



T. Marzetti
Operational Excellence

T. Marzetti
Operational Excellence

TO OUR FRONT-LINE
ASSOCIATES WE SAY

**THANK
YOU**

2020

ANNUAL REPORT

LANCASTER COLONY CORPORATION

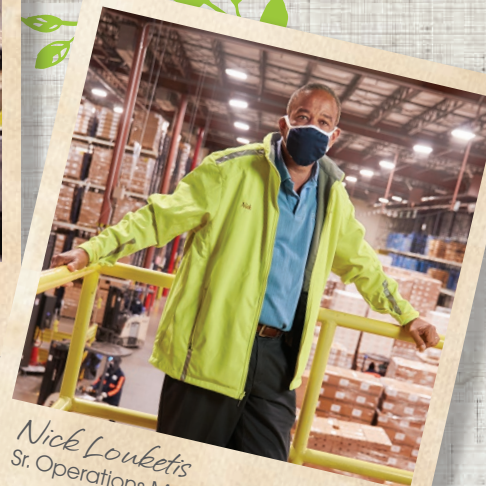
Zeb Perfect, Processing Manager, Indianola Plant
Jeff Woodard, VP Continuous Improvement



*Robert Smith, Director of Operations
Don Roy, Plant Manager, Indianola Plant*



*Tony Troiano & Billy Helton
Warehouse Associates, Grove City DC*



*Nick Loubetis
Sr. Operations Manager, Grove City DC*

*Jose Villegas
Line 25 Lead Operator, Indianola Plant*



*Rocky Johnson
Warehouse Specialist, Grove City DC*



*John Bridges
City Driver, Grove City DC*



*Ann Chindasack
Spice Room Attendant, Indianola Plant*

FINANCIAL HIGHLIGHTS

Years Ended June 30

| (In Thousands, Except Per Share Figures) | 2020 | 2019 |
|--|--------------|--------------|
| Net Sales | \$ 1,334,388 | \$ 1,307,787 |
| Gross Profit | \$ 358,036 | \$ 326,198 |
| Income Before Income Taxes | \$ 179,077 | \$ 195,542 |
| Taxes Based on Income | \$ 42,094 | \$ 44,993 |
| Net Income | \$ 136,983 | \$ 150,549 |
| Per Common Share: | | |
| Net Income – Diluted | \$ 4.97 | \$ 5.46 |
| Cash Dividends | \$ 2.75 | \$ 2.55 |
| Shareholders' Equity | \$ 28.46 | \$ 26.44 |
| Total Assets | \$ 993,353 | \$ 905,399 |
| Shareholders' Equity | \$ 783,300 | \$ 726,873 |
| Weighted Average Common Shares Outstanding – Diluted | 27,496 | 27,537 |

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.

TO OUR SHAREHOLDERS

Four years ago, we launched our Better Food Company Growth Plan, which consists of three simple pillars:

- Accelerate our base business growth
- Simplify our supply chain to reduce costs and grow margins
- Identify and execute complementary M&A to grow our core

We wrapped our growth plan in a transcendent vision to be **The Better Food Company**—Better people, driven by purpose, making better food in a better, more collaborative culture, working in unison to make the world around us a little bit better place, every day.

When our Growth Plan was launched, we could not have imagined the challenges that lay ahead. Nevertheless, this vision has served us well. During the last four years, including the more recent disruption and dislocation caused by the Coronavirus impacts, our vision to be **The Better Food Company** has defined who we are as a company—and what we aspire to be.

Looking Back – Fiscal 2020 Review

I would like to extend a sincere thank you to the entire Lancaster Colony team for their tremendous effort during the last six months as we confronted the impacts of the Coronavirus pandemic. From the front-line workers at our plants and distribution centers to all the associates and leaders throughout our business, I am extremely proud of how our teammates pulled together and worked in common cause to meet the shifting demands of our business.

From the pandemic's onset, we have remained steadfast in our mission to:

- Provide for the health, safety and welfare of our teammates
- Ensure that we continue to play our role in our country's vital food supply chain

Despite the uncertainty and obstacles our business confronted due to the impacts of the pandemic, fiscal 2020 was marked by continued growth for Lancaster Colony with our net sales increasing 2.0% to a record \$1.33 billion.

Retail net sales benefited from higher demand as the impacts of the Coronavirus drove increased at-home food consumption for our New York BRAND Bakery® frozen garlic bread, Sister Schubert's® frozen dinner rolls and Olive Garden® dressings. Recent new product introductions—a single-bottle offering for Buffalo Wild Wings® sauces and a regional pilot test for Chick-fil-A® sauces in Florida—also contributed to the increase. Both the Buffalo Wild Wings and Chick-fil-A sauces are sold under exclusive license agreements.

After a solid start to the first half of fiscal 2020, the Foodservice segment was adversely impacted by the effects of the Coronavirus, particularly in the months of March and April, but recovered notably in May and June led by quick-service restaurant customers within our national account base.

Despite the unfavorable influences of the Coronavirus, we increased our gross profit by 9.8%, to \$358 million. The higher Retail sales volumes, cost-savings programs and favorable net price realization in Retail led to the improvement. Notable offsets to gross profit attributed to the impacts of the Coronavirus included much-deserved "hero pay" for our front-line employees and, in keeping with our top priority, investments to promote safe operations at all our facilities.

None of this would have been possible without the selfless service, creativity and devotion of our front-line associates. Rarely a day passed when I was not inspired by their optimism, humbled by their actions or motivated by their commitment to be **The Better Food Company**. To recognize their efforts and capture this shared spirit, we framed this year's annual report with photos of many of these teammates.

Looking Ahead - Fiscal 2021 Outlook

As we look ahead to fiscal 2021, sales for both our Retail and Foodservice segments will remain subject to the pandemic-related shifts in demand. The extent and duration of these demand shifts are unpredictable and contingent upon the virus' future spread or decline, and the resulting effects on consumer behavior.

Even with these uncertainties, we anticipate continued sales growth in the Retail segment from shelf-stable dressings and sauces sold under license agreements, most notably Chick-fil-A sauces, Buffalo Wild Wings sauces and Olive Garden dressings. In Foodservice, our heavier mix of quick-service restaurant business, which represents over 60% of our Foodservice segment's total sales, will remain a positive factor in the current environment.

On the commodity front, we are projecting a moderate rise in the coming year following a favorable year in fiscal 2020. We expect our cost-savings programs and favorable net price realization will help to offset commodity cost inflation.

We recently completed the design-and-build phase of our ERP initiative, Project Ascent, as planned, and are now in the test phase. We expect to complete testing near the end of fiscal 2021 followed by the deployment phase. Project Ascent and our new ERP system are critical to our long-term growth as the resulting platform and capabilities will provide a myriad of new growth pathways.

Strategically, we will continue to leverage the combined strength of our team, operating strategy and balance sheet in support of our growth plan's three pillars.

In alignment with our vision to be **The Better Food Company**, I would also like to share with you some discrete actions underway at Lancaster Colony to address diversity, inclusion and belonging in the workplace and the communities where we operate.

We recently established a new position—Vice President of Corporate Affairs and Government Relations—to provide leadership in developing and executing plans to drive our company's engagement in state and local government, corporate citizenship and social responsibility and sustainability initiatives, as well as oversee our diversity and inclusion programs. We are excited to announce the appointment of Clarence Mingo to fill this role, effective August 17, 2020.

I am also pleased to share that Lancaster Colony has adopted a Diversity Hiring Statement, otherwise known as the Rooney Rule, which reinforces our long-standing commitment to including highly qualified women and minority candidates, as well as highly qualified candidates with other diverse backgrounds, skills and experiences, for leadership positions.

We have also partnered with Cristo Rey High School in Columbus, Ohio. Cristo Rey provides a work-study model of education for students from low-income families whereby corporate partners provide both tuition support and work-study mentorship for their students. Cristo Rey High School was established in 2013 and has been nourishing the growth of students and sponsors alike since its inception.

Finally, in support of our Lancaster Colony team members, we will establish an Employee Relief Fund to assist our employees who experience tragic life events that result in financial hardship. While the company plans to make an annual contribution to this fund, employees can also provide support through personal donations.

With a heavy heart, I would also like to extend my sympathies to the family of Ken Cooke who passed away on September 28, 2020. Ken was a member of our Board of Directors since 2010 and served as Chairman of the Audit Committee and a member of our Compensation Committee. We are very grateful for the guidance and insight that Ken provided during his time with us.

In closing, I would again like to thank the entire team at Lancaster Colony for all they have done to help make fiscal 2020 a success despite all the unprecedented challenges. I would also like to thank you, our shareholders, and other stakeholders, including our customers and suppliers, for your ongoing support. We look forward to partnering with you in our pursuit of the opportunities that lie ahead.

Sincerely yours,

A handwritten signature in black ink that reads "David A. Ciesinski". The signature is written in a cursive, flowing style.

David A. Ciesinski
President & Chief Executive Officer
September 30, 2020

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2020**

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262 (b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2019 was \$3,003.0 million.

As of August 3, 2020, there were approximately 27,524,000 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 2020 Annual Meeting of Shareholders are incorporated by reference into Part II and 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, 2020 refers to fiscal 2020, which is the period from July 1, 2019 to June 30, 2020.

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, 2020, 2019 and 2018 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, Tastefully Dressed, 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, Buffalo Wild Wings[®] sauces and Chick-fil-A[®] 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%, 56% and 55% of this segment’s total net sales in 2020, 2019 and 2018, 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 |
|---|--------------------------|
| <i>Dressings and Sauces</i> | |
| Salad dressings | Marzetti, Simply Dressed |
| <i>Frozen Breads and Other</i> | |
| 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%, 59% and 64% of this segment’s total net sales in 2020, 2019 and 2018, 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 2018 through 2020:

| | 2020 | 2019 | 2018 |
|--|------|------|------|
| Retail Segment: | | | |
| Frozen breads | 22% | 20% | 21% |
| Refrigerated dressings, dips and other | 16% | 17% | 18% |
| Shelf-stable dressings and croutons | 16% | 13% | 14% |
| Foodservice Segment: | | | |
| Dressings and sauces | 33% | 36% | 35% |
| Frozen breads and other | 12% | 13% | 12% |

Net sales attributable to Walmart Inc. (“Walmart”) totaled 18%, 17% and 17% of consolidated net sales for 2020, 2019 and 2018, respectively. Net sales attributable to McLane Company, Inc. (“McLane”), a wholesale distribution subsidiary of Berkshire Hathaway, Inc., totaled 13%, 15% and 15% of consolidated net sales for 2020, 2019 and 2018, 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, 2020, the majority of our products were manufactured and packaged at our 16 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 2020 and is not expected to have a material impact in 2021.

EMPLOYEES AND LABOR RELATIONS

As of June 30, 2020 we had 3,200 employees, 25% of which are represented under various collective bargaining contracts. 6% 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 2020, 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 2021 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. These described risks are not the only risks facing us. Additional risks and uncertainties not known to us or that we deem to be immaterial also may materially adversely affect our business, results of operations, financial condition and cash flows. If any of these risks were to materialize, the value of our common stock could decline significantly.

