LANCASTER COLONY CORP
Form 10-Q
November 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission file number 000-04065

Lancaster Colony Corporation

(Exact name of registrant as specified in its charter)

Ohio *(State or other jurisdiction of incorporation or organization)*	**13-1955943** *(I.R.S. Employer Identification No.)*
37 West Broad Street Columbus, Ohio *(Address of principal executive offices)*	**43215** *(Zip Code)*

614-224-7141

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 24, 2012, there were approximately 27,298,000 shares of Common Stock, without par value, outstanding.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands, except share data)	September 30, 2012	June 30, 2012
ASSETS		
Current Assets:		
Cash and equivalents	**$ 192,676**	$ 191,636
Receivables (less allowance for doubtful accounts, September-$744; June-$678)	**96,053**	73,326
Inventories:		
Raw materials	**37,102**	36,005
Finished goods and work in process	**83,628**	73,699
Total inventories	**120,730**	109,704
Deferred income taxes and other current assets	**17,292**	17,073
Total current assets	**426,751**	391,739
Property, Plant and Equipment:		
Land, buildings and improvements	**142,096**	140,337
Machinery and equipment	**279,953**	276,951
Total cost	**422,049**	417,288
Less accumulated depreciation	**236,830**	233,158
Property, plant and equipment-net	**185,219**	184,130
Other Assets:		
Goodwill	**89,840**	89,840
Other intangible assets-net	**7,031**	7,267
Other noncurrent assets	**9,480**	9,659
Total	**$ 718,321**	$ 682,635
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	**$ 45,326**	$ 40,708
Accrued liabilities	**46,189**	31,963
Total current liabilities	**91,515**	72,671
Other Noncurrent Liabilities	**30,857**	31,627
Deferred Income Taxes	**13,988**	14,070
Shareholders Equity:		
Preferred stock-authorized 3,050,000 shares; outstanding-none		
Common stock-authorized 75,000,000 shares; outstanding - September-27,297,556 shares; June-27,286,861 shares	**100,768**	100,015
Retained earnings	**1,224,864**	1,208,027

Accumulated other comprehensive loss		**(12,058)**		(12,162)
Common stock in treasury, at cost		**(731,613)**		(731,613)
Total shareholders equity		**581,961**		564,267
Total	**$**	**718,321**	$	682,635

See accompanying notes to condensed consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except per share data)	**Three Months Ended September 30, 2012**	**2011**
Net Sales	**$ 290,976**	$ 274,516
Cost of Sales	**225,259**	219,086
Gross Margin	**65,717**	55,430
Selling, General and Administrative Expenses	**25,145**	22,918
Operating Income	**40,572**	32,512
Interest Income and Other-Net	**14**	(4)
Income Before Income Taxes	**40,586**	32,508
Taxes Based on Income	**13,924**	11,250
Net Income	**$ 26,662**	$ 21,258
Net Income Per Common Share:		
Basic and Diluted	**$ 0.98**	$ 0.78
Cash Dividends Per Common Share	**$ 0.36**	$ 0.33
Weighted Average Common Shares Outstanding:		
Basic	**27,229**	27,290
Diluted	**27,264**	27,314

See accompanying notes to condensed consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	Three Months Ended September 30, 2012	2011
Net Income	**$ 26,662**	$ 21,258
Other Comprehensive Income:		
Defined Benefit Pension and Postretirement Benefit Plans:		
Amortization of loss, before tax	**167**	81
Amortization of prior service asset, before tax	**(1)**	(1)
Total Other Comprehensive Income, Before Tax	**166**	80
Tax Attributes of Items in Other Comprehensive Income:		
Amortization of loss, tax	**(62)**	(30)
Amortization of prior service asset, tax		
Total Other Comprehensive Income, Tax	**(62)**	(30)
Other Comprehensive Income, Net of Tax	**104**	50
Comprehensive Income	**$ 26,766**	$ 21,308

