omni. The increase in Corporate identifiable assets from June 30, 2017 to June 30, 2018 was primarily due to the increase in cash and equivalents.
- (6) As discussed above, we do not present identifiable assets, payments for property additions or depreciation and amortization by reportable segment.

Retail segment net sales attributable to Walmart Inc. (“Walmart”) and Foodservice segment net sales attributable to McLane Company, Inc. (“McLane”), a wholesale distribution subsidiary of Berkshire Hathaway, Inc., for each of the years ended June 30 were as follows:

	2019	2018	2017
Net sales to Walmart	\$ 222,171	\$ 209,860	\$ 201,484
As a percentage of consolidated net sales	17%	17%	17%
Net sales to McLane	\$ 195,907	\$ 185,226	\$ 198,153
As a percentage of consolidated net sales	15%	15%	16%

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Accounts receivable attributable to Walmart and McLane at June 30 as a percentage of consolidated accounts receivable were as follows:

	2019	2018
Walmart	28%	28%
McLane	9%	11%

Note 11 – Stock-Based Compensation

Our shareholders previously approved the adoption of and subsequent amendments to the Lancaster Colony Corporation 2005 Stock Plan (the “2005 Plan”). The 2005 Plan reserved 2,000,000 common shares for issuance to our employees and directors. As the 2005 Plan expired in May 2015, we obtained shareholder approval of the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (the “2015 Plan”) at our November 2015 Annual Meeting of Shareholders. The 2015 Plan did not affect any currently outstanding equity awards granted under the 2005 Plan. The 2015 Plan reserved 1,500,000 common shares for issuance to our employees and directors. All awards granted under these plans 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 these plans varies as to the type of award granted, but generally these awards have a maximum term of five years.

We recognize compensation expense over the requisite service period of the grant. Compensation expense is reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees’ salaries expense classification. We record tax benefits and excess tax benefits related to stock-settled stock appreciation rights (“SSSARs”) and restricted stock awards. These excess tax benefits are included in the operating section of the Consolidated Statements of Cash Flows. We estimate a forfeiture rate for our SSSARs and restricted stock grants based on historical experience.

Stock-Settled Stock Appreciation Rights

We use periodic grants of SSSARs as a vehicle for rewarding certain employees with long-term incentives for their efforts in helping to create long-term shareholder value. We calculate the fair value of SSSARs grants using the Black-Scholes option-pricing model. Our policy is to issue shares upon SSSARs exercise from new shares that had been previously authorized.

In 2019, 2018 and 2017, we granted SSSARs to various employees under the terms of the plans. The following table summarizes information relating to these grants:

	2019	2018	2017
SSSARs granted	157	185	166
Weighted average grant date fair value per right	\$ 23.55	\$ 17.85	\$ 17.59
Weighted average assumptions used in fair value calculations:			
Risk-free interest rate	2.43%	2.39%	1.36%
Dividend yield	1.68%	1.98%	1.64%
Volatility factor of the expected market price of our common stock	21.77%	22.57%	22.41%
Expected life in years	3.04	2.85	2.47

For these grants, the volatility factor was estimated based on actual historical volatility of our stock for a time period equal to the term of the SSSARs. The expected average life was determined based on historical exercise experience for this type of grant. The SSSARs we grant generally 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.

The following table summarizes our SSSARs compensation expense and tax benefits recorded for each of the years ended June 30:

	2019	2018	2017
Compensation expense	\$ 3,074	\$ 2,455	\$ 1,882
Tax benefits	\$ 646	\$ 690	\$ 659
Intrinsic value of exercises	\$ 6,008	\$ 2,381	\$ 2,281

The total fair values of SSSARs vested for each of the years ended June 30 were as follows:

	2019	2018	2017
Fair value of vested rights	\$ 3,143	\$ 2,330	\$ 1,916

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The following table summarizes the activity relating to SSSARs granted under the plans for the year ended June 30, 2019:

	Number of Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	586	\$ 115.99		
Exercised	(153)	\$ 108.41		
Granted	157	\$ 154.62		
Forfeited	(4)	\$ 126.76		
Outstanding at end of year	586	\$ 128.23	3.17	\$ 12,885
Exercisable and vested at end of year	271	\$ 114.83	2.19	\$ 9,163
Vested and expected to vest at end of year	558	\$ 128.77	3.19	\$ 11,982