Epidemics, pandemics or similar widespread public health concerns and disease outbreaks, such as the novel coronavirus (“COVID-19”), have disrupted and may cause future disruptions to consumption, supply chains, management, operations and production processes, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Epidemics, pandemics or similar widespread health concerns and disease outbreaks, such as COVID-19, as well as related government mandates, including the avoidance of gatherings, self-quarantine and the closure of a variety of businesses and restaurants have negatively affected and may in the future negatively affect our business, results of operations, financial condition and cash flows. These effects may include, but are not limited to:

- significant reductions or volatility in consumer demand for our products as quarantines, stay-at-home orders, travel restrictions, restrictions on gatherings, actual disease outbreaks, customer fears, financial hardship of customers and economic downturns (local, regional, national and/or global) may inhibit consumption or shift demand from discretionary or higher-priced products to lower-priced products and restrict the business operations of our retail and foodservice customers, which could negatively impact our retail and/or foodservice business;
- a shutdown of one or more of our manufacturing, warehousing or distribution facilities as a result of illness, government restrictions or other workforce disruptions, including interference in our supply chain, or absenteeism, or reductions in utilization levels, could result in us incurring additional direct costs and experiencing lost revenue;
- forced or temporary curtailment of business operations, including the closure of restaurants and restaurant chains or limitations on restaurants to offer only take-out or delivery sales, resulting in a significant reduction in demand for our foodservice products;
- failure of third parties on which we rely, including our customers, distributors, suppliers, contract manufacturers, and other partners to meet their obligations to us, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties;
- inability to meet our retail customers’ needs and achieve cost targets due to disruption in our manufacturing and supply arrangements caused by the loss or disruption of essential manufacturing and supply elements such as raw materials or other finished product components, transportation, workforce, or other manufacturing and distribution capability;
- incurrence of additional labor and operating costs to address the COVID-19 pandemic, including costs associated with increased compensation to certain employees in our factories and distribution network, along with the provision of additional cleaning, disinfectants and sanitation materials to help keep our employees safe and to protect the communities that we serve;
- disruption in operations if a significant percentage of our workforce is unable to work due to illness, travel or other government restrictions, or other reasons in connection with epidemics, pandemics or disease outbreaks; and
- other increased administrative costs, including insurance costs.

We have recently canceled or delayed certain capital and innovation projects due to the impacts of the COVID-19 pandemic. Continued disruptions and uncertainties related to the COVID-19 pandemic for a sustained period could result in additional delays or modifications to these projects and other productivity, capital and innovation projects and hinder our ability to achieve the project objectives.

Our management has been forced to divert a portion of its attention from execution of core strategies to focus on mitigating the impact of COVID-19 on our operations, which has required, and will continue to require, a large investment of time and resources across our business and may delay other strategic initiatives that are important to the business. Additionally,

some of our employees are working remotely. An extended period of remote work arrangements could strain our business continuity plans and introduce operational risk, such as but not limited to cyber security risks.

Despite our efforts to manage and remedy these impacts, their ultimate significance depends on factors beyond our knowledge or control, including the duration and severity of any such outbreak as well as third-party actions taken to contain the spread and mitigate public health effects. If we are perceived as having responded improperly to the pandemic, we could suffer damage to our reputation and our brands. The items above and other impacts of the COVID-19 pandemic could have the effect of heightening many of the other risks described in this “Risk Factors” section of our Annual Report on Form 10-K, such as those relating to our reputation, product sales, results of operations or financial condition. The severity, magnitude and duration of the current COVID-19 pandemic are uncertain, rapidly changing and depend on events beyond our knowledge or control. We might not be able to anticipate or respond to all impacts on a timely basis to prevent near- or long-term adverse impacts to our results. As a result, the impact of the COVID-19 pandemic could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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. Any potential claim under our insurance 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. Pandemics, including COVID-19, 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 our 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 18% of consolidated net sales for the year ended June 30, 2020. Our accounts receivable balance from Walmart as of June 30, 2020 was \$26.1 million. We may not be able to maintain our relationship with Walmart, 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 13% of consolidated net sales for the year ended June 30, 2020. Our accounts receivable balance from McLane as of June 30, 2020 was \$8.5 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 a 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 cannot ensure that we will be able to maintain good relationships with McLane and the underlying national chain restaurants. 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, including changes resulting from social distancing measures and closures stemming from COVID-19, 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 15% of consolidated net sales for the year ended June 30, 2020. We cannot ensure that we will be able to maintain good relationships with key national chain restaurant accounts 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, or worsening results due to social distancing measures

and closures stemming from COVID-19, 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. Many participants in the foodservice channel have been negatively impacted by COVID-19 and the related social distancing measures and closures. 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 our ultimate success and the resulting impacts to our financial results are uncertain.

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 to satisfy demand depends on many factors, including the availability of capital, construction lead-times and delays, equipment availability and delivery lead-times, successful installation and start up, qualification, the availability of adequate skilled and unskilled labor, 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 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, Buffalo Wild Wings[®] sauces and Chick-fil-A[®] sauces. We cannot ensure that we will maintain good relationships with our brand licensors. 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, the economic health of our brand licensors, or the impairment of our relationships 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, including COVID-19, 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.

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

We are in the midst 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 have experienced ERP delays and complications as a result of the remote work environment necessitated by COVID-19, and we may not be able to implement the ERP successfully without experiencing additional 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. An extended period of remote work arrangements could also introduce operational risk, including cyber security risks, and strain our ability to test the ERP fully. 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. Our information technology systems could also be adversely affected by changes that result from COVID-19, including for example, a significant increase in remote work arrangements for our employees. 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. Our efforts to protect the security of our information relative to our perceived risks may be insufficient to defend against a significant cyber attack in the future. The costs associated with a significant cyber attack could include increased expenditures on cyber security measures, lost revenues from business interruption, litigation, regulatory fines and penalties and substantial 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 substantial damage to our reputation and an impairment of business partner confidences 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. Any potential claim under our insurance policies relating to cyber events 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 October 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 a multiemployer pension plan which could adversely affect our financial results.

We make periodic contributions to a multiemployer pension plan related to our facility in Milpitas, California under a collective bargaining contract. The multiemployer pension plan provides pension benefits to employees and retired employees participating in the 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 or successors for any of these individuals if their services were no longer available due to retirement, resignation or otherwise, 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, 2020, Mr. Gerlach owned or controlled approximately 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 2.3 million square feet of space for our operations. Of this space, 0.7 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 | Frozen breads | Retail and Foodservice | Owned |
| Wareham, MA ⁽¹⁾ | Croutons | Retail and Foodservice | Leased |

(1) 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 |
|-----------------------------|----------------------------|---------------------------|
| Attalla, AL | Retail and Foodservice | Third-party service |
| Columbus, OH ⁽¹⁾ | Retail and Foodservice | Leased |
| Grove City, OH | Retail and Foodservice | Owned |
| Horse Cave, KY | Retail and Foodservice | Owned |
| Milpitas, CA ⁽²⁾ | Retail and Foodservice | Leased |
| Tracy, CA | Retail and Foodservice | Third-party service |

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

(2) 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 3, 2020 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 57 consecutive years. Future dividends will depend on our earnings, financial condition and other factors.

The information regarding compensation plans under which equity securities are authorized for issuance is incorporated by reference to the information contained in our definitive proxy statement for our November 2020 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act.

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 1,315,911 common shares remained authorized for future repurchases at June 30, 2020. This share repurchase authorization does not have a stated expiration date. In the fourth quarter, we made the following repurchases of our common stock:

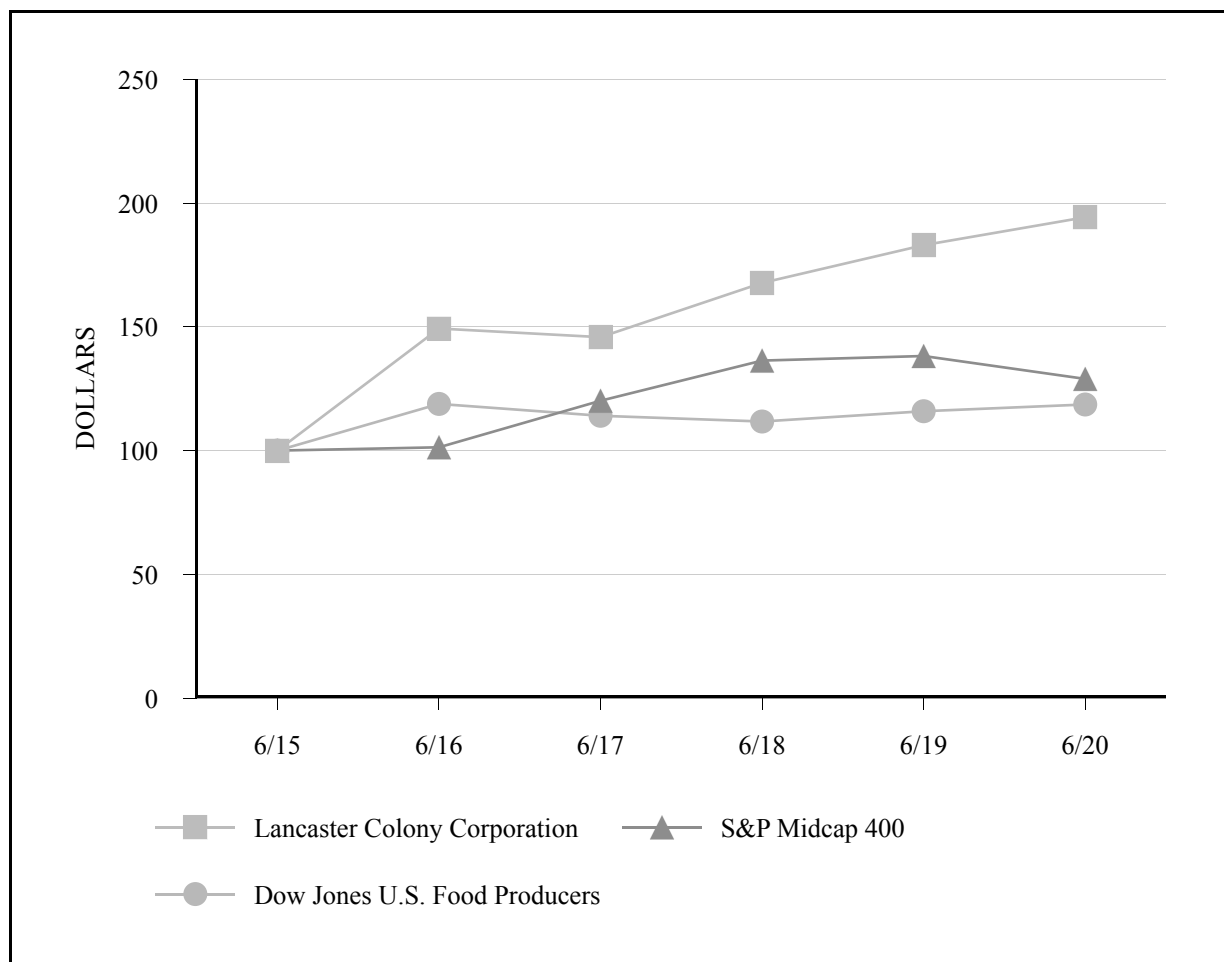
| <u>Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid Per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u> | <u>Maximum Number of Shares that May Yet be Purchased Under the Plans</u> |
|---------------------------------|---|---|---|---|
| April 1-30, 2020 ⁽¹⁾ | 71 | \$ 135.49 | 71 | 1,316,316 |
| May 1-31, 2020 ⁽¹⁾ | 85 | \$ 142.81 | 85 | 1,316,231 |
| June 1-30, 2020 ⁽¹⁾ | 320 | \$ 154.99 | 320 | 1,315,911 |
| Total | <u>476</u> | \$ 149.91 | <u>476</u> | 1,315,911 |

(1) Represents shares 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, 2015 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)

| | 6/15 | 6/16 | 6/17 | 6/18 | 6/19 | 6/20 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Lancaster Colony Corporation | 100.00 | 149.33 | 145.84 | 167.76 | 183.02 | 194.29 |
| S&P Midcap 400 | 100.00 | 101.33 | 120.14 | 136.37 | 138.22 | 128.97 |
| Dow Jones U.S. Food Producers | 100.00 | 118.86 | 114.07 | 111.75 | 115.91 | 118.63 |