See accompanying notes to condensed consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	Three Months Ended September 30, 2012	2011
Cash Flows From Operating Activities:		
Net income	$ 26,662	$ 21,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,964	5,038
Deferred income taxes and other noncash changes	(1,466)	3,150
Stock-based compensation expense	871	554
Gain on sale of property	(1)	
Pension plan activity	(15)	(1,040)
Changes in operating assets and liabilities:		
Receivables	(23,260)	(21,408)
Inventories	(11,026)	1,637
Other current assets	727	4,762
Accounts payable and accrued liabilities	18,902	3,612
Net cash provided by operating activities	16,358	17,563
Cash Flows From Investing Activities:		
Payments on property additions	(5,434)	(4,278)
Proceeds from sale of property	1	
Other-net	(302)	(394)
Net cash used in investing activities	(5,735)	(4,672)
Cash Flows From Financing Activities:		
Purchase of treasury stock		(7,890)
Payment of dividends	(9,825)	(9,008)
Excess tax benefit from stock-based compensation	242	5
Net cash used in financing activities	(9,583)	(16,893)
Net change in cash and equivalents	1,040	(4,002)
Cash and equivalents at beginning of year	191,636	132,266
Cash and equivalents at end of period	$ 192,676	$ 128,264
Supplemental Disclosure of Operating Cash Flows:		
Cash paid during the period for income taxes	$ 390	$ 728

See accompanying notes to condensed consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and SEC Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, the interim condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the results of operations and financial position for such periods. All such adjustments reflected in the interim condensed consolidated financial statements are considered to be of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full year. Accordingly, these financial statements should be read in conjunction with the financial statements and notes thereto contained in our 2012 Annual Report on Form 10-K. Unless otherwise noted, the term year and references to a particular year pertain to our fiscal year, which begins on July 1 and ends on June 30; for example, 2013 refers to fiscal 2013, which is the period from July 1, 2012 to June 30, 2013.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Purchases of property, plant and equipment included in accounts payable and excluded from the property additions and the change in accounts payable in the Condensed Consolidated Statements of Cash Flows were as follows:

	September 30,	
	2012	2011
Construction in progress in accounts payable	**$ 721**	$ 1,843

Held for Sale

As a result of various prior-years restructuring and divestiture activities, we have certain held for sale properties with a total net book value of approximately $2.2 million at September 30, 2012. We have classified approximately $0.1 million of these held for sale assets as current assets and they are included in Deferred Income Taxes and Other Current Assets on the Condensed Consolidated Balance Sheet. The remaining balance of approximately $2.1 million is included in Other Noncurrent Assets. In accordance with GAAP for property, plant and equipment, we are no longer depreciating these held for sale assets and they are being actively marketed for sale and evaluated for potential impairment.

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 restricted stock and stock-settled stock appreciation rights.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

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

	Three Months Ended September 30, 2012	2011
Net income	**$ 26,662**	$ 21,258
Net income available to participating securities	**(53)**	(27)
Net income available to common shareholders	**$ 26,609**	$ 21,231
Weighted average common shares outstanding basic	**27,229**	27,290
Incremental share effect from:		
Restricted stock	**5**	6
Stock-settled stock appreciation rights	**30**	18
Weighted average common shares outstanding diluted	**27,264**	27,314
Net income per common share basic and diluted	**$ 0.98**	$ 0.78

Significant Accounting Policies

There were no changes to our Significant Accounting Policies from those disclosed in our 2012 Annual Report on Form 10-K.

Note 2 Impact of Recently Issued Accounting Standards

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

Note 3 Goodwill and Other Intangible Assets

Goodwill attributable to the Specialty Foods segment was approximately $89.8 million at September 30, 2012 and June 30, 2012.

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

	September 30, 2012	June 30, 2012
Trademarks (40-year life)		
Gross carrying value	**$ 370**	$ 370
Accumulated amortization	**(198)**	(196)
Net Carrying Value	**$ 172**	$ 174
Customer Relationships (12 to 15-year life)		
Gross carrying value	**$ 13,020**	$ 13,020

Accumulated amortization		**(6,161)**		(5,927)
Net Carrying Value	**$**	**6,859**	$	7,093
Total Net Carrying Value	**$**	**7,031**	$	7,267

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(Tabular amounts in thousands, except per share data)

Amortization expense relating to these assets was as follows:

	Three Months Ended September 30,	
	2012	2011
Amortization expense	**$ 236**	$ 291

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

2014	$ 946
2015	$ 946
2016	$ 775
2017	$ 604
2018	$ 604

Note 4 Long-Term Debt

At September 30, 2012 and June 30, 2012, we had an unsecured credit agreement under which we may borrow, on a revolving credit basis, up to a maximum of $120 million at any one time, with potential to expand the total credit availability to $200 million based on obtaining consent of the issuing banks and certain other conditions. The facility expires on April 18, 2017, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the credit agreement, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Based on the long-term nature of this facility, when we have outstanding borrowings under this facility, we will classify the outstanding balance as long-term debt.