The following table summarizes information about the SSSARs outstanding by grant year at June 30, 2019:

Grant Years	Outstanding			Exercisable		
	Range of Exercise Prices	Number Outstanding	Weighted Average		Number Exercisable	Weighted Average Exercise Price
			Remaining Contractual Life in Years	Exercise Price		
2019	\$148.18-\$180.60	157	4.67	\$154.62	—	\$—
2018	\$117.76-\$124.29	156	3.65	\$121.09	47	\$121.09
2017	\$121.54-\$138.96	127	2.68	\$133.83	78	\$133.78
2016	\$101.70-\$112.62	111	1.72	\$106.38	111	\$106.38
2015	\$91.13	35	0.65	\$91.13	35	\$91.13

At June 30, 2019, there was \$5.1 million of unrecognized compensation expense related to SSSARs that we will recognize over a weighted-average period of 2 years.

Restricted Stock

We use periodic grants of restricted stock as a vehicle for rewarding our nonemployee directors and certain employees with long-term incentives for their efforts in helping to create long-term shareholder value.

In 2019, 2018 and 2017, we granted shares of restricted stock to various employees under the terms of the plans. The following table summarizes information relating to these grants:

	2019	2018	2017
Employees			
Restricted stock granted	13	27	12
Grant date fair value	\$ 2,030	\$ 3,218	\$ 1,591
Weighted average grant date fair value per award	\$ 154.66	\$ 121.09	\$ 134.07

The restricted stock under these employee grants vests on the third anniversary of the grant date. Under the terms of our grants, employees receive dividends on unforfeited restricted stock regardless of their vesting status.

In 2019, 2018 and 2017, we also granted shares of restricted stock to our nonemployee directors under the terms of the plans. The following table summarizes information relating to each of these grants:

	2019	2018	2017
Nonemployee directors			
Restricted stock granted	4	6	5
Grant date fair value	\$ 760	\$ 759	\$ 759
Weighted average grant date fair value per award	\$ 180.16	\$ 123.11	\$ 138.96

The 2019 grant vests over a one-year period, and all of these shares are expected to vest. Dividends earned on the stock during the vesting period will be paid to the directors at the time the stock vests.

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The following table summarizes our restricted stock compensation expense and tax benefits recorded for each of the years ended June 30:

	2019	2018	2017
Compensation expense	\$ 2,898	\$ 2,584	\$ 2,366
Tax benefits	\$ 609	\$ 726	\$ 828

The total fair values of restricted stock vested for each of the years ended June 30 were as follows:

	2019	2018	2017
Fair value of vested shares	\$ 3,537	\$ 1,508	\$ 2,420

The following table summarizes the activity relating to restricted stock granted under the plans for the year ended June 30, 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at beginning of year	68	\$ 116.99
Granted	17	\$ 160.86
Vested	(33)	\$ 108.60
Forfeited	(1)	\$ 118.48
Unvested restricted stock at end of year	51	\$ 137.17

At June 30, 2019, there was \$3.7 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of 2 years.

Note 12 – Pension Benefits

Defined Benefit Pension Plans

We sponsor multiple defined benefit pension plans that covered certain workers under collective bargaining contracts. However, as a result of prior-years' restructuring activities, for all periods presented, we no longer have any active employees continuing to accrue service cost or otherwise eligible to receive plan benefits. Benefits being paid under the plans are primarily based on negotiated rates and years of service. We contribute to these plans at least the minimum amount required by regulation.

At the end of the year, we discount our plan liabilities using an assumed discount rate. In estimating this rate, we, along with our third-party actuaries, review the timing of future benefit payments, bond indices, consider yield curve analysis results and the past history of discount rates.