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, | | | | |
|---|----------------------|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Operations | | | | | |
| Net Sales | \$ 1,334,388 | \$ 1,307,787 | \$ 1,222,925 | \$ 1,201,842 | \$ 1,191,109 |
| Gross Profit ⁽¹⁾ | \$ 358,036 | \$ 326,198 | \$ 303,506 | \$ 318,780 | \$ 299,633 |
| Percent of Net Sales | 26.8% | 24.9% | 24.8% | 26.5% | 25.2% |
| Change in Contingent Consideration | \$ 257 | \$ (16,180) | \$ 2,052 | \$ 1,156 | \$ — |
| Multiemployer Pension Settlement and Related Costs | \$ — | \$ — | \$ — | \$ 17,635 | \$ — |
| Income Before Income Taxes | \$ 179,077 | \$ 195,542 | \$ 174,203 | \$ 175,516 | \$ 184,633 |
| Percent of Net Sales | 13.4% | 15.0% | 14.2% | 14.6% | 15.5% |
| Taxes Based on Income ⁽²⁾ | \$ 42,094 | \$ 44,993 | \$ 38,889 | \$ 60,202 | \$ 62,869 |
| Net Income ⁽²⁾ | \$ 136,983 | \$ 150,549 | \$ 135,314 | \$ 115,314 | \$ 121,764 |
| Percent of Net Sales | 10.3% | 11.5% | 11.1% | 9.6% | 10.2% |
| Diluted Net Income Per Common Share ⁽²⁾ | \$ 4.97 | \$ 5.46 | \$ 4.92 | \$ 4.20 | \$ 4.44 |
| Cash Dividends Per Common Share - Regular | \$ 2.75 | \$ 2.55 | \$ 2.35 | \$ 2.15 | \$ 1.96 |
| Cash Dividends Per Common Share - Special | \$ — | \$ — | \$ — | \$ — | \$ 5.00 |
| Financial Position | | | | | |
| Total Assets ⁽³⁾ | \$ 993,353 | \$ 905,399 | \$ 804,491 | \$ 716,405 | \$ 634,732 |
| Property, Plant and Equipment-Net ⁽⁴⁾ | \$ 293,288 | \$ 247,044 | \$ 190,813 | \$ 180,671 | \$ 169,595 |
| Payments for Property Additions ⁽⁵⁾ | \$ 82,642 | \$ 70,880 | \$ 31,025 | \$ 27,005 | \$ 16,671 |
| Depreciation and Amortization | \$ 37,963 | \$ 31,848 | \$ 26,896 | \$ 24,906 | \$ 24,147 |
| Long-Term Debt | \$ — | \$ — | \$ — | \$ — | \$ — |
| Shareholders' Equity ⁽²⁾ | \$ 783,300 | \$ 726,873 | \$ 652,282 | \$ 575,977 | \$ 513,598 |
| Per Common Share | \$ 28.46 | \$ 26.44 | \$ 23.73 | \$ 20.98 | \$ 18.73 |
| Weighted Average Common Shares Outstanding-Diluted ⁽²⁾ | 27,496 | 27,537 | 27,459 | 27,440 | 27,373 |

- (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) In 2020, we adopted new accounting guidance for leases that requires lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. This guidance was applied on a prospective basis.
- (4) Amounts for 2020 and 2019 include finance lease right-of-use assets of \$2.3 million and \$2.1 million, respectively. The related lease liabilities were \$2.2 million and \$2.0 million, respectively.
- (5) Amounts for 2019 and 2017 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; and \$5.1 million in the 2017 acquisition of Angelic Bakehouse).

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, 2020 refers to fiscal 2020, which is the period from July 1, 2019 to June 30, 2020.

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 2020 compared to 2019 is included herein. For discussion of results for 2019 compared to 2018, see our 2019 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 was completed in January 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") project and related initiatives, Project Ascent, that is now underway. The ERP implementation commenced in late 2019 and entails the replacement of our primary customer and manufacturing transactional systems, warehousing systems, and financial systems with an integrated SAP S/4HANA system. Post implementation, Project Ascent will evolve into an on-going Center of Excellence ("COE") that will provide oversight for all future upgrades of the S/4HANA environment, evaluation of future software needs to support the business, acquisition integration support and master data standards. Most of the on-going COE costs are expected to consist of annual software maintenance and support, consulting and professional fees and wages and benefits.

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, on November 16, 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. On October 19, 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 other frozen bread products sold to both the retail and foodservice channels. See further discussion of these acquisitions in Note 2 to the consolidated financial statements.

RECENT EVENTS

A novel strain of coronavirus (“COVID-19”) was first identified in Wuhan, China in December 2019. On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in business slowdowns or shutdowns in affected areas. In the U.S., state and local governments recommended or mandated actions to slow the transmission of COVID-19. These measures included limitations on public gatherings, social distancing requirements, travel restrictions, closures of bars and dine-in restaurants, stay-at-home orders, quarantines and restrictions that prohibited many non-essential employees from going to work.

We have two major priorities while navigating through this period of volatility and uncertainty:

1. to ensure the health, safety and welfare of our employees; and
2. to continue to play our part in the vital food supply chain by adequately supplying our customers while maintaining the financial strength of our business.

With respect to our efforts to ensure the health, safety and welfare of our employees, we are complying with all guidelines issued by the Centers for Disease Control and Prevention as well as state and local health departments. We have also engaged a pulmonology and critical care physician to advise us on our employee safety protocols. Based on the advice of these experts, we have put in place a range of safety modifications and guidelines in our factories, distribution centers and offices to ensure that we can operate safely, including but not limited to:

- engaging a third party to conduct employee temperature checks prior to entering our production facilities;
- conducting extensive cleaning and sanitation of workstations and common areas before, during, and after each shift;
- employing social distancing guidelines and modifications at workspaces and in break areas;
- staggering between shift changes and breaks;
- relaxing attendance requirements and enhancing our paid leave policy;
- implementing quarantine protocols in the event of confirmed or suspected cases of COVID-19;
- providing a \$300 bonus for each of our front-line employees in late March and temporarily increasing the wage rate for our hourly front-line employees by \$2 per hour beginning in April;
- establishing business travel restrictions; and
- working from home whenever possible, consistent with the applicable stay-at-home order.

With respect to our second priority, as of the date of this filing, there has been no material adverse change in our ability to manufacture and distribute our products. We have not experienced any significant disruptions to our shipping or warehousing operations or sourcing of raw materials. We have also secured additional second-sourcing options as needed to help limit the risk of supply disruptions.

We continue to monitor the COVID-19 situation and related guidance from authorities, including federal, state and local public health departments, and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our plans. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impact of COVID-19 on our results of operations, financial condition, or cash flows in the future. However, COVID-19 could have a material adverse impact on our future revenue growth as well as our overall profitability and may lead to higher-than-normal inventory levels, revised payment terms with certain of our customers, additional reserves for inventory and receivables, and higher plant operating costs.

During the three months ended June 30, 2020, the effects of COVID-19 and the related actions undertaken in the U.S. to attempt to control its spread, specifically the restriction of restaurant dine-in purchases and imposition of stay-at-home orders, negatively impacted the operating results of our Foodservice segment. Our Foodservice segment net sales for the fourth quarter declined 24% to \$128.4 million while segment operating income fell 45% to \$10.1 million. After a very slow start in April, consumer demand at quick-service restaurants made a strong recovery in May and June, and sales for other restaurants also improved notably throughout the quarter.

With respect to our Retail segment, the impact of COVID-19 resulted in higher sales during the three months ended June 30, 2020 as consumer demand in the retail channel remained elevated.

We continue to operate from a position of financial strength and believe that cash provided by operating activities and our existing balances in cash and equivalents, in addition to our access to capital under our unsecured revolving credit facility, should be adequate to meet our liquidity needs over the next 12 months. We have placed a greater emphasis on tracking the financial strength of our customers and suppliers and taking actions, where determined necessary, to limit our financial exposure and operational risks. Additional details regarding our financial strength are provided in the “Financial Condition” section below.

RESULTS OF CONSOLIDATED OPERATIONS

| (Dollars in thousands, except per share data) | Years Ended June 30, | | | Change | | | |
|--|----------------------|-------------|-------------|---------------|--------|---------------|-----|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Net Sales | \$1,334,388 | \$1,307,787 | \$1,222,925 | \$ 26,601 | 2 % | \$ 84,862 | 7% |
| Cost of Sales | 976,352 | 981,589 | 919,419 | (5,237) | (1)% | 62,170 | 7% |
| Gross Profit | 358,036 | 326,198 | 303,506 | 31,838 | 10 % | 22,692 | 7% |
| Gross Margin | 26.8% | 24.9% | 24.8% | | | | |
| Selling, General and Administrative Expenses | 180,945 | 149,811 | 129,906 | 31,134 | 21 % | 19,905 | 15% |
| Change in Contingent Consideration | 257 | (16,180) | 2,052 | 16,437 | (102)% | (18,232) | N/M |
| Restructuring and Impairment Charges | 886 | 1,643 | — | (757) | (46)% | 1,643 | N/M |
| Operating Income | 175,948 | 190,924 | 171,548 | (14,976) | (8)% | 19,376 | 11% |
| Operating Margin | 13.2% | 14.6% | 14.0% | | | | |
| Other, Net | 3,129 | 4,618 | 2,655 | (1,489) | (32)% | 1,963 | 74% |
| Income Before Income Taxes | 179,077 | 195,542 | 174,203 | (16,465) | (8)% | 21,339 | 12% |
| Taxes Based on Income | 42,094 | 44,993 | 38,889 | (2,899) | (6)% | 6,104 | 16% |
| Effective Tax Rate | 23.5% | 23.0% | 22.3% | | | | |
| Net Income | \$ 136,983 | \$ 150,549 | \$ 135,314 | \$ (13,566) | (9)% | \$ 15,235 | 11% |
| Diluted Net Income Per Common Share | \$ 4.97 | \$ 5.46 | \$ 4.92 | \$ (0.49) | (9)% | \$ 0.54 | 11% |

Net Sales

Consolidated net sales for the year ended June 30, 2020 increased 2% to a new record of \$1,334 million from the prior-year record total of \$1,308 million. This growth was driven by an increase in Retail net sales, particularly in the second half of the year, partially offset by a decline in Foodservice net sales.

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:

| | 2020 | 2019 | 2018 |
|---------------------------|------|------|------|
| Segment Sales Mix: | | | |
| Retail | 54% | 50% | 53% |
| Foodservice | 46% | 50% | 47% |

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

Gross Profit

Consolidated gross profit increased 10% to \$358.0 million in 2020 compared to \$326.2 million in 2019 driven by the higher sales volumes in Retail, our cost savings programs, including continued contributions from our strategic procurement and transportation management initiatives, improved net price realization and lower commodity costs. Offsets to gross profit growth included higher manufacturing costs and other expenses resulting from the impacts of COVID-19.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased 21% to \$180.9 million in 2020 as expenditures for Project Ascent increased \$16.3 million to \$18.0 million. Investments in technology and IT infrastructure, a write-off of engineering costs for a dressing plant expansion project and other expenses attributed to the impacts of COVID-19, and a higher level of consumer promotional spending also contributed to the rise in SG&A expenses. Shifts in demand between our Retail and Foodservice segments led us to cancel the plant expansion project. Project Ascent expenses are included within Corporate Expenses. A portion of the costs classified as Project Ascent expenses represent ongoing costs that will continue subsequent to ERP implementation.

| (Dollars in thousands) | Year Ended June 30, | | | Change | | | |
|--|---------------------|------------|------------|---------------|------|---------------|-----|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| SG&A Expenses - Excluding Project Ascent | \$ 162,910 | \$ 148,031 | \$ 129,906 | \$ 14,879 | 10% | \$ 18,125 | 14% |
| Project Ascent Expenses | 18,035 | 1,780 | — | 16,255 | 913% | 1,780 | N/M |
| Total SG&A Expenses | \$ 180,945 | \$ 149,811 | \$ 129,906 | \$ 31,134 | 21% | \$ 19,905 | 15% |

Change in Contingent Consideration

The change in contingent consideration resulted in expense of \$0.3 million in 2020 compared to a net benefit of \$16.2 million in 2019, which included a \$17.1 million reduction in the fair value of the contingent consideration liability for Angelic Bakehouse, Inc. (“Angelic”) 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 recorded 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 was 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. The operations of this plant have not been classified as discontinued operations as the closure did not represent a strategic shift that would have a major effect on our operations or financial results.

During 2020 and 2019, we recorded restructuring and impairment charges of \$0.9 million and \$1.6 million, respectively. 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. We do not expect any additional charges attributed to this plant closure.