At September 30, 2012 and June 30, 2012, we had no borrowings outstanding under this facility. At September 30, 2012, we had approximately $3.4 million of standby letters of credit outstanding, which reduced the amount available for borrowing under the credit agreement. We paid no interest for the three months ended September 30, 2012 and 2011. At September 30, 2012 and June 30, 2012, 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 September 30, 2012, we were not aware of any event that would constitute a default under the facility.

The facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions. There are two principal financial covenants: an interest expense test that requires us to maintain an interest coverage ratio not less than 2.5 to 1 at the end of each fiscal quarter; and an indebtedness test that requires us to maintain a consolidated leverage ratio not greater than 3 to 1 at all times. The interest coverage ratio is calculated by dividing Consolidated EBIT (as defined more specifically in the credit agreement) by Consolidated Interest Expense (as defined more specifically in the credit agreement), and the leverage ratio is calculated by dividing Consolidated Debt (as defined more specifically in the credit agreement) by Consolidated EBITDA (as defined more specifically in the credit agreement.)

Note 5 Pension Benefits

We and certain of our operating subsidiaries have sponsored multiple defined benefit pension plans covering union workers at certain locations. As a result of restructuring activities in recent years, 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.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

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

	Three Months Ended September 30, 2012	2011
Components of net periodic benefit income		
Interest cost	**$ 408**	$ 483
Expected return on plan assets	**(595)**	(599)
Amortization of unrecognized net loss	**172**	89
Net periodic benefit income	**$ (15)**	$ (27)

For the three months ended September 30, 2012, we made no pension plan contributions and we do not expect to make any contributions to our pension plans during 2013.

Note 6 Postretirement Benefits

We and certain of our operating subsidiaries provide multiple postretirement medical and life insurance benefit plans. We recognize the cost of benefits as the employees render service. Postretirement benefits are funded as incurred.

The following table summarizes the components of net periodic benefit cost for our postretirement plans:

	Three Months Ended September 30, 2012	2011
Components of net periodic benefit cost		
Service cost	**$ 8**	$ 6
Interest cost	**28**	37
Amortization of unrecognized net gain	**(5)**	(8)
Amortization of prior service asset	**(1)**	(1)
Net periodic benefit cost	**$ 30**	$ 34

For the three months ended September 30, 2012, we made approximately $22,000 in contributions to our postretirement medical and life insurance benefit plans. We expect to make approximately $0.1 million more in contributions to our postretirement medical and life insurance benefit plans during the remainder of 2013.

Note 7 Stock-Based Compensation

Our shareholders approved the adoption of and subsequent amendments to the Lancaster Colony Corporation 2005 Stock Plan (the 2005 Plan). The 2005 Plan reserved 2,000,000 common shares for issuance to our employees and directors, and all awards granted under the 2005 Plan will be exercisable at prices not less than fair market value as of the date of the grant. The vesting period for awards granted under the 2005 Plan varies as to the type of award granted, but generally these awards have a maximum term of five years.

Stock-Settled Stock Appreciation Rights

We use periodic grants of stock-settled stock appreciation rights (SSSARs) as a vehicle for rewarding certain employees with long-term incentives for their efforts in helping to create long-term shareholder value. We calculate the fair value of SSSARs grants using the Black-Scholes option-pricing model. Our policy is to issue shares upon SSSARs exercise from new shares that had been previously authorized. There were no

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

grants of SSSARs during the three months ended September 30, 2012 and 2011, and no SSSARs vested during these periods.

We recognize compensation expense over the requisite service period. Compensation expense was reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees salaries expense classification and was allocated to each segment appropriately. We recorded tax benefits and gross windfall tax benefits related to SSSARs. These windfall tax benefits were included in the financing section of the Condensed Consolidated Statements of Cash Flows. The following table summarizes SSSARs compensation expense and tax benefits recorded:

	Three Months Ended September 30,	
	2012	2011
Compensation expense	**$ 461**	$ 280
Tax benefits	**$ 161**	$ 98
Intrinsic value of exercises	**$ 690**	$ 13
Gross windfall tax benefits	**$ 241**	$ 5