The actuarial present value of benefit obligations summarized below was based on the following assumption:

	2019	2018
Weighted-average assumption as of June 30		
Discount rate	3.35%	4.07%

The net periodic benefit costs were determined utilizing the following beginning-of-the-year assumptions:

	2019	2018	2017
Discount rate	4.07%	3.68%	3.39%
Expected long-term return on plan assets	7.00%	7.00%	7.00%

In determining the long-term expected return on plan assets, we consider our related investment guidelines, our expectations of long-term rates of return by asset category, our target asset allocation weighting and historical rates of return and volatility for equity and fixed income investments. The investment strategy for plan assets is to control and manage investment risk through diversification among asset classes, investment managers/funds and investment styles. The plans' investment guidelines have been designed to meet the intended objective that plan assets earn at least nominal returns equal to or in excess of the plans' liability growth rate. In consideration of the current average age of the plans' participants, the investment guidelines are based upon an investment horizon of at least 10 years.

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The target and actual asset allocations for our plans at June 30 by asset category were as follows:

	Target Percentage of Plan Assets at June 30	Actual Percentage of Plan Assets	
	2019	2019	2018
Cash and equivalents	0%-10%	2%	5%
Equity securities	30%-70%	53	51
Fixed income	30%-70%	45	44
Total		100%	100%

Our target asset allocations are maintained through ongoing review and periodic rebalancing of equity and fixed income investments with assistance from an independent outside investment consultant. Also, the plan assets are diversified among asset classes, asset managers or funds and investment styles to avoid concentrations of risk. We expect that a modest allocation to cash will exist within the plans because each investment manager is likely to hold limited cash in a portfolio.

We categorize our plan assets within a three-level fair value hierarchy, as previously defined in Note 3. The following table summarizes the fair values and levels, within the fair value hierarchy, for our plan assets at June 30:

<u>Asset Category</u>	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 559	\$ —	\$ —	\$ 559
Money market funds	113	—	—	113
U.S. government obligations	—	2,600	—	2,600
Municipal obligations	—	37	—	37
Corporate obligations	—	3,440	—	3,440
Mortgage obligations	—	3,613	—	3,613
Mutual funds fixed income	6,907	—	—	6,907
Mutual funds equity	19,359	—	—	19,359
Total	\$ 26,938	\$ 9,690	\$ —	\$ 36,628

<u>Asset Category</u>	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 547	\$ —	\$ —	\$ 547
Money market funds	1,331	—	—	1,331
U.S. government obligations	—	3,344	—	3,344
Municipal obligations	—	36	—	36
Corporate obligations	—	3,176	—	3,176
Mortgage obligations	—	2,354	—	2,354
Mutual funds fixed income	7,044	—	—	7,044
Mutual funds equity	18,881	—	—	18,881
Total	\$ 27,803	\$ 8,910	\$ —	\$ 36,713

The plan assets classified at Level 1 include money market funds and mutual funds. Quoted market prices in active markets for identical assets are available for investments in this category.

The plan assets classified at Level 2 include fixed income securities consisting of government securities, municipal obligations, corporate obligations and mortgage obligations. For these types of securities, market prices are observable for identical or similar investment securities but not readily accessible for each of those investments individually at the measurement date. For these assets, we obtain pricing information from an independent pricing service. The pricing service uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and assumptions to the model of the pricing service are derived from market observable sources including as applicable: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

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Relevant information with respect to our pension benefits as of June 30 can be summarized as follows:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 36,892	\$ 40,941
Interest cost	1,453	1,463
Actuarial loss (gain)	2,342	(3,070)
Benefits paid	(2,305)	(2,442)
Benefit obligation at end of year	<u>\$ 38,382</u>	<u>\$ 36,892</u>

	<u>2019</u>	<u>2018</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 36,713	\$ 36,769
Actual return on plan assets	2,058	2,366
Employer contributions	162	20
Benefits paid	(2,305)	(2,442)
Fair value of plan assets at end of year	<u>\$ 36,628</u>	<u>\$ 36,713</u>

	<u>2019</u>	<u>2018</u>
Funded status - net accrued benefit cost	<u>\$ (1,754)</u>	<u>\$ (179)</u>

	<u>2019</u>	<u>2018</u>
Amounts recognized in the Consolidated Balance Sheets consist of		
Prepaid benefit cost (Other Noncurrent Assets)	\$ 289	\$ 1,133
Accrued benefit liability (Other Noncurrent Liabilities)	(2,043)	(1,312)
Net amount recognized	<u>\$ (1,754)</u>	<u>\$ (179)</u>

	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation	<u>\$ 38,382</u>	<u>\$ 36,892</u>