Operating Income

Operating income decreased 8% to \$175.9 million in 2020 driven by the impact of the prior-year’s favorable adjustment related to Angelic’s contingent consideration, increased expenditures for Project Ascent, higher costs attributed to the impacts of COVID-19 and increased investments in technology and IT infrastructure. These unfavorable factors were partially offset by the more favorable sales mix, our cost savings programs, improved net price realization and lower commodity costs. See discussion of operating results by segment following the discussion of “Earnings Per Share” below.

Taxes Based on Income

Our effective tax rate was 23.5% and 23.0% in 2020 and 2019, respectively. See Note 9 to the consolidated financial statements for a reconciliation of the statutory rate to the effective rate.

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 2020 and 2019, the impact of net windfall tax benefits from stock-based compensation reduced our effective tax rate by 0.8%.

Earnings Per Share

As influenced by the factors discussed above, particularly the increased expenditures for Project Ascent and costs attributed to the impacts of COVID-19 in 2020 and the reduction in fair value of Angelic’s contingent consideration in 2019, diluted net income per share totaled \$4.97 in 2020, a decrease from the 2019 total of \$5.46 per diluted share. Diluted weighted average common shares outstanding for each of the years ended June 30, 2020 and 2019 have remained relatively stable.

In 2020, expenditures for Project Ascent reduced diluted earnings per share by \$0.50. Certain costs attributed to the impacts of COVID-19, including the temporary increase in pay for our front-line employees, the write-off of engineering costs for a canceled dressing plant expansion project and an increase in the Foodservice inventory reserve, had an unfavorable impact of \$0.28 per diluted share in 2020. The restructuring and impairment charge also reduced diluted earnings per share in 2020 by \$0.02. 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 Project Ascent expenditures reduced diluted earnings per share by \$0.05 and the restructuring and impairment charge had an unfavorable impact of \$0.05 per diluted share.

RESULTS OF OPERATIONS - SEGMENTS

Retail Segment

| (Dollars in thousands) | Year Ended June 30, | | | Change | | | |
|-------------------------|---------------------|------------|------------|------------------|-----------|---------------|----|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Net Sales | \$ 714,127 | \$ 656,621 | \$ 650,234 | \$ 57,506 | 9% | \$ 6,387 | 1% |
| Operating Income | \$ 142,822 | \$ 135,093 | \$ 126,400 | \$ 7,729 | 6% | \$ 8,693 | 7% |
| Operating Margin | 20.0% | 20.6% | 19.4% | | | | |

In 2020, net sales for the Retail segment reached a record \$714.1 million, a 9% increase from the prior-year total of \$656.6 million as higher retail channel demand attributed to the impacts of COVID-19 and contributions from shelf-stable dressings and sauces sold under license agreements, including new product introductions, drove Retail sales gains. Higher sales volumes for frozen garlic bread and frozen dinner rolls, along with some beneficial net price realization, also added to the growth in Retail net sales.

In 2020, Retail segment operating income increased \$7.7 million, or 6%, to \$142.8 million. Retail segment operating income benefited from the increase in sales, our ongoing cost savings programs, improved net price realization and lower commodity costs as partially offset by higher trade and consumer promotional spending. The prior-year results were favorably impacted by the \$17.1 million reduction in the fair value of Angelic's contingent consideration liability.

Foodservice Segment

| (Dollars in thousands) | Year Ended June 30, | | | Change | | | |
|-------------------------|---------------------|------------|------------|--------------------|--------------|---------------|-----|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Net Sales | \$ 620,261 | \$ 651,166 | \$ 572,691 | \$ (30,905) | (5)% | \$ 78,475 | 14% |
| Operating Income | \$ 66,480 | \$ 73,828 | \$ 58,440 | \$ (7,348) | (10)% | \$ 15,388 | 26% |
| Operating Margin | 10.7% | 11.3% | 10.2% | | | | |

In 2020, Foodservice net sales decreased 5% to \$620.3 million from the 2019 total of \$651.2 million. After growth of 7% in the first half of the fiscal year, Foodservice net sales declined 16% in the second half as consumer demand shifted away from the foodservice channel due to the impacts of COVID-19. Excluding all sales resulting from the November 2018 acquisition of Omni, total Foodservice net sales declined 5%. Omni sales attributed to a temporary supply agreement totaled \$22.3 million in the current fiscal year compared to \$19.4 million last year.

In 2020, the \$7.3 million decline in Foodservice segment operating income and decrease in operating margin was primarily due to the sales decline, reduced absorption of fixed production costs resulting from the lower sales volumes and other costs attributed to the impacts of COVID-19, including the cancellation of the dressing plant expansion project, an inventory write-down and the temporary increase in hourly wages for our front-line employees.

Corporate Expenses

The 2020 corporate expenses totaled \$32.5 million as compared to \$16.4 million in 2019. The increase was driven by expenditures for Project Ascent, which totaled \$18.0 million in 2020 as compared to \$1.8 million in 2019. In 2020, we also capitalized an additional \$8.9 million of ERP-related expenditures for application development stage activities.

LOOKING FORWARD

For 2021, we expect Retail segment sales will continue to benefit from the growth in shelf-stable dressings and sauces sold under license agreements, including sales gains for Chick-fil-A[®] sauces following a successful pilot test that was launched in March 2020, expanded geographic distribution of Buffalo Wild Wings[®] sauces in single bottles and growth in the dollar and value channels for Olive Garden[®] dressings. We also anticipate both our Retail and Foodservice segment sales will continue to be impacted by the COVID-19 pandemic, which has caused shifts in consumer demand between the retail and foodservice channels. The extent of this impact on our 2021 results is very difficult to predict due to ongoing regional ebbs and flows of COVID-19 cases and the associated loosening and tightening of stay-at-home orders and other restrictions and guidelines that create uncertainty for the restaurant industry and consumer behavior over an unpredictable timeline.

Based on current market conditions, following a year in which commodity costs were notably favorable, we expect commodity costs to increase in 2021. Our cost savings programs and pricing initiatives will help to offset these increased costs. Our 2021 SG&A expenses will continue to include Project Ascent expenses.

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

Our exposure to volatile swings in food commodity costs will continue to be managed and mitigated 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 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 2020 as we ended the year with \$198 million in cash and equivalents, along with shareholders’ equity of \$783 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, 2020. At June 30, 2020, we had \$2.8 million of standby letters of credit outstanding, which reduced the amount available for borrowing under the Facility. The Facility expires in March 2025, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternate base rate defined in the Facility. 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, 2020, 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, 2020, 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 liquidity needs over the next 12 months, including the projected levels of capital expenditures and dividend payments. Based on our current plans and expectations, we believe our capital expenditures for 2021 could total between \$65 and \$85 million. In addition, we will also continue to evaluate other potentially significant investments, such as a plant expansion, new plant construction or brownfield investment, to meet increasing demand for our dressing and sauce products. If we were to borrow outside of the Facility under current market terms, our average interest rate may increase and have an adverse effect on our results of operations.

Cash Flows

| (Dollars in thousands) | Year Ended June 30, | | | Change | | | |
|----------------------------------|----------------------------|-------------|-------------|----------------------|--------------|----------------------|-------|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Provided By Operating Activities | \$ 170,769 | \$ 197,598 | \$ 160,714 | \$ (26,829) | (14)% | \$ 36,884 | 23 % |
| Used In Investing Activities | \$ (83,265) | \$(126,861) | \$(31,452) | \$ 43,596 | 34 % | \$ (95,409) | N/M |
| Used In Financing Activities | \$ (85,519) | \$(80,201) | \$(66,614) | \$ (5,318) | (7)% | \$ (13,587) | (20)% |

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 2020 totaled \$170.8 million, a decrease of 14% as compared with the 2019 total of \$197.6 million. The 2020 decrease was due to the year-over-year change in net working capital and lower net income, as partially offset by the impact of the prior-year reduction in the fair value of Angelic’s contingent consideration.

Cash used in investing activities totaled \$83.3 million in 2020 as compared to \$126.9 million in 2019. The 2020 decrease primarily reflects the impact of the prior-year second quarter acquisitions of Bantam and Omni as partially offset by a higher level of payments for property additions in the current year. The year-over-year increase in our capital expenditures includes spending on a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky that was completed in January 2020 and the purchase of the Omni manufacturing facility that was previously leased. Payments for property additions totaled \$82.6 million in 2020 compared to \$70.9 million in 2019.

Financing activities used net cash totaling \$85.5 million and \$80.2 million in 2020 and 2019, respectively. In general, cash used in financing activities reflects the payment of dividends and share repurchases. The 2020 increase was primarily due to higher dividend payments. The regular dividend payout rate for 2020 was \$2.75 per share, as compared to \$2.55 per share in 2019. This past fiscal year marked the 57th 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, 2020.

The following table summarizes our contractual obligations as of June 30, 2020 (dollars in thousands):

| Contractual Obligations | Payment Due by Period | | | | |
|--|------------------------------|-------------------------|------------------|------------------|--------------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Finance Lease Obligations ⁽¹⁾ | \$ 2,293 | \$ 638 | \$ 1,265 | \$ 390 | \$ — |
| Operating Lease Obligations ⁽¹⁾ | 26,470 | 7,404 | 10,591 | 5,569 | 2,906 |
| Purchase Obligations ⁽²⁾ | 234,339 | 206,046 | 25,211 | 2,851 | 231 |
| Other Noncurrent Liabilities (as reflected on Consolidated Balance Sheet) ⁽³⁾ | 10,132 | — | 942 | 9,190 | — |
| Total | \$ 273,234 | \$ 214,088 | \$ 38,009 | \$ 18,000 | \$ 3,137 |

- (1) Finance leases are primarily entered into for certain equipment and warehouse facilities. 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 \$20.0 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 have also 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 2020, commodity costs were modestly favorable driven by lower costs for eggs, soybean oil and flour. Packaging materials and freight costs were also favorable in 2020. Our strategic procurement programs, transportation management system and other cost savings initiatives also helped to reduce our expenditures on commodities, packaging materials and freight in 2020. In 2019, commodity cost inflation moderated to nearly flat compared to 2018 while packaging and freight costs were modestly inflationary.

Looking ahead to 2021, under current market conditions we foresee inflation in commodities. Our ongoing cost savings programs and pricing initiatives will help to offset these higher commodity costs.

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, many of which could be amplified by the COVID-19 pandemic. 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:

- significant shifts in consumer demand and disruptions to our employees, communities, customers, supply chains, operations, and production processes resulting from COVID-19 and other epidemics, pandemics or similar widespread public health concerns and disease outbreaks;
- efficiencies in plant operations;
- dependence on contract manufacturers, distributors and freight transporters, including their financial strength in continuing to support our business;
- fluctuations in the cost and availability of ingredients and packaging;
- the potential for loss of larger programs or key customer relationships;
- capacity constraints that may affect our ability to meet demand or may increase our costs;
- changes in demand for our products, which may result from loss of brand reputation or customer goodwill;
- difficulties in designing and implementing our new enterprise resource planning system;
- cyber-security incidents, information technology disruptions, and data breaches;
- ability to successfully grow recently acquired businesses;
- the extent to which recent and future business acquisitions are completed and acceptably integrated;
- price and product competition;
- the lack of market acceptance of new products;
- the success and cost of new product development efforts;
- the impact of customer store brands on our branded retail volumes;
- 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;
- stability of labor relations;
- dependence on key personnel and changes in key personnel;
- the effect of consolidation of customers within key market channels;
- the impact of fluctuations in our pension plan asset values on funding levels, contributions required and benefit costs;
- the possible occurrence of product recalls or other defective or mislabeled product 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;
- adequate supply of skilled labor; 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 have 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, 2020 and 2019, 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, 2020, 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, 2020 and 2019 and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, 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, 2020, 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, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases effective July 1, 2019, due to the adoption of Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842).

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 fair values are based on complex 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 that are readily observable, and therefore, more easily independently corroborated, the valuation of Level 3 liabilities is inherently subjective, and often involves the use of complex models and unobservable inputs. The contingent consideration of Bantam Bagels is valued using a Monte Carlo simulation that randomly changes revenue growth, forecasted adjusted earnings before interest, taxes, depreciation, and amortization (“EBITDA”), as defined in the related acquisition agreement, 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, as defined in the related acquisition agreement, to estimate fair value.