The following table summarizes the activity relating to SSSARs granted under the 2005 Plan for the three months ended September 30, 2012:

	Number of Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	446	$ 60.55		
Exercised	**(51)**	**$ 50.06**		
Granted		**$**		
Forfeited		**$**		
Outstanding at end of period	**395**	**$ 61.90**	**3.48**	**$ 4,483**
Exercisable and vested at end of period	**93**	**$ 53.99**	**2.30**	**$ 1,786**
Vested and expected to vest at end of period	**384**	**$ 61.82**	**3.44**	**$ 4,388**

At September 30, 2012, there was approximately $1.5 million of unrecognized compensation expense related to SSSARs that we will recognize over a weighted-average period of approximately 1.88 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. There were no grants of restricted stock during the three months ended September 30, 2012 and 2011, and no restricted stock vested during these periods.

We recognize compensation expense over the requisite service period. Compensation expense was reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees salaries expense classification and was allocated to each segment appropriately. We recorded tax benefits and gross windfall tax benefits related to restricted stock. Windfall tax benefits, if any, were included in the financing

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

section of the Condensed Consolidated Statements of Cash Flows. The following table summarizes restricted stock compensation expense and tax benefits recorded:

	Three Months Ended September 30,	
	2012	2011
Compensation expense	**$ 410**	$ 274
Tax benefits	**$ 144**	$ 96
Gross windfall tax benefits	**$ 1**	$

The following table summarizes the activity relating to restricted stock granted under the 2005 Plan for the three months ended September 30, 2012:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at beginning of period	62	$ 63.25
Granted		**$**
Vested		**$**
Forfeited		**$**
Unvested restricted stock at end of period	**62**	**$ 63.27**

At September 30, 2012, there was approximately $1.7 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of approximately 1.99 years.

Note 8 Income Taxes

Accrued Federal and state income taxes included in accrued liabilities were $12.4 million and $0 at September 30, 2012 and June 30, 2012, respectively. The increase was due to the timing of tax payments.

The gross tax contingency reserve at September 30, 2012 was approximately $2.0 million and consisted of tax liabilities of approximately $1.0 million and penalties and interest of approximately $1.0 million. We classified approximately $0.2 million of the gross tax contingency reserve as current liabilities as these amounts are expected to be resolved within the next 12 months. The remaining liability of approximately $1.8 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.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Note 9 Business Segment Information

The following summary of financial information by business segment is consistent with the basis of segmentation and measurement of segment profit or loss presented in our June 30, 2012 consolidated financial statements:

	Three Months Ended September 30,	
	2012	2011
Net Sales		
Specialty Foods	**$ 248,881**	$ 236,947
Glassware and Candles	**42,095**	37,569
Total	**$ 290,976**	$ 274,516
Operating Income (Loss)		
Specialty Foods	**$ 42,758**	$ 35,199
Glassware and Candles	**608**	(337)
Corporate Expenses	**(2,794)**	(2,350)
Total	**$ 40,572**	$ 32,512

Note 10 Commitments and Contingencies

In addition to the items discussed below, at September 30, 2012, 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.

The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) provides for the distribution of monies collected by U.S. Customs from anti-dumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately $2.7 million in the second quarter of 2012. CDSOA remittances have related to certain candles being imported from the People s Republic of China.

CDSOA provisions for remittances apply only to duties collected on products imported prior to October 2007. Accordingly, we may receive some level of annual distributions for an undetermined period of years in the future as the monies collected that relate to entries filed prior to October 2007 are administratively finalized by U.S. Customs. Without further legislative action, we expect these distributions will eventually cease.

Cases have been brought in U.S. courts challenging certain aspects of CDSOA. In two separate cases, the U.S. Court of International Trade (CIT) ruled that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The U.S. Court of Appeals for the Federal Circuit reversed both CIT decisions and the U.S. Supreme Court did not hear either case. This allowed the appellate court decisions to stand, but other legal challenges to CDSOA are still pending.

We are unable to determine, at this time, what the ultimate outcome of other litigation will be, and it is possible that further legal action, potential additional changes in the law and other factors could affect the amount of funds available for distribution, including funds relating to entries prior to October 2007. Accordingly, we cannot predict the amount of future distributions, if any, we may receive. Any change in CDSOA distributions could affect our earnings and cash flow.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

LANCASTER COLONY CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

(Tabular dollars in thousands)

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, 2013 refers to fiscal 2013, which is the period from July 1, 2012 to June 30, 2013.