The following table discloses, in the aggregate, those plans with benefit obligations in excess of the fair value of plan assets at the June 30 measurement date:

	<u>2019</u>	<u>2018</u>
Benefit obligations	\$ 36,167	\$ 6,012
Fair value of plan assets at end of year	\$ 34,124	\$ 4,700

Amounts recognized in accumulated other comprehensive loss at June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Net actuarial loss	\$ 15,145	\$ 12,821
Income taxes	(3,539)	(2,996)
Total	<u>\$ 11,606</u>	<u>\$ 9,825</u>

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We adopted new accounting guidance for the presentation of net periodic benefit income on July 1, 2018. See further discussion in Note 1. The following table summarizes the components of net periodic benefit income for our pension plans at June 30:

	2019	2018	2017
Components of net periodic benefit income			
Interest cost	\$ 1,453	\$ 1,463	\$ 1,457
Expected return on plan assets	(2,487)	(2,491)	(2,416)
Amortization of unrecognized net loss	447	572	715
Settlement charge	—	42	—
Net periodic benefit income	<u>\$ (587)</u>	<u>\$ (414)</u>	<u>\$ (244)</u>

We have not yet finalized our anticipated funding level for 2020, but based on initial estimates, we do not expect our 2020 contributions to our pension plans to be material.

Benefit payments estimated for future years are as follows:

2020	\$ 2,415
2021	\$ 2,411
2022	\$ 2,401
2023	\$ 2,392
2024	\$ 2,403
2025 - 2029	\$ 11,747

Note 13 – Defined Contribution and Other Employee Plans

Company-Sponsored Defined Contribution Plans

We sponsor three defined contribution plans established pursuant to Section 401(k) of the Internal Revenue Code. Contributions are determined under various formulas, and we contributed to each of these plans in 2019. The employer matching contribution percentage for one of these plans was increased effective January 1, 2019. Costs related to such plans for each of the years ended June 30 were as follows:

	2019	2018	2017
Costs related to company-sponsored defined contribution plans	\$ 2,637	\$ 1,352	\$ 1,111

Multiemployer Plans

In the three years ended June 30, 2019, certain of our subsidiaries participated in multiemployer plans that provide pension benefits to retiree workers under collective bargaining contracts at such locations. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining contract, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects: (1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers and (3) if a participating employer chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

In 2017 the employees at our Bedford Heights, Ohio plant voted to ratify a new collective bargaining agreement. Among other terms, the new agreement provided for our complete withdrawal from the underfunded multiemployer Cleveland Bakers and Teamsters Pension Fund. As settlement of our portion of underfunded pension benefits of the multiemployer plan, we paid \$17.0 million in 2017 for a full withdrawal from the plan.

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Our participation in multiemployer pension plans for the three years ended June 30, 2019 is reflected in the following table. All information in the table is as of December 31 of the relevant year, except contributions which are based on our fiscal year, or except as otherwise noted. The EIN-PN column provides the Employer Identification Number (“EIN”) and the Plan Number (“PN”). The pension protection act zone status is based on information that we received from the plan. Among other factors, generally, plans in critical status (red zone) are less than 65 percent funded, plans in endangered or seriously endangered status (yellow zone or orange zone, respectively) are less than 80 percent funded, and plans at least 80 percent funded are said to be in the green zone. The FIP/RP status pending/implemented column indicates plans for which a funding improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented by the trustees of each plan. Except as noted below regarding contributions to the Cleveland Bakers and Teamsters Pension Fund, there have been no significant changes that affect the comparability of 2019, 2018 or 2017 contributions.

Plan Name	EIN/PN	Pension Protection Act Zone Status		FIP/RP Status Pending / Implemented	Fiscal Year Contributions ⁽¹⁾			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2018	2017		2019	2018	2017		
Cleveland Bakers and Teamsters Pension Fund ⁽²⁾	34-0904419-001	Red 12/31/17	Red 12/31/16	Yes, Implemented	\$ —	\$ —	\$ 2,098	No	n/a
Western Conference of Teamsters Pension Plan	91-6145047-001	Green 12/31/17	Green 12/31/16	No	388	356	409	No	12/15/2021
Total contributions to multiemployer plans					\$ 388	\$ 356	\$ 2,507		

- (1) Contributions do not include payments related to multiemployer pension withdrawals/settlements.
(2) As discussed above, we withdrew from this plan in 2017 and did not make any contributions in 2019 and 2018. Our 2017 contributions included amounts related to a new collective bargaining contract.