We identified these Level 3 liabilities as a critical audit matter because of the complex models and unobservable inputs management uses to estimate fair value. This required a high degree of auditor judgment and an increased extent of 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 complex 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 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.
- With the assistance of our fair value specialists, we developed independent fair value estimates and compared our results to the Company’s estimates.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Columbus, Ohio
August 27, 2020

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

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Amounts in thousands, except share data) | June 30, | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 198,273 | \$ 196,288 |
| Receivables | 86,604 | 75,691 |
| Inventories: | | |
| Raw materials | 34,374 | 30,647 |
| Finished goods | 50,674 | 55,425 |
| Total inventories | 85,048 | 86,072 |
| Other current assets | 15,687 | 10,518 |
| Total current assets | 385,612 | 368,569 |
| Property, Plant and Equipment: | | |
| Land, buildings and improvements | 186,542 | 163,094 |
| Machinery and equipment | 388,929 | 340,232 |
| Total cost | 575,471 | 503,326 |
| Less accumulated depreciation | 282,183 | 256,282 |
| Property, plant and equipment-net | 293,288 | 247,044 |
| Other Assets: | | |
| Goodwill | 208,371 | 208,371 |
| Other intangible assets-net | 65,216 | 70,277 |
| Operating lease right-of-use assets | 22,977 | — |
| Other noncurrent assets | 17,889 | 11,138 |
| Total | \$ 993,353 | \$ 905,399 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 71,433 | \$ 76,670 |
| Accrued liabilities | 54,826 | 43,036 |
| Total current liabilities | 126,259 | 119,706 |
| Noncurrent Operating Lease Liabilities | 17,893 | — |
| Other Noncurrent Liabilities | 31,661 | 35,938 |
| Deferred Income Taxes | 34,240 | 22,882 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock-authorized 3,050,000 shares; outstanding-none | | |
| Common stock-authorized 75,000,000 shares; outstanding-2020-27,523,935 shares; 2019-27,491,497 shares | 125,153 | 122,844 |
| Retained earnings | 1,421,121 | 1,359,782 |
| Accumulated other comprehensive loss | (12,070) | (10,308) |
| Common stock in treasury, at cost | (750,904) | (745,445) |
| Total shareholders' equity | 783,300 | 726,873 |
| Total | \$ 993,353 | \$ 905,399 |

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| (Amounts in thousands, except per share data) | Years Ended June 30, | | |
|---|----------------------|--------------|--------------|
| | 2020 | 2019 | 2018 |
| Net Sales | \$ 1,334,388 | \$ 1,307,787 | \$ 1,222,925 |
| Cost of Sales | 976,352 | 981,589 | 919,419 |
| Gross Profit | 358,036 | 326,198 | 303,506 |
| Selling, General and Administrative Expenses | 180,945 | 149,811 | 129,906 |
| Change in Contingent Consideration | 257 | (16,180) | 2,052 |
| Restructuring and Impairment Charges | 886 | 1,643 | — |
| Operating Income | 175,948 | 190,924 | 171,548 |
| Other, Net | 3,129 | 4,618 | 2,655 |
| Income Before Income Taxes | 179,077 | 195,542 | 174,203 |
| Taxes Based on Income | 42,094 | 44,993 | 38,889 |
| Net Income | \$ 136,983 | \$ 150,549 | \$ 135,314 |
| Net Income Per Common Share: | | | |
| Basic | \$ 4.98 | \$ 5.48 | \$ 4.93 |
| Diluted | \$ 4.97 | \$ 5.46 | \$ 4.92 |
| Weighted Average Common Shares Outstanding: | | | |
| Basic | 27,448 | 27,438 | 27,403 |
| Diluted | 27,496 | 27,537 | 27,459 |

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Amounts in thousands) | Years Ended June 30, | | |
|--|----------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Net Income | \$ 136,983 | \$ 150,549 | \$ 135,314 |
| Other Comprehensive (Loss) Income: | | | |
| Defined Benefit Pension and Postretirement Benefit Plans: | | | |
| Net (loss) gain arising during the period, before tax | (2,662) | (2,902) | 3,041 |
| Amortization of loss, before tax | 546 | 410 | 536 |
| Amortization of prior service credit, before tax | (182) | (182) | (182) |
| Total Other Comprehensive (Loss) Income, Before Tax | (2,298) | (2,674) | 3,395 |
| Tax Attributes of Items in Other Comprehensive (Loss) Income: | | | |
| Net (loss) gain arising during the period, tax | 622 | 678 | (710) |
| Amortization of loss, tax | (128) | (96) | (180) |
| Amortization of prior service credit, tax | 42 | 43 | 61 |
| Total Tax Benefit (Expense) | 536 | 625 | (829) |
| Other Comprehensive (Loss) Income, Net of Tax | (1,762) | (2,049) | 2,566 |
| Comprehensive Income | \$ 135,221 | \$ 148,500 | \$ 137,880 |

See accompanying notes to consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Amounts in thousands) | Years Ended June 30, | | |
|---|----------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Cash Flows From Operating Activities: | | | |
| Net income | \$ 136,983 | \$ 150,549 | \$ 135,314 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Impacts of noncash items: | | | |
| Depreciation and amortization | 37,963 | 31,848 | 26,896 |
| Change in contingent consideration | 257 | (16,180) | 2,052 |
| Deferred income taxes and other changes | 11,402 | 7,336 | (8,502) |
| Stock-based compensation expense | 6,115 | 5,972 | 5,039 |
| Restructuring and impairment charges | (268) | 1,643 | — |
| Loss (gain) on sale of property | 315 | (13) | (10) |
| Pension plan activity | (578) | (749) | (434) |
| Changes in operating assets and liabilities: | | | |
| Receivables | (10,913) | (748) | (3,040) |
| Inventories | 1,024 | 6,282 | (14,485) |
| Other current assets | (14,267) | (3,085) | 2,164 |
| Accounts payable and accrued liabilities | 2,736 | 14,743 | 15,720 |
| Net cash provided by operating activities | 170,769 | 197,598 | 160,714 |
| Cash Flows From Investing Activities: | | | |
| Payments for property additions | (82,642) | (70,880) | (31,025) |
| Cash paid for acquisitions, net of cash acquired | — | (55,364) | (318) |
| Proceeds from sale of property | 129 | 169 | 38 |
| Other-net | (752) | (786) | (147) |
| Net cash used in investing activities | (83,265) | (126,861) | (31,452) |
| Cash Flows From Financing Activities: | | | |
| Payment of dividends | (75,644) | (70,110) | (64,531) |
| Purchase of treasury stock | (5,459) | (7,411) | (1,102) |
| Tax withholdings for stock-based compensation | (3,806) | (2,360) | (981) |
| Other-net | (610) | (320) | — |
| Net cash used in financing activities | (85,519) | (80,201) | (66,614) |
| Net change in cash and equivalents | 1,985 | (9,464) | 62,648 |
| Cash and equivalents at beginning of year | 196,288 | 205,752 | 143,104 |
| Cash and equivalents at end of year | \$ 198,273 | \$ 196,288 | \$ 205,752 |

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, 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 |
| Net income | | | 136,983 | | | 136,983 |
| Net pension and postretirement benefit losses, net of (\$536) tax effect | | | | (1,762) | | (1,762) |
| Cash dividends - common stock (\$2.75 per share) | | | (75,644) | | | (75,644) |
| Purchase of treasury stock | (38) | | | | (5,459) | (5,459) |
| Stock-based plans | 71 | (3,806) | | | | (3,806) |
| Stock-based compensation expense | | 6,115 | | | | 6,115 |
| Balance, June 30, 2020 | 27,524 | \$ 125,153 | \$ 1,421,121 | \$ (12,070) | \$ (750,904) | \$ 783,300 |

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, 2020 refers to fiscal 2020, which is the period from July 1, 2019 to June 30, 2020.

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.

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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:

| | 2020 | 2019 | 2018 |
|--|----------|----------|----------|
| Construction in progress in Accounts Payable | \$ 2,909 | \$ 7,852 | \$ 2,070 |

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

| | 2020 | 2019 | 2018 |
|----------------------|-----------|-----------|-----------|
| Depreciation expense | \$ 31,604 | \$ 26,751 | \$ 22,168 |

Deferred Software Costs

We capitalize certain costs related to hosting arrangements that are service contracts (cloud computing arrangements). Capitalized costs are included in Other Current Assets or Other Noncurrent Assets and are amortized on a straight-line basis over the estimated useful life. In 2020 and 2019, we capitalized \$10.3 million and \$1.7 million, respectively, 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, 2020, 1,315,911 common shares remained authorized for future purchase.

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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, 2020.

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.

Distribution

Distribution fees billed to customers are included in Net Sales. All distribution costs associated with outbound freight are accounted for as fulfillment costs and are included in Cost of Sales; this includes distribution 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, 2020.

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.

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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:

| | 2020 | 2019 | 2018 |
|--|------|------|------|
| Advertising expense as a percentage of net sales | 2% | 2% | 2% |

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.

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, 2020 or 2019.

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.

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

| | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Net income | \$ 136,983 | \$ 150,549 | \$ 135,314 |
| Net income available to participating securities | (278) | (259) | (271) |
| Net income available to common shareholders | <u>\$ 136,705</u> | <u>\$ 150,290</u> | <u>\$ 135,043</u> |
| Weighted average common shares outstanding - basic | 27,448 | 27,438 | 27,403 |
| Incremental share effect from: | | | |
| Nonparticipating restricted stock | 2 | 2 | 3 |
| Stock-settled stock appreciation rights | 46 | 97 | 53 |
| Weighted average common shares outstanding - diluted | <u>27,496</u> | <u>27,537</u> | <u>27,459</u> |
| Net income per common share - basic | \$ 4.98 | \$ 5.48 | \$ 4.93 |
| Net income per common share - diluted | \$ 4.97 | \$ 5.46 | \$ 4.92 |

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:

| | 2020 | 2019 |
|---|--------------------|--------------------|
| Accumulated other comprehensive loss at beginning of year | \$ (10,308) | \$ (8,259) |
| Defined Benefit Pension Plan Items: | | |
| Net loss arising during the period | (2,597) | (2,771) |
| Amortization of unrecognized net loss ⁽¹⁾ | 572 | 447 |
| Postretirement Benefit Plan Items: ⁽²⁾ | | |
| Net loss arising during the period | (65) | (131) |
| Amortization of unrecognized net gain | (26) | (37) |
| Amortization of prior service credit | (182) | (182) |
| Total other comprehensive loss, before tax | <u>(2,298)</u> | <u>(2,674)</u> |
| Total tax benefit | 536 | 625 |
| Other comprehensive loss, net of tax | <u>(1,762)</u> | <u>(2,049)</u> |
| Accumulated other comprehensive loss at end of year | <u>\$ (12,070)</u> | <u>\$ (10,308)</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 August 2018, the Financial Accounting Standards Board (“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.

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Recently Adopted Accounting Standards

In February 2016, the 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 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 adopted the new guidance on July 1, 2019 using this alternate transition method, but we did not record a cumulative-effect adjustment from initially applying the standard. We elected the package of practical expedients that permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs and made an accounting policy election to exclude short-term leases with an initial term of 12 months or less from our Consolidated Balance Sheets. We have completed the implementation of a lease accounting system to enable the preparation of financial information and have implemented relevant accounting policies and internal controls surrounding the lease accounting process. As a result of adoption, we recognized a lease liability and right-of-use asset of \$33.5 million and \$31.7 million, respectively. The right-of-use asset balance reflects the reclassification of deferred rent and prepaid rent against the initial asset. The adoption did not impact our results of operations or cash flows. See additional lease disclosures in Note 5.

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.

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> |

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 other frozen bread products 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.

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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:

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 | <u>\$ 41,111</u> |

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 | <u>\$ 41,111</u> |

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.

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 Bakehouse, Inc. (“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, 2020 | | | |
|------------------------------------|---|----------------|-----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Contingent consideration - Bantam | \$ — | \$ — | \$ 9,157 | \$ 9,157 |
| Contingent consideration - Angelic | — | — | — | — |
| Total contingent consideration | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 9,157</u> | <u>\$ 9,157</u> |

| | 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 | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 8,900</u> | <u>\$ 8,900</u> |

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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:

| | 2020 | 2019 |
|---|-----------------|-----------------|
| Contingent consideration at beginning of year | \$ 8,900 | \$ — |
| Initial fair value - additions | — | 8,000 |
| Change in contingent consideration included in operating income | 257 | 900 |
| Contingent consideration at end of year | \$ 9,157 | \$ 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. Our 2020 fair value measurements indicated no change to Angelic’s contingent consideration based on Angelic’s forecasted adjusted EBITDA for fiscal 2021, and no fair value adjustments were made.

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

| | 2020 | 2019 |
|---|-------------|-------------|
| Contingent consideration at beginning of year | \$ — | \$ 17,080 |
| Change in contingent consideration included in operating income | — | (17,080) |
| Contingent consideration at end of year | \$ — | \$ — |

Note 4 – Long-Term Debt

On March 19, 2020, in the ordinary course of business, we entered into a new unsecured revolving credit facility (“New Credit Facility”), replacing the previous facility discussed below which was to expire in April 2021. The material terms and covenants of the New Credit Facility are substantially similar to our previous credit facility.

The New Credit Facility provides that we may 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 based on consent of the issuing banks and certain other conditions. The New Credit Facility expires on March 19, 2025, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternate base rate defined in the New Credit Facility. In the event that LIBOR becomes unavailable or is no longer deemed an appropriate reference rate, the New Credit Facility allows for the use of a benchmark replacement rate. 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 New Credit Facility, they will be classified as long-term debt.

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The New Credit 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 3.5 to 1, subject to certain exceptions. The interest coverage ratio is calculated by dividing Consolidated EBIT by Consolidated Interest Expense, and the leverage ratio is calculated by dividing Consolidated Net Debt by Consolidated EBITDA. All financial terms used in the covenant calculations are defined more specifically in the New Credit Facility.

At June 30, 2019, we had an unsecured credit 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.

At June 30, 2020 and 2019, we had no borrowings outstanding under these facilities. At June 30, 2020 and 2019, we had \$2.8 million and \$5.1 million, respectively, of standby letters of credit outstanding, which reduced the amount available for borrowing under these facilities. We paid no interest in 2020 and 2019.

Note 5 – Leases

General Lease Description

We have operating leases with initial noncancelable lease terms in excess of one year covering the rental of various facilities and equipment. Certain of these leases contain renewal options and some provide options to purchase during the lease term. Our operating leases include leases for real estate for some of our office and manufacturing facilities as well as manufacturing and non-manufacturing equipment used in our business. The remaining lease terms for these operating leases range from 1 year to 8 years.

We have finance leases with initial noncancelable lease terms in excess of one year covering the rental of various facilities and equipment. These leases are generally for manufacturing and non-manufacturing equipment used in our business and warehouse facilities. The remaining lease terms for these finance leases range from 3 years to 5 years.

Significant Assumptions and Judgments

Contract Contains a Lease

In evaluating our contracts to determine whether a contract is or contains a lease, we considered the following:

- Whether explicitly or implicitly identified assets have been deployed in the contract; and
- Whether we obtain substantially all of the economic benefits from the use of that underlying asset, and we can direct how and for what purpose the asset is used during the term of the contract.

Allocation of Consideration

In determining how to allocate consideration between lease and non-lease components in a contract that was deemed to contain a lease, we used judgment and consistent application of assumptions to reasonably allocate the consideration.

Options to Extend or Terminate Leases

We have leases which contain options to extend or terminate the leases. On a lease-by-lease basis, we have determined if the extension should be considered reasonably certain to be exercised and thus a right-of-use asset and a lease liability should be recorded.

Discount Rate

The discount rate for leases, if not explicitly stated in the lease, is the incremental borrowing rate, which is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

We used a discount rate to calculate the present value of the lease liability at the date of adoption. In the development of the discount rate, we considered our internal borrowing rate, treasury security rates, collateral and credit risk specific to us, and our lease portfolio characteristics.

As of June 30, 2020, the weighted-average discount rate of our operating and finance leases was 3.0% and 3.6%, respectively.

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Practical Expedients and Accounting Policy Elections

We elected the package of practical expedients that permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs and made an accounting policy election to exclude short-term leases with an initial term of 12 months or less from our Consolidated Balance Sheets.

Amounts Recognized in the Financial Statements

The components of lease expense for the year ended June 30 have been provided as follows:

| | 2020 |
|---|-----------|
| Operating lease cost in Cost of Sales and Selling, General and Administrative Expenses | \$ 8,726 |
| Finance lease cost: | |
| Amortization of assets in Cost of Sales | \$ 335 |
| Interest on lease liabilities in Other, Net | 73 |
| Total finance lease cost | \$ 408 |
| Short-term lease cost in Cost of Sales and Selling, General and Administrative Expenses | 2,405 |
| Total net lease cost | \$ 11,539 |

Supplemental balance sheet information related to leases at June 30 is as follows:

| | 2020 |
|--|-----------|
| Operating Leases | |
| Operating Lease Right-Of-Use Assets | \$ 22,977 |
| Current operating lease liabilities in Accrued Liabilities | \$ 6,766 |
| Noncurrent Operating Lease Liabilities | 17,893 |
| Total operating lease liabilities | \$ 24,659 |
| Finance Leases | |
| Finance lease right-of-use assets in Property, Plant and Equipment-Net | \$ 2,346 |
| Current finance lease liabilities in Accrued Liabilities | \$ 571 |
| Noncurrent finance lease liabilities in Other Noncurrent Liabilities | 1,580 |
| Total finance lease liabilities | \$ 2,151 |

Supplemental cash flow information related to leases for the year ended June 30 is as follows:

| | 2020 |
|--|----------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 8,923 |
| Operating cash flows from finance leases | \$ 73 |
| Financing cash flows from finance leases | \$ 432 |
| Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets | \$ 5,611 |
| Supplemental noncash information on lease liabilities removed due to purchase of leased asset | \$ 5,765 |

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As of June 30, 2020, the maturities of lease liabilities were as follows:

| | <u>Operating Leases</u> | <u>Finance Leases</u> |
|------------------------------------|-------------------------|-----------------------|
| 2021 | \$ 7,404 | \$ 638 |
| 2022 | 5,982 | 638 |
| 2023 | 4,609 | 627 |
| 2024 | 3,791 | 256 |
| 2025 | 1,778 | 134 |
| Thereafter | 2,906 | — |
| Total minimum payments | <u>\$ 26,470</u> | <u>\$ 2,293</u> |
| Less amount representing interest | <u>(1,811)</u> | <u>(142)</u> |
| Present value of lease obligations | <u>\$ 24,659</u> | <u>\$ 2,151</u> |

As of June 30, 2020, the weighted-average remaining term of our operating and finance leases was 4.7 years and 3.8 years, respectively.

As previously disclosed in our 2019 Annual Report on Form 10-K and under the previous lease accounting standard (Topic 840), as of June 30, 2019, future minimum lease payments under noncancelable leases with initial lease terms in excess of one year were 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 | | <u>(178)</u> |
| Present value of capital lease obligations | | <u>\$ 1,951</u> |

Note 6 – Contingencies

In addition to the items discussed below, at June 30, 2020, 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.

A novel strain of coronavirus (“COVID-19”) was first identified in Wuhan, China in December 2019. On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. In the U.S., state and local governments recommended or mandated actions to slow the transmission of COVID-19. We are monitoring the evolving situation and guidance from authorities, including federal, state and local public health departments. We continue to review the carrying value of our assets and, as needed, have recorded additional reserves for inventory and receivables related to the impact of COVID-19 on our Foodservice segment. The future impact of COVID-19 on our results of operations, financial condition, and cash flows is contingent upon the duration and severity of the outbreak.

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.

25% 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 October 31, 2020. 6% of our employees are represented under this collective bargaining contract. None of our other collective bargaining contracts will expire within one year.

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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, 2020 and 2019.

The following table summarizes our identifiable other intangible assets at June 30:

| | 2020 | 2019 |
|---|-------------------------|-------------------------|
| Tradenames (20 to 30-year life) | | |
| Gross carrying value | \$ 63,121 | \$ 63,121 |
| Accumulated amortization | (9,925) | (7,335) |
| Net carrying value | <u>\$ 53,196</u> | <u>\$ 55,786</u> |
| Customer Relationships (10 to 15-year life) | | |
| Gross carrying value | \$ 17,507 | \$ 17,507 |
| Accumulated amortization | (11,094) | (9,641) |
| Net carrying value | <u>\$ 6,413</u> | <u>\$ 7,866</u> |
| Technology / Know-how (10-year life) | | |
| Gross carrying value | \$ 8,950 | \$ 8,950 |
| Accumulated amortization | (3,396) | (2,501) |
| Net carrying value | <u>\$ 5,554</u> | <u>\$ 6,449</u> |
| Non-compete Agreements (5-year life) | | |
| Gross carrying value | \$ 791 | \$ 791 |
| Accumulated amortization | (738) | (615) |
| Net carrying value | <u>\$ 53</u> | <u>\$ 176</u> |
| Total net carrying value | <u><u>\$ 65,216</u></u> | <u><u>\$ 70,277</u></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:

| | 2020 | 2019 | 2018 |
|----------------------|-----------------|----------|----------|
| Amortization expense | <u>\$ 5,061</u> | \$ 4,599 | \$ 3,986 |

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

| | |
|------|----------|
| 2021 | \$ 4,976 |
| 2022 | \$ 4,902 |
| 2023 | \$ 4,343 |
| 2024 | \$ 4,343 |
| 2025 | \$ 4,083 |

Note 8 – Liabilities

Accrued liabilities at June 30 were composed of:

| | 2020 | 2019 |
|------------------------------------|-------------------------|-------------------------|
| Compensation and employee benefits | \$ 32,818 | \$ 28,672 |
| Distribution | 7,148 | 7,730 |
| Operating leases | 6,766 | — |
| Marketing | 1,525 | 561 |
| Other taxes | 1,392 | 1,219 |
| Other | 5,177 | 4,854 |
| Total accrued liabilities | <u><u>\$ 54,826</u></u> | <u><u>\$ 43,036</u></u> |

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Other noncurrent liabilities at June 30 were composed of:

| | 2020 | 2019 |
|--|------------------|------------------|
| Workers compensation | \$ 9,701 | \$ 11,732 |
| Contingent consideration | 9,157 | 8,900 |
| Deferred compensation and accrued interest | 4,390 | 4,740 |
| Pension benefit liability | 3,540 | 2,043 |
| Postretirement benefit liability | 1,207 | 1,075 |
| Gross tax contingency reserve | 968 | 942 |
| Other | 2,698 | 6,506 |
| Total other noncurrent liabilities | <u>\$ 31,661</u> | <u>\$ 35,938</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.

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

| | 2020 | 2019 | 2018 |
|---|------------------|------------------|------------------|
| Currently payable: | | | |
| Federal | \$ 23,392 | \$ 30,220 | \$ 40,766 |
| State and local | 6,808 | 8,070 | 7,355 |
| Total current provision | <u>30,200</u> | <u>38,290</u> | <u>48,121</u> |
| Deferred federal, state and local provision (benefit) | 11,894 | 6,703 | (9,232) |
| Total taxes based on income | <u>\$ 42,094</u> | <u>\$ 44,993</u> | <u>\$ 38,889</u> |

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:

| | 2020 | 2019 | 2018 |
|--|--------------|--------------|--------------|
| Statutory rate | 21.0% | 21.0% | 28.1% |
| State and local income taxes | 3.1 | 3.5 | 3.0 |
| Net windfall tax benefits - stock-based compensation | (0.8) | (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) |
| Other | 0.3 | (0.6) | (0.5) |
| Effective rate | <u>23.5%</u> | <u>23.0%</u> | <u>22.3%</u> |

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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:

| | 2020 | 2019 |
|-------------------------------------|-------------|-------------|
| Deferred tax assets: | | |
| Employee medical and other benefits | \$ 8,384 | \$ 7,809 |
| Operating lease liabilities | 5,713 | — |
| Inventories | 2,382 | 311 |
| Receivables | 2,371 | 2,332 |
| Other accrued liabilities | 1,938 | 2,069 |
| Total deferred tax assets | 20,788 | 12,521 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (30,036) | (16,993) |
| Goodwill | (11,390) | (10,037) |
| Intangible assets | (7,848) | (8,295) |
| Operating lease right-of-use assets | (5,333) | — |
| Other | (421) | (78) |
| Total deferred tax liabilities | (55,028) | (35,403) |
| Net deferred tax liability | \$ (34,240) | \$ (22,882) |

Prepaid federal income taxes of \$5.3 million and \$5.2 million were included in Other Current Assets at June 30, 2020 and 2019, respectively.

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

| | 2020 | 2019 | 2018 |
|------------------------------------|-----------|-----------|-----------|
| Net cash payments for income taxes | \$ 30,958 | \$ 38,644 | \$ 46,198 |

The gross tax contingency reserve at June 30, 2020 was \$1.0 million and consisted of estimated tax liabilities of \$0.5 million and interest and penalties of \$0.5 million. The unrecognized tax benefits recorded as the gross tax contingency reserve noted in the following table for June 30, 2020 and 2019 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):

| | 2020 | 2019 |
|--|----------|----------|
| Balance, beginning of year | \$ 1,670 | \$ 1,298 |
| Tax positions related to the current year: | | |
| Additions | — | 87 |
| Reductions | — | — |
| Tax positions related to prior years: | | |
| Additions | 51 | 694 |
| Reductions | (25) | (26) |
| Settlements | (728) | (383) |
| Balance, end of year | \$ 968 | \$ 1,670 |

We have not classified any of the gross tax contingency reserve at June 30, 2020 in Accrued Liabilities as none of these amounts are expected to be resolved within the next 12 months. Consequently, the entire liability of \$1.0 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:

| | 2020 | 2019 |
|---|----------|-------|
| (Benefit) expense recognized for net tax-related interest and penalties | \$ (188) | \$ 64 |

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

| | 2020 | 2019 |
|--|---------------|--------|
| Accrued interest and penalties included in the gross tax contingency reserve | \$ 481 | \$ 669 |

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 2017.

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.

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:

| | 2020 | 2019 | 2018 |
|--|---------------------|--------------|--------------|
| Retail | | | |
| Frozen breads | \$ 290,940 | \$ 259,290 | \$ 252,186 |
| Refrigerated dressings, dips and other | 218,125 | 219,614 | 226,276 |
| Shelf-stable dressings and croutons | 205,062 | 177,717 | 171,772 |
| Total Retail net sales | \$ 714,127 | \$ 656,621 | \$ 650,234 |
| Foodservice | | | |
| Dressings and sauces | \$ 436,909 | \$ 467,364 | \$ 430,944 |
| Frozen breads and other | 161,093 | 164,438 | 141,747 |
| Other roll products | 22,259 | 19,364 | — |
| Total Foodservice net sales | \$ 620,261 | \$ 651,166 | \$ 572,691 |
| Total net sales | \$ 1,334,388 | \$ 1,307,787 | \$ 1,222,925 |

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

| | 2020 | 2019 | 2018 |
|-----------------------------|-------------------|-------------------|-------------------|
| Foodservice | | | |
| National accounts | \$ 459,880 | \$ 480,249 | \$ 430,680 |
| Branded and other | 138,122 | 151,553 | 142,011 |
| Other roll products | 22,259 | 19,364 | — |
| Total Foodservice net sales | <u>\$ 620,261</u> | <u>\$ 651,166</u> | <u>\$ 572,691</u> |

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:

| | 2020 | 2019 | 2018 |
|---|---------------------|---------------------|---------------------|
| Net Sales ⁽¹⁾⁽²⁾ | | | |
| Retail | \$ 714,127 | \$ 656,621 | \$ 650,234 |
| Foodservice | 620,261 | 651,166 | 572,691 |
| Total | <u>\$ 1,334,388</u> | <u>\$ 1,307,787</u> | <u>\$ 1,222,925</u> |
| Operating Income ⁽²⁾ | | | |
| Retail | \$ 142,822 | \$ 135,093 | \$ 126,400 |
| Foodservice | 66,480 | 73,828 | 58,440 |
| Restructuring and Impairment Charges ⁽³⁾ | (886) | (1,643) | — |
| Corporate Expenses ⁽⁴⁾ | (32,468) | (16,354) | (13,292) |
| Total | <u>\$ 175,948</u> | <u>\$ 190,924</u> | <u>\$ 171,548</u> |
| Identifiable Assets ⁽¹⁾⁽⁵⁾ | | | |
| Retail & Foodservice ⁽⁶⁾ | \$ 771,270 | \$ 695,872 | \$ 589,509 |
| Corporate | 222,083 | 209,527 | 214,982 |
| Total | <u>\$ 993,353</u> | <u>\$ 905,399</u> | <u>\$ 804,491</u> |
| Payments for Property Additions | | | |
| Retail & Foodservice ⁽⁶⁾ | \$ 82,579 | \$ 70,880 | \$ 31,025 |
| Corporate | 63 | — | — |
| Total | <u>\$ 82,642</u> | <u>\$ 70,880</u> | <u>\$ 31,025</u> |
| Depreciation and Amortization | | | |
| Retail & Foodservice ⁽⁶⁾ | \$ 37,708 | \$ 31,595 | \$ 26,685 |
| Corporate | 255 | 253 | 211 |
| Total | <u>\$ 37,963</u> | <u>\$ 31,848</u> | <u>\$ 26,896</u> |

- (1) Net sales and long-lived assets are predominately domestic.
- (2) All intercompany transactions have been eliminated.
- (3) Restructuring and impairment charges 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, expenditures for Project Ascent 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, 2019 to June 30, 2020 reflected property additions, notably a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky, as well as operating lease right-of-use assets recorded in 2020 due to the adoption of new accounting guidance. 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.
- (6) As discussed above, we do not present identifiable assets, payments for property additions or depreciation and amortization by reportable segment.

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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:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| Net sales to Walmart | \$ 241,699 | \$ 222,171 | \$ 209,860 |
| As a percentage of consolidated net sales | 18% | 17% | 17% |
| Net sales to McLane | \$ 174,242 | \$ 195,907 | \$ 185,226 |
| As a percentage of consolidated net sales | 13% | 15% | 15% |

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

| | <u>2020</u> | <u>2019</u> |
|---------|-------------|-------------|
| Walmart | 30% | 28% |
| McLane | 10% | 9% |

Note 11 – Stock-Based Compensation

Our shareholders previously approved the Lancaster Colony Corporation 2015 Omnibus Incentive Plan (the “2015 Plan”). The 2015 Plan reserved 1,500,000 common shares for issuance to our employees and directors. All awards granted under this plan will be exercisable at prices not less than fair market value as of the date of the grant. The vesting period for awards granted under this plan varies as to the type of award granted, and the maximum term of these awards is seven 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 2020, 2019 and 2018, we granted SSSARs to various employees under the terms of the plans. The following table summarizes information relating to these grants:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|
| SSSARs granted | 180 | 157 | 185 |
| Weighted average grant date fair value per right | \$ 24.06 | \$ 23.55 | \$ 17.85 |
| Weighted average assumptions used in fair value calculations: | | | |
| Risk-free interest rate | 1.17% | 2.43% | 2.39% |
| Dividend yield | 1.81% | 1.68% | 1.98% |
| Volatility factor of the expected market price of our common stock | 22.57% | 21.77% | 22.57% |
| Expected life in years | 4.01 | 3.04 | 2.85 |

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.

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

| | 2020 | 2019 | 2018 |
|------------------------------|----------|----------|----------|
| Compensation expense | \$ 3,049 | \$ 3,074 | \$ 2,455 |
| Tax benefits | \$ 640 | \$ 646 | \$ 690 |
| Intrinsic value of exercises | \$ 6,693 | \$ 6,008 | \$ 2,381 |

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

| | 2020 | 2019 | 2018 |
|-----------------------------|----------|----------|----------|
| Fair value of vested rights | \$ 2,972 | \$ 3,143 | \$ 2,330 |

The following table summarizes the activity relating to SSSARs granted under the plans for the year ended June 30, 2020:

| | Number of Rights | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life in Years | Aggregate Intrinsic Value |
|---|------------------|---------------------------------|--|---------------------------|
| Outstanding at beginning of year | 586 | \$ 128.23 | | |
| Exercised | (215) | \$ 113.89 | | |
| Granted | 180 | \$ 153.73 | | |
| Forfeited | (12) | \$ 140.29 | | |
| Outstanding at end of year | 539 | \$ 142.16 | 3.40 | \$ 6,976 |
| Exercisable and vested at end of year | 208 | \$ 131.21 | 2.39 | \$ 4,973 |
| Vested and expected to vest at end of year | 511 | \$ 143.23 | 3.47 | \$ 6,072 |

The following table summarizes information about the SSSARs outstanding by grant year at June 30, 2020:

| 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 | | |
| 2020 | \$153.71-\$154.44 | 180 | 4.64 | \$153.73 | — | \$— |
| 2019 | \$148.18-\$180.60 | 148 | 3.67 | \$154.62 | 48 | \$154.63 |
| 2018 | \$117.76-\$124.29 | 126 | 2.65 | \$121.12 | 75 | \$121.15 |
| 2017 | \$121.54-\$138.96 | 66 | 1.66 | \$134.27 | 66 | \$134.27 |
| 2016 | \$101.70 | 19 | 0.65 | \$101.70 | 19 | \$101.70 |

At June 30, 2020, there was \$6.1 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 2020, 2019 and 2018, we granted shares of restricted stock to various employees under the terms of the plans. The following table summarizes information relating to these grants:

| | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|
| Employees | | | |
| Restricted stock granted | 31 | 13 | 27 |
| Grant date fair value | \$ 4,813 | \$ 2,030 | \$ 3,218 |
| Weighted average grant date fair value per award | \$ 153.72 | \$ 154.66 | \$ 121.09 |

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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 2020, 2019 and 2018, 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:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|
| Nonemployee directors | | | |
| Restricted stock granted | 5 | 4 | 6 |
| Grant date fair value | \$ 760 | \$ 760 | \$ 759 |
| Weighted average grant date fair value per award | \$ 155.70 | \$ 180.16 | \$ 123.11 |

The 2020 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.

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

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|----------------------|-------------|-------------|-------------|
| Compensation expense | \$ 3,066 | \$ 2,898 | \$ 2,584 |
| Tax benefits | \$ 644 | \$ 609 | \$ 726 |

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

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|-----------------------------|-------------|-------------|-------------|
| Fair value of vested shares | \$ 2,284 | \$ 3,537 | \$ 1,508 |

The following table summarizes the activity relating to restricted stock granted under the plans for the year ended June 30, 2020:

| | <u>Number of Shares</u> | <u>Weighted Average Grant Date Fair Value</u> |
|---|-----------------------------|---|
| Unvested restricted stock at beginning of year | 51 | \$ 137.17 |
| Granted | 36 | \$ 153.99 |
| Vested | (16) | \$ 145.28 |
| Forfeited | (2) | \$ 133.79 |
| Unvested restricted stock at end of year | <u>69</u> | <u>\$ 144.27</u> |

At June 30, 2020, there was \$5.5 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:

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Weighted-average assumption as of June 30 | | |
| Discount rate | 2.49% | 3.35% |

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

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

| | 2020 | 2019 | 2018 |
|--|--------------|-------|-------|
| Discount rate | 3.35% | 4.07% | 3.68% |
| Expected long-term return on plan assets | 6.50% | 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.

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 | |
|------------------------------|---|----------------------------------|------|
| | 2020 | 2020 | 2019 |
| Equity securities | 20%-80% | 36 | 53 |
| Fixed income, including cash | 20%-80% | 64 | 47 |
| 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, 2020 | | | |
|-----------------------------|------------------|-----------------|-------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and equivalents | \$ 367 | \$ — | \$ — | \$ 367 |
| Money market funds | 1,046 | — | — | 1,046 |
| U.S. government obligations | — | 1,261 | — | 1,261 |
| Municipal obligations | — | 264 | — | 264 |
| Corporate obligations | — | 1,303 | — | 1,303 |
| Mortgage obligations | — | 1,836 | — | 1,836 |
| Mutual funds fixed income | 17,326 | — | — | 17,326 |
| Mutual funds equity | 13,365 | — | — | 13,365 |
| Total | \$ 32,104 | \$ 4,664 | \$ — | \$ 36,768 |

| Asset Category | 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 |

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
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(Tabular amounts in thousands, except per share data)

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.

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

| | 2020 | 2019 |
|---|------------|------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 38,382 | \$ 36,892 |
| Interest cost | 1,246 | 1,453 |
| Actuarial loss | 2,639 | 2,342 |
| Benefits paid | (2,298) | (2,305) |
| Benefit obligation at end of year | \$ 39,969 | \$ 38,382 |
| | | |
| | 2020 | 2019 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | \$ 36,628 | \$ 36,713 |
| Actual return on plan assets | 2,344 | 2,058 |
| Employer contributions | 94 | 162 |
| Benefits paid | (2,298) | (2,305) |
| Fair value of plan assets at end of year | \$ 36,768 | \$ 36,628 |
| | | |
| | 2020 | 2019 |
| Funded status - net accrued benefit cost | \$ (3,201) | \$ (1,754) |
| | | |
| | 2020 | 2019 |
| Amounts recognized in the Consolidated Balance Sheets consist of | | |
| Prepaid benefit cost (Other Noncurrent Assets) | \$ 339 | \$ 289 |
| Accrued benefit liability (Other Noncurrent Liabilities) | (3,540) | (2,043) |
| Net amount recognized | \$ (3,201) | \$ (1,754) |
| | | |
| | 2020 | 2019 |
| Accumulated benefit obligation | \$ 39,969 | \$ 38,382 |

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:

| | 2020 | 2019 |
|--|-----------|-----------|
| Benefit obligations | \$ 37,883 | \$ 36,167 |
| Fair value of plan assets at end of year | \$ 34,343 | \$ 34,124 |

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

| | 2020 | 2019 |
|--------------------|-----------|-----------|
| Net actuarial loss | \$ 17,170 | \$ 15,145 |
| Income taxes | (4,013) | (3,539) |
| Total | \$ 13,157 | \$ 11,606 |

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
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(Tabular amounts in thousands, except per share data)

The following table summarizes the components of net periodic benefit income for our pension plans at June 30:

| | 2020 | 2019 | 2018 |
|--|-----------------|-----------------|-----------------|
| Components of net periodic benefit income | | | |
| Interest cost | \$ 1,246 | \$ 1,453 | \$ 1,463 |
| Expected return on plan assets | (2,302) | (2,487) | (2,491) |
| Amortization of unrecognized net loss | 572 | 447 | 572 |
| Settlement charge | — | — | 42 |
| Net periodic benefit income | <u>\$ (484)</u> | <u>\$ (587)</u> | <u>\$ (414)</u> |

We have not yet finalized our anticipated funding level for 2021, but based on initial estimates, we do not expect our 2021 contributions to our pension plans to be material.

Benefit payments estimated for future years are as follows:

| | |
|-------------|-----------|
| 2021 | \$ 2,425 |
| 2022 | \$ 2,418 |
| 2023 | \$ 2,386 |
| 2024 | \$ 2,390 |
| 2025 | \$ 2,382 |
| 2026 - 2030 | \$ 11,361 |

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 2020. 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:

| | 2020 | 2019 | 2018 |
|---|----------|----------|----------|
| Costs related to company-sponsored defined contribution plans | \$ 4,170 | \$ 2,637 | \$ 1,352 |

Multiemployer Plans

In the three years ended June 30, 2020, one of our subsidiaries participated in a multiemployer plan that provides pension benefits to retiree workers under a collective bargaining contract. This plan generally provides for retirement, death and/or termination benefits for eligible employees within the collective bargaining contract, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in a multiemployer plan 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.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
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(Tabular amounts in thousands, except per share data)

Our participation in this multiemployer pension plan for the three years ended June 30, 2020 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. There have been no significant changes that affect the comparability of 2020, 2019 or 2018 contributions.

| Plan Name | EIN/PN | Pension Protection Act Zone Status | | FIP/RP Status Pending / Implemented | Fiscal Year Contributions | | | Surcharge Imposed | Expiration Date of Collective Bargaining Agreement |
|--|----------------|------------------------------------|-------------------|-------------------------------------|---------------------------|--------|--------|-------------------|--|
| | | 2019 | 2018 | | 2020 | 2019 | 2018 | | |
| Western Conference of Teamsters Pension Plan | 91-6145047-001 | Green 12/31/18 | Green 12/31/17 | No | \$ 327 | \$ 388 | \$ 356 | No | 12/15/2021 |

Under this multiemployer plan and one additional multiemployer plan, 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:

| | 2020 | 2019 | 2018 |
|---|----------|----------|----------|
| Multiemployer health and welfare plan contributions | \$ 3,242 | \$ 3,189 | \$ 3,167 |

We also make non-elective contributions for the union employees at our Bedford Heights, Ohio plant into a union-sponsored multiemployer 401(k) plan. Our contributions totaled \$0.7 million in 2020, 2019 and 2018.

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:

| | 2020 | 2019 |
|--|----------|----------|
| Liability for deferred compensation and accrued interest | \$ 4,390 | \$ 4,740 |

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

| | 2020 | 2019 | 2018 |
|-------------------------------|--------|--------|--------|
| Deferred compensation expense | \$ 239 | \$ 239 | \$ 210 |

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

Note 14 – Selected Quarterly Financial Data (Unaudited)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|--|------------------|-------------------|------------------|-------------------|--------------|
| 2020 | | | | | |
| Net Sales | \$ 337,054 | \$ 355,117 | \$ 321,363 | \$ 320,854 | \$ 1,334,388 |
| Gross Profit | \$ 92,108 | \$ 99,889 | \$ 76,962 | \$ 89,077 | \$ 358,036 |
| Net Income ^{(1) (2) (3)} | \$ 40,745 | \$ 43,424 | \$ 22,429 | \$ 30,385 | \$ 136,983 |
| Diluted Net Income Per Common Share ^{(1) (2) (3) (4)} | \$ 1.48 | \$ 1.58 | \$ 0.81 | \$ 1.10 | \$ 4.97 |
| 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 ^{(5) (6)} | \$ 39,028 | \$ 47,907 | \$ 30,604 | \$ 33,010 | \$ 150,549 |
| Diluted Net Income Per Common Share ^{(4) (5) (6)} | \$ 1.42 | \$ 1.73 | \$ 1.11 | \$ 1.20 | \$ 5.46 |

- (1) Included in net income were after-tax expenditures for Project Ascent of \$2.1 million in the first quarter, or approximately \$0.08 per diluted share; \$3.7 million in the second quarter, or approximately \$0.14 per diluted share; \$3.7 million in the third quarter, or approximately \$0.13 per diluted share; and \$4.2 million in the fourth quarter, or approximately \$0.15 per diluted share. The after-tax expense for the fiscal year was \$13.7 million, or approximately \$0.50 per diluted share.
- (2) Included in the third quarter and fourth quarter net income were after-tax expenses totaling \$4.2 million and \$3.5 million, respectively, or approximately \$0.15 and \$0.13 per diluted share, respectively, related to certain costs attributed to the impacts of COVID-19, including the temporary increase in pay for our front-line employees, the fourth quarter write-off of engineering costs for a canceled dressing plant expansion project and changes in the Foodservice inventory reserve. The after-tax expense for the fiscal year was \$7.7 million, or approximately \$0.28 per diluted share.
- (3) Included in the first quarter and fiscal year net income were after-tax restructuring and impairment charges of \$0.7 million, or approximately \$0.02 per diluted share.
- (4) 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.
- (5) 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.
- (6) Included in the fourth quarter and fiscal year net income were after-tax expenditures for Project Ascent 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.

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, 2020.

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, 2020, 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, 2020, 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, 2020, of the Company and our report dated August 27, 2020, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Company’s adoption of a new accounting standard.

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, 2020

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 2020 Annual Meeting of Shareholders (“2020 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 2020 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 2020 Proxy Statement.

The information regarding our Code of Business Ethics is incorporated by reference to the information contained in our 2020 Proxy Statement.

Item 11. Executive Compensation

The information regarding executive officer and director compensation is incorporated by reference to the information contained in our 2020 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 2020 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 2020 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 2020 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, 2020 and 2019 and the pre-approval policies and procedures of the Audit Committee is incorporated by reference to the information contained in our 2020 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) *Financial Statements*. The following consolidated financial statements as of June 30, 2020 and 2019 and for each of the three years in the period ended June 30, 2020, together with the report thereon of Deloitte & Touche LLP dated August 27, 2020, are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2020 and 2019

Consolidated Statements of Income for the years ended June 30, 2020, 2019 and 2018

Consolidated Statements of Comprehensive Income for the years ended June 30, 2020, 2019 and 2018

Consolidated Statements of Cash Flows for the years ended June 30, 2020, 2019 and 2018

Consolidated Statements of Shareholders' Equity for the years ended June 30, 2020, 2019 and 2018

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, 2020

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, 2020 |
| <u>/s/ JOHN B. GERLACH, JR.</u> John B. Gerlach, Jr. | Executive Chairman of the Board and Director | August 27, 2020 |
| <u>/s/ THOMAS K. PIGOTT</u> Thomas K. Pigott | Chief Financial Officer and Assistant Secretary (Principal Financial and Accounting Officer) | August 27, 2020 |
| <u>/s/ NEELI BENDAPUDI</u> Neeli Bendapudi | Director | August 21, 2020 |
| <u>/s/ BARBARA L. BRASIER</u> Barbara L. Brasier | Director | August 19, 2020 |
| <u>/s/ WILLIAM H. CARTER</u> William H. Carter | Director | August 21, 2020 |
| <u>/s/ KENNETH L. COOKE</u> Kenneth L. Cooke | Director | August 19, 2020 |
| <u>/s/ ROBERT L. FOX</u> Robert L. Fox | Director | August 19, 2020 |
| <u>/s/ ALAN F. HARRIS</u> Alan F. Harris | Director | August 20, 2020 |
| <u>/s/ MICHAEL H. KEOWN</u> Michael H. Keown | Director | August 19, 2020 |
| <u>/s/ ROBERT P. OSTRYNIC</u> Robert P. Ostryniec | Director | August 19, 2020 |

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FORM 10-K
JUNE 30, 2020
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 (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K (000-04065), filed August 27, 2019). |
| 10.1 | Credit Agreement dated as of March 19, 2020 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 March 20, 2020). |
| 10.2 ^(a) | 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). |
| 10.3 ^(a) | 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). |
| 10.4 ^(a) | 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). |
| 10.5 ^(a) | 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). |
| 10.6 ^(a) | 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). |
| 10.7 ^(a) | 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 5, 2020). |
| 10.8 | 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). |
| 10.9 ^(a) | 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 5, 2020). |
| 10.10 ^(a) | 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). |
| 10.11 ^(a) | 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). |
| 10.12 ^(a) | 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). |

| Exhibit Number | Description |
|----------------------|---|
| 10.13 ^(a) | 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). |
| 10.14 ^(a) | 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 |
| 104* | The cover page of Lancaster Colony Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, formatted in Inline XBRL (included within Exhibit 101 attachments) |
| (a) | Indicates a management contract or compensatory plan, contract or arrangement in which any Director or any Executive Officer participates. |
| * | Filed herewith |
| ** | Furnished herewith |

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GROWTH
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 IN ALL WE DO



BRANDS AND LICENSING

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

Driven by longstanding relationships with several of our Foodservice segment customers, we also produce and sell a variety of dressings and sauces under brand license agreements for the retail channel including Olive Garden[®] dressings, Chick-fil-A[®] sauces and Buffalo Wild Wings[®] sauces.





Moses Edwards
Processing Lead, Indianola Plant



John Dycus
Utility Warehouse Specialist, Grove City DC



Vicky Whitehead
Production Line Worker, Indianola Plant

OUR FAMILY OF BRANDS



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