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto, all included elsewhere in this report. The forward-looking statements in this section and other parts of this report involve risks and uncertainties including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under the caption Forward-Looking Statements.

OVERVIEW

Business Overview

Lancaster Colony Corporation is a diversified manufacturer and marketer of consumer products focusing primarily on specialty foods for the retail and foodservice markets. We also manufacture and market candles for the food, drug and mass markets. Although not material to our consolidated operations, we are also engaged in the distribution of various products, including glassware and candles, to commercial markets. Our operations are organized in two reportable segments: Specialty Foods and Glassware and Candles. The sales of each segment are predominately domestic.

In recent years, our strategy has shifted away from operating businesses in a variety of industries towards emphasizing the growth and success we have achieved in our Specialty Foods segment.

We view our food operations as having the potential to achieve future growth in sales and profitability due to attributes such as:

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

Our goal is to grow our specialty foods retail and foodservice business over time by:

- leveraging the strength of our retail brands to increase current product sales and introduce new products;
- growing our foodservice sales through the strength of our reputation in product development and quality; and
- pursuing acquisitions that meet our strategic criteria.

We have made substantial capital investments to support our existing food operations and future growth opportunities. Based on our current plans and expectations, we believe that our total capital expenditures for 2013 will total between $22 and $25 million.

Summary of 2013 Results

The following is a comparative overview of our consolidated operating results for the three months ended September 30, 2012 and 2011.

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Net sales for the three months ended September 30, 2012 increased 6% to approximately $291.0 million from the prior-year total of $274.5 million. This sales increase reflects higher sales in both operating segments. The Specialty Foods segment s increase reflects higher retail and foodservice sales. The increase in sales of the Glassware and Candles segment primarily reflects higher seasonal sales.

Gross margin increased 19% to approximately $65.7 million from the prior-year total of $55.4 million. The higher level of net sales and comparatively lower material costs contributed to the improved gross margin.

Net income for the quarter was approximately $26.7 million, or $.98 per diluted share, compared to $21.3 million, or $.78 per diluted share, in the prior year.

RESULTS OF CONSOLIDATED OPERATIONS

Net Sales and Gross Margin

	Three Months Ended September 30			
	2012	2011	**Change**	
Net Sales				
Specialty Foods	**$ 248,881**	$ 236,947	**$ 11,934**	**5%**
Glassware and Candles	**42,095**	37,569	**4,526**	**12%**
Total	**$ 290,976**	$ 274,516	**$ 16,460**	**6%**
Gross Margin	**$ 65,717**	$ 55,430	**$ 10,287**	**19%**
Gross Margin as a Percentage of Net Sales	**22.6%**	20.2%		

Consolidated net sales for the first quarter increased 6%, reflecting higher sales in both operating segments.

For the quarter ended September 30, 2012, net sales of the Specialty Foods segment totaled approximately $248.9 million, an increase of 5% from the prior-year total of $236.9 million. Higher product pricing totaled approximately a third of segment net sales growth. Sales volumes for both retail and foodservice products increased with certain recently introduced products contributing to retail growth. Growth in foodservice sales occurred largely among existing customers. Retail sales also benefited from lower levels of trade and consumer promotional costs.

Net sales of the Glassware and Candles segment for the quarter ended September 30, 2012 totaled approximately $42.1 million, a 12% increase from the prior-year total of $37.6 million. The increase in net sales was influenced by the growth of seasonal candle programs. We expect this segment s sales to increase again in the quarter ending December 31, 2012, primarily as a result of higher seasonal sales of candles.

As a percentage of net sales, our consolidated gross margin for the three months ended September 30, 2012 was 22.6%, as compared to 20.2% achieved in the prior-year comparative period.

In the Specialty Foods segment, gross margin percentages improved for the quarter, reflecting factors such as higher pricing and comparatively favorable ingredient costs (especially for dairy-related products). We estimate that lower material costs beneficially affected the segment s gross margins by less than one percent of segment net sales. Looking forward, under current market conditions, we see our material costs continuing to be moderately favorable through the second quarter of 2013, but anticipate potentially adverse comparisons during the second half of 2013.

Gross margin percentages in the Glassware and Candles segment improved from the prior-year period primarily due to higher production levels and somewhat lower average wax costs. We expect these improvements to continue through the second quarter of 2013.