Our contributions to the Cleveland Bakers and Teamsters Pension Fund exceeded 5% of the total contributions to the plan in the plan year ended December 31, 2017.

Under these two multiemployer plans, we also contribute amounts for health and welfare benefits that are defined by each plan. These benefits are not vested. The contributions required by our participation in these plans for each of the years ended June 30 were as follows:

	2019	2018	2017
Multiemployer health and welfare plan contributions	\$ 3,189	\$ 3,167	\$ 3,570

We also began to make non-elective contributions for the union employees at our Bedford Heights, Ohio plant into a union-sponsored multiemployer 401(k) plan following our withdrawal from the underfunded Cleveland Bakers and Teamsters Pension Fund in 2017. Our contributions totaled \$0.7 million, \$0.7 million and \$0.8 million in 2019, 2018 and 2017, respectively, including \$0.6 million to initially fund this 401(k) plan in 2017.

Deferred Compensation Plan

We offer a deferred compensation plan for select employees who may elect to defer a certain percentage of annual compensation. We do not match any contributions. Each participant earns interest based upon the prime rate of interest, adjusted semi-annually, on their respective deferred compensation balance. Participants are paid out upon retirement or termination in accordance with their annual election.

The following table summarizes our liability for total deferred compensation and accrued interest at June 30:

	2019	2018
Liability for deferred compensation and accrued interest	\$ 4,740	\$ 4,611

Deferred compensation expense for each of the years ended June 30 was as follows:

	2019	2018	2017
Deferred compensation expense	\$ 239	\$ 210	\$ 170

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Note 14 – Selected Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2019					
Net Sales	\$ 316,654	\$ 349,581	\$ 317,882	\$ 323,670	\$ 1,307,787
Gross Profit	\$ 81,199	\$ 91,392	\$ 75,397	\$ 78,210	\$ 326,198
Net Income ⁽¹⁾⁽²⁾	\$ 39,028	\$ 47,907	\$ 30,604	\$ 33,010	\$ 150,549
Diluted Net Income Per Common Share ⁽¹⁾⁽²⁾⁽³⁾	\$ 1.42	\$ 1.73	\$ 1.11	\$ 1.20	\$ 5.46
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2018					
Net Sales	\$ 298,916	\$ 319,665	\$ 296,174	\$ 308,170	\$ 1,222,925
Gross Profit	\$ 75,475	\$ 83,939	\$ 67,911	\$ 76,181	\$ 303,506
Net Income ⁽⁴⁾	\$ 29,386	\$ 45,920	\$ 27,621	\$ 32,387	\$ 135,314
Diluted Net Income Per Common Share ⁽³⁾⁽⁴⁾	\$ 1.07	\$ 1.67	\$ 1.00	\$ 1.18	\$ 4.92

- (1) Included in the second quarter and fourth quarter net income was an after-tax benefit of \$7.4 million and \$5.7 million, respectively, or approximately \$0.27 and \$0.21 per diluted share, respectively, related to the reduction in the fair value of Angelic's contingent consideration liability. The after-tax benefit for the fiscal year was \$13.1 million, or approximately \$0.48 per diluted share.
- (2) Included in the fourth quarter and fiscal year net income were after-tax ERP expenses of \$1.4 million, or approximately \$0.05 per diluted share, and after-tax restructuring and impairment charges of \$1.3 million, or approximately \$0.05 per diluted share.
- (3) Diluted net income per common share amounts are calculated independently for each of the quarters presented. Accordingly, the sum of the quarterly net income per common share amounts may not agree with the fiscal year.
- (4) Included in the second quarter net income was the one-time preliminary deferred tax benefit of \$8.9 million, or approximately \$0.32 per diluted share, resulting from the Tax Act. The fiscal year impact was \$9.5 million, or approximately \$0.35 per diluted share.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management must apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2019.