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Selling, General and Administrative Expenses

	Three Months Ended September 30			
	2012	2011	**Change**	
Selling, General and Administrative Expenses	**$ 25,145**	$ 22,918	**$ 2,227**	**10%**
SG&A Expenses as a Percentage of Net Sales	**8.6%**	8.3%		

Consolidated selling, general and administrative costs of approximately $25.1 million for the three months ended September 30, 2012 increased by 10% from the $22.9 million for the three months ended September 30, 2011, and were generally comparable as a percentage of net sales compared to the same period in the prior year.

Operating Income (Loss)

The foregoing factors contributed to consolidated operating income totaling approximately $40.6 million for the three months ended September 30, 2012. By segment, our operating income can be summarized as follows:

	Three Months Ended September 30			
	2012	2011	**Change**	
Operating Income (Loss)				
Specialty Foods	**$ 42,758**	$ 35,199	**$ 7,559**	**21%**
Glassware and Candles	**608**	(337)	**945**	**280%**
Corporate Expenses	**(2,794)**	(2,350)	**(444)**	**19%**
Total	**$ 40,572**	$ 32,512	**$ 8,060**	**25%**
Operating Income (Loss) as a Percentage of Net Sales				
Specialty Foods	**17.2%**	14.9%		
Glassware and Candles	**1.4%**	(0.9)%		
Consolidated	**13.9%**	11.8%		

Interest Income and Other Net

Interest income and other was less than $0.1 million for the quarters ended September 30, 2012 and 2011.

Income Before Income Taxes

As impacted by the factors discussed above, income before income taxes for the three months ended September 30, 2012 increased by approximately $8.1 million to $40.6 million from the prior-year total of $32.5 million. Our effective tax rate of 34.3% for the three months ended September 30, 2012 was comparable to the prior-year rate of 34.6%.

Net Income

First quarter net income for 2013 of approximately $26.7 million increased from the prior-year s net income for the quarter of $21.3 million, as influenced by the factors noted above. Net income per share for the first quarter of 2013 totaled approximately $.98 per basic and diluted share, as compared to $.78 per basic and diluted share recorded in the prior year.

FINANCIAL CONDITION

For the three months ended September 30, 2012, net cash provided by operating activities totaled approximately $16.4 million as compared to $17.6 million in the prior-year period. The decrease resulted from the relative changes in working capital, particularly inventory, offset somewhat by higher net income. The increase in receivables since June 2012 primarily related to seasonal influences on sales within the Glassware and Candles segment.

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Cash used in investing activities for the three months ended September 30, 2012 was approximately $5.7 million as compared to $4.7 million in the prior year. This increase reflected a slightly higher level of capital expenditures in 2013.

Cash used in financing activities for the three months ended September 30, 2012 of approximately $9.6 million decreased from the prior-year total of $16.9 million. This decrease was due to a lower level of share repurchases in the current year, as partially offset by higher dividend payments. At September 30, 2012, approximately 1,476,000 shares remained authorized for future buyback under the existing share repurchase program.

Under our unsecured revolving credit facility, we may borrow up to a maximum of $120 million at any one time. Loans may be used for general corporate purposes. We had no borrowings outstanding under this facility at September 30, 2012. At September 30, 2012, we had approximately $3.4 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the unsecured revolving credit facility. The facility expires in April 2017, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the credit agreement, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Based on the long-term nature of this facility, when we have outstanding borrowings under this facility, we will classify the outstanding balance 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 September 30, 2012, we were in compliance with all applicable provisions and covenants of the facility, and we exceeded the requirements of the financial covenants by substantial margins.

We currently expect to remain in compliance with the facility s covenants for the foreseeable future. A default under the facility could accelerate the repayment of any outstanding indebtedness and limit our access to additional credit available under the facility. Such an event could require 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. At September 30, 2012, we were not aware of any event that would constitute a default under the facility.

We believe that internally generated funds and our existing balances in cash and equivalents, in addition to our currently available bank credit arrangements, should be adequate to meet our cash requirements through 2013. If we were to borrow outside of our credit facility under current market terms, our average interest rate may increase significantly and have an adverse effect on our results of operations.

For additional information regarding our credit facility, see Note 4 to the condensed consolidated financial statements.