REPORT OF MANAGEMENT

Internal control over financial reporting refers to the process designed by, or under the supervision of, our management, including our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
3. Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is only possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has used the framework set forth in the report entitled *Internal Control – Integrated Framework* (2013) published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. Management has concluded that our internal control over financial reporting was effective as of the end of the most recent year.

Our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm. Their opinion, as to the effectiveness of our internal control over financial reporting, is stated in their report, which is set forth on the following page.

There has been no change in our internal control over financial reporting during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Lancaster Colony Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lancaster Colony Corporation and subsidiaries (the “Company”) as of June 30, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2019, of the Company and our report dated August 27, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Columbus, Ohio
August 27, 2019

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information regarding our directors and executive officers, including the identification of the Audit Committee and the Audit Committee financial expert, is incorporated by reference to the information contained in our definitive proxy statement for our November 2019 Annual Meeting of Shareholders (“2019 Proxy Statement”) to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act.

The information regarding delinquent Section 16(a) reports, if any, is incorporated by reference to the material under the heading “Delinquent Section 16(a) Reports” in our 2019 Proxy Statement.

The information regarding changes, if any, in procedures by which shareholders may recommend nominees to our Board of Directors is incorporated by reference to the information contained in our 2019 Proxy Statement.

The information regarding our Code of Business Ethics is incorporated by reference to the information contained in our 2019 Proxy Statement.

Item 11. Executive Compensation

The information regarding executive officer and director compensation is incorporated by reference to the information contained in our 2019 Proxy Statement.

The information regarding Compensation Committee interlocks and insider participation and the Compensation Committee Report is incorporated by reference to the information contained in our 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under our equity compensation plans is incorporated by reference to the information contained in our 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information regarding certain relationships and related transactions and director independence is incorporated by reference to the information contained in our 2019 Proxy Statement.

Item 14. Principal Accounting Fees and Services

Information regarding fees paid to and services provided by our independent registered public accounting firm during the fiscal years ended June 30, 2019 and 2018 and the pre-approval policies and procedures of the Audit Committee is incorporated by reference to the information contained in our 2019 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) *Financial Statements*. The following consolidated financial statements as of June 30, 2019 and 2018 and for each of the three years in the period ended June 30, 2019, together with the report thereon of Deloitte & Touche LLP dated August 27, 2019, are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2019 and 2018

Consolidated Statements of Income for the years ended June 30, 2019, 2018 and 2017

Consolidated Statements of Comprehensive Income for the years ended June 30, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended June 30, 2019, 2018 and 2017

Consolidated Statements of Shareholders' Equity for the years ended June 30, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

(a) (2) *Financial Statement Schedules*. Supplemental schedules not included with the additional financial data have been omitted because they are not applicable or the related amounts are immaterial for all periods presented.

(a) (3) *Exhibits Required by Item 601 of Regulation S-K and Item 15(b)*. See Index to Exhibits.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) 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)

By: /s/ DAVID A. CIESINSKI
David A. Ciesinski
*President, Chief Executive Officer
and Director*

Date: August 27, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID A. CIESINSKI</u> David A. Ciesinski	President, Chief Executive Officer and Director (Principal Executive Officer)	August 27, 2019
<u>/s/ JOHN B. GERLACH, JR.</u> John B. Gerlach, Jr.	Executive Chairman of the Board and Director	August 27, 2019
<u>/s/ THOMAS K. PIGOTT</u> Thomas K. Pigott	Chief Financial Officer and Assistant Secretary (Principal Financial and Accounting Officer)	August 27, 2019
<u>/s/ NEELI BENDAPUDI</u> Neeli Bendapudi	Director	August 21, 2019
<u>/s/ WILLIAM H. CARTER</u> William H. Carter	Director	August 21, 2019
<u>/s/ KENNETH L. COOKE</u> Kenneth L. Cooke	Director	August 21, 2019
<u>/s/ ROBERT L. FOX</u> Robert L. Fox	Director	August 20, 2019
<u>/s/ ALAN F. HARRIS</u> Alan F. Harris	Director	August 21, 2019
<u>/s/ MICHAEL H. KEOWN</u> Michael H. Keown	Director	August 21, 2019
<u>/s/ ROBERT P. OSTRYNIEC</u> Robert P. Ostryniec	Director	August 21, 2019
<u>/s/ ZUHEIR SOFIA</u> Zuheir Sofia	Director	August 21, 2019

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FORM 10-K
JUNE 30, 2019
INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Lancaster Colony Corporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (000-04065), filed February 3, 2017).
3.2	Amended and Restated Regulations of Lancaster Colony Corporation, dated as of April 18, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (000-04065), filed April 19, 2016).
4.1	Specimen Certificate of Common Stock (incorporated by reference to Exhibit 4.1 to the Annual Report on Form 10-K (000-04065), filed August 27, 2018).
4.2*	Description of Common Stock.
10.1	Credit Agreement, dated as of April 8, 2016, among Lancaster Colony Corporation, the Lenders, The Huntington National Bank as Syndication Agent and JPMorgan Chase Bank, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed April 11, 2016).
10.2 ^(a)	Design/Build Agreement between Sister Schubert's Homemade Rolls, Inc. and Shambaugh & Son, LP (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (000-04065), filed February 6, 2019).
10.3 ^(b)	Lancaster Colony Corporation Executive Employee Deferred Compensation Plan (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K (000-04065), filed September 26, 2000).
10.4 ^(b)	2004 Amendment to Lancaster Colony Corporation Executive Employee Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed January 3, 2005).
10.5 ^(b)	Lancaster Colony Corporation 2005 Executive Employee Deferred Compensation Plan (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K (000-04065), filed February 25, 2005).
10.6 ^(b)	Lancaster Colony Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement (000-04065), filed October 9, 2015).
10.7 ^(b)	Lancaster Colony Corporation Amended and Restated 2005 Stock Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed November 19, 2010).
10.8 ^(b)	Form of Restricted Stock Award Agreement for Directors under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (000-04065), filed November 17, 2015).
10.9 ^(b)	Form of Stock Appreciation Rights Agreement for Employees and Consultants under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (000-04065), filed May 1, 2018).
10.10	Form of Stock Appreciation Rights Agreement for Service Providers under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (000-04065), filed April 30, 2019).
10.11 ^(b)	Form of Restricted Stock Award Agreement for Employees and Consultants under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (000-04065), filed May 1, 2018).
10.12 ^(b)	Description of Executive Bonus Arrangements (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K (000-04065), filed September 10, 2004).
10.13 ^(b)	Employment Agreement, dated April 18, 2016, between Lancaster Colony Corporation and David A. Ciesinski (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed April 19, 2016).

Exhibit Number	Description
10.14 ^(b)	First Amendment to Employment Agreement, dated October 27, 2016, between Lancaster Colony Corporation and David A. Ciesinski (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (000-04065), filed October 31, 2016).
10.15 ^(b)	Employment Offer Letter to Thomas K. Pigott (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed March 15, 2019).
10.16 ^(b)	Confidential Severance Agreement and General Release, effective November 14, 2018, between the Company and Joseph M. Tuza (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed November 20, 2018).
10.17 ^(b)	Lancaster Colony Corporation Form of Change in Control Agreement (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (000-04065), filed October 31, 2016).
10.18 ^(b)	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (000-04065), filed November 15, 2018).
21*	Subsidiaries of Registrant.
23*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of CEO pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of CFO pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32**	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
(a)	Portions of this exhibit that have been marked by [***] have been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.
(b)	Indicates a management contract or compensatory plan, contract or arrangement in which any Director or any Executive Officer participates.
*	Filed herewith
**	Furnished herewith



OUR BRANDS

The Company's marquee brands include Marzetti®, New York Bakery®, Sister Schubert's® and Flatout®.

Products sold under the long-established Marzetti brand include salad dressings, veggie dips, fruit dips and croutons. New York Bakery is the recognized leader in the frozen garlic toast and garlic breadstick segments, while New York Bakery Texas Toast croutons rank among the top retail crouton brands in the United States. Sister Schubert's offers the top-selling lineup of dinner yeast rolls in the supermarket frozen section. Flatout is a leading flatbread brand with placement in the deli department and product offerings that include oval-shaped flatbread wraps, the unique Foldit® line of flatbreads and Artisan Thin pizza crusts.



OUR *Family* OF BRANDS



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