CONTRACTUAL OBLIGATIONS

We have various contractual obligations that are appropriately recorded as liabilities in our condensed consolidated financial statements. Certain other items, such as purchase obligations, are not recognized as liabilities in our condensed consolidated financial statements. Examples of items not recognized as liabilities in our condensed consolidated financial statements are commitments to purchase raw materials or inventory that has not yet been received as of September 30, 2012 and future minimum lease payments for the use of property and equipment under operating lease agreements. Aside from expected changes in raw-material needs due to changes in product demand, there have been no significant changes to the contractual obligations disclosed in our 2012 Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies from those disclosed in our 2012 Annual Report on Form 10-K.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

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RECENTLY ADOPTED ACCOUNTING STANDARDS

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-12, *Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 11-12). This ASU indefinitely defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income as set forth in ASU No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income* (ASU 11-05). ASU 11-12 had the same effective date as the unaffected provisions of ASU 11-05, for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. As this update is merely a deferral, it had no impact on our financial position or results of operations.

In June 2011, the FASB issued ASU 11-05. This ASU amends current comprehensive income guidance to eliminate the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 11-05 was effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. As noted above, portions of this ASU relating to reclassifications were indefinitely deferred with the issuance of ASU 11-12. We adopted the presentation provisions of this guidance in the first quarter of fiscal 2013 by presenting other comprehensive income and its components in the Condensed Consolidated Statements of Comprehensive Income. There was no impact on our financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other: Testing Goodwill for Impairment* (ASU 11-08). This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying value. ASU 11-08 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted this guidance in fiscal 2013, but because the measurement of a potential impairment loss has not changed, the amended standards are not expected to have an effect on our 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 Quarterly Report on Form 10-Q contains various forward-looking statements within the meaning of the PSLRA and other applicable securities laws. Such statements can be identified by the use of the forward-looking words anticipate, estimate, project, believe, intend, plan, expect, hope words. These statements discuss future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, you should not place undue reliance on such statements that are based on current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such forward-looking statements, except as required by law.

Items which could impact these forward-looking statements include, but are not limited to:

- the potential for loss of larger programs or key customer relationships;
- the effect of consolidation of customers within key market channels;
- the success and cost of new product development efforts;
- the lack of market acceptance of new products;

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the reaction of customers or consumers to the effect of price increases we may implement;

changes in demand for our products, which may result from loss of brand reputation or customer goodwill;

the extent to which future business acquisitions are completed and acceptably integrated;

the possible occurrence of product recalls or other defective or mislabeled product costs;

efficiencies in plant operations, including the ability to optimize overhead utilization in candle operations;

price and product competition;

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

fluctuations in the cost and availability of raw materials;

adverse changes in energy costs and other factors that may affect costs of producing, distributing or transporting our products;

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

maintenance of competitive position with respect to other manufacturers, including import sources of production;

dependence on key personnel;

stability of labor relations;

dependence on contract copackers and limited or exclusive sources for certain goods;

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

access to any required financing;

unknown costs relating to the holding or disposition of idle real estate;

changes in estimates in critical accounting judgments;

the outcome of any litigation or arbitration; and

certain other factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks have not changed materially from those disclosed in our 2012 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2012 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is 1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and 2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

(b) *Changes in Internal Control Over Financial Reporting.* No changes were made to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under Item 1A in our 2012 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) In November 2010, our Board of Directors approved a share repurchase authorization of 2,000,000 shares, of which approximately 1,476,000 shares remained authorized for future repurchases at September 30, 2012. This share repurchase authorization does not have a stated expiration date. In the first quarter, we did not repurchase any of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
July 1-31, 2012		$		1,476,123
August 1-31, 2012		$		1,476,123
September 1-30, 2012		$		1,476,123
Total		$		1,476,123

Item 6. Exhibits

See Index to Exhibits following Signatures.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LANCASTER COLONY CORPORATION
(Registrant)

Date: November 6, 2012	By: /s/ JOHN B. GERLACH, JR. John B. Gerlach, Jr. *Chairman, Chief Executive Officer,* *President and Director* *(Principal Executive Officer)*
Date: November 6, 2012	By: /s/ JOHN L. BOYLAN John L. Boylan *Treasurer, Vice President,* *Assistant Secretary,* *Chief Financial Officer* *and Director* *(Principal Financial* *and Accounting Officer)*

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 2012

INDEX TO EXHIBITS

Exhibit Number	Description	Located at
31.1	Certification of CEO under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of CFO under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of CEO and CFO under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith