

LANCASTER COLONY CORP

Form 10-Q

May 10, 2011

Table of Contents

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

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission file number 000-04065

Lancaster Colony Corporation

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

13-1955943

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

**37 West Broad Street
Columbus, Ohio**

(Address of principal executive offices)

43215

(Zip Code)

614-224-7141

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 29, 2011, there were approximately 27,441,000 shares of Common Stock, without par value, outstanding.

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

PART I FINANCIAL INFORMATION

| | |
|--|----|
| <u>Item 1. Consolidated Financial Statements (unaudited):</u> | 3 |
| <u>Consolidated Balance Sheets March 31, 2011 and June 30, 2010</u> | 3 |
| <u>Consolidated Statements of Income Three and Nine Months Ended March 31, 2011 and 2010</u> | 4 |
| <u>Consolidated Statements of Cash Flows Nine Months Ended March 31, 2011 and 2010</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 21 |
| <u>Item 4. Controls and Procedures</u> | 21 |

PART II OTHER INFORMATION

| | |
|--|----|
| <u>Item 1A. Risk Factors</u> | 22 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
| <u>Item 6. Exhibits</u> | 22 |

SIGNATURES 23

INDEX TO EXHIBITS 24

- Exhibit 10.1
- Exhibit 10.2
- Exhibit 31.1
- Exhibit 31.2
- Exhibit 32
- EX-101 INSTANCE DOCUMENT
- EX-101 SCHEMA DOCUMENT
- EX-101 CALCULATION LINKBASE DOCUMENT
- EX-101 LABELS LINKBASE DOCUMENT
- EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements**

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| (Amounts in thousands, except share data) | March 31 2011 | June 30 2010 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 107,702 | \$ 100,890 |
| Receivables (less allowance for doubtful accounts, March \$602; June \$516) | 77,928 | 67,766 |
| Inventories: | | |
| Raw materials | 35,593 | 36,812 |
| Finished goods and work in process | 68,528 | 84,697 |
| Total inventories | 104,121 | 121,509 |
| Deferred income taxes and other current assets | 27,466 | 27,234 |
| Total current assets | 317,217 | 317,399 |
| Property, Plant and Equipment: | | |
| Land, buildings and improvements | 137,446 | 129,747 |
| Machinery and equipment | 259,204 | 242,024 |
| Total cost | 396,650 | 371,771 |
| Less accumulated depreciation | 215,576 | 205,674 |
| Property, plant and equipment net | 181,074 | 166,097 |
| Other Assets: | | |
| Goodwill | 89,840 | 89,840 |
| Other intangible assets net | 8,641 | 9,514 |
| Other noncurrent assets | 4,657 | 3,603 |
| Total | \$ 601,429 | \$ 586,453 |

LIABILITIES AND SHAREHOLDERS EQUITY**Current Liabilities:**

| | | |
|-------------------------------------|---------------|---------------|
| Accounts payable | \$ 39,976 | \$ 41,904 |
| Accrued liabilities | 38,362 | 36,049 |
| Total current liabilities | 78,338 | 77,953 |
| Other Noncurrent Liabilities | 16,667 | 19,138 |

| | | |
|---|-------------------|------------|
| Deferred Income Taxes | 8,578 | 4,454 |
| Shareholders Equity: | | |
| Preferred stock authorized 3,050,000 shares; outstanding none | | |
| Common stock authorized 75,000,000 shares; outstanding | | |
| March 27,437,047 shares; June 28,167,549 shares | 96,725 | 94,885 |
| Retained earnings | 1,130,446 | 1,080,015 |
| Accumulated other comprehensive loss | (9,566) | (9,797) |
| Common stock in treasury, at cost | (719,759) | (680,195) |
| Total shareholders equity | 497,846 | 484,908 |
| Total | \$ 601,429 | \$ 586,453 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| (Amounts in thousands, except per share data) | Three Months Ended March 31 | | Nine Months Ended March 31 | |
|--|--------------------------------|------------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net Sales | \$ 252,623 | \$ 250,328 | \$ 833,912 | \$ 808,603 |
| Cost of Sales | 200,089 | 188,405 | 645,063 | 598,196 |
| Gross Margin | 52,534 | 61,923 | 188,849 | 210,407 |
| Selling, General and Administrative Expenses | 23,060 | 24,328 | 72,441 | 69,196 |
| Restructuring and Impairment Charges | | 87 | | 2,133 |
| Operating Income | 29,474 | 37,508 | 116,408 | 139,078 |
| Other Income (Expense): | | | | |
| Other income – Continued Dumping and Subsidy Offset Act | | | 961 | 893 |
| Interest income and other – net | 54 | (6) | 149 | 53 |
| Income Before Income Taxes | 29,528 | 37,502 | 117,518 | 140,024 |
| Taxes Based on Income | 10,087 | 13,280 | 40,447 | 47,870 |
| Net Income | \$ 19,441 | \$ 24,222 | \$ 77,071 | \$ 92,154 |
| Net Income Per Common Share: | | | | |
| Basic and Diluted | \$.71 | \$.86 | \$ 2.77 | \$ 3.27 |
| Cash Dividends Per Common Share | \$.33 | \$.30 | \$.96 | \$.885 |
| Weighted Average Common Shares Outstanding: | | | | |
| Basic | 27,494 | 28,173 | 27,755 | 28,134 |
| Diluted | 27,520 | 28,198 | 27,781 | 28,163 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| (Amounts in thousands) | Nine Months Ended March 31 | |
|---|---------------------------------------|-------------|
| | 2011 | 2010 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 77,071 | \$ 92,154 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,469 | 15,666 |
| Deferred income taxes and other noncash changes | 5,643 | 1,777 |
| Restructuring and impairment charges | | 528 |
| Loss (gain) on sale of property | 14 | (25) |
| Pension plan activity | (1,442) | (405) |
| Changes in operating assets and liabilities: | | |
| Receivables | (10,803) | (19,204) |
| Inventories | 17,388 | 4,990 |
| Other current assets | (2,231) | (9,350) |
| Accounts payable and accrued liabilities | (2,081) | 743 |
| Net cash provided by operating activities | 98,028 | 86,874 |
| Cash Flows From Investing Activities: | | |
| Payments on property additions | (26,857) | (8,088) |
| Proceeds from sale of property | 19 | 28 |
| Other net | 207 | (953) |
| Net cash used in investing activities | (26,631) | (9,013) |
| Cash Flows From Financing Activities: | | |
| Purchase of treasury stock | (39,564) | |
| Payment of dividends | (26,640) | (24,959) |
| Proceeds from the exercise of stock awards | 269 | 4,276 |
| Increase in cash overdraft balance | 1,350 | |
| Net cash used in financing activities | (64,585) | (20,683) |
| Net change in cash and equivalents | 6,812 | 57,178 |
| Cash and equivalents at beginning of year | 100,890 | 38,484 |
| Cash and equivalents at end of period | \$ 107,702 | \$ 95,662 |
| Supplemental Disclosure of Operating Cash Flows: | | |
| Cash paid during the period for income taxes | \$ 37,821 | \$ 55,634 |

See accompanying notes to consolidated financial statements.

Table of Contents

**LANCASTER COLONY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands, except 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 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 consolidated financial statements reflect all adjustments necessary for a fair presentation of the results of operations and financial position for such periods. All such adjustments reflected in the interim consolidated financial statements are considered to be of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full year. Accordingly, these financial statements should be read in conjunction with the financial statements and notes thereto contained in our 2010 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, 2011 refers to fiscal 2011, which is the period from July 1, 2010 to June 30, 2011.

Subsequent Events

We have evaluated events occurring between the end of our most recent fiscal quarter and the date the financial statements were issued and, except as disclosed in Note 11 regarding receipts under the Continued Dumping and Subsidy Offset Act of 2000, noted no events that would require recognition or disclosure in these financial statements.

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 at March 31, 2011 and 2010 were approximately \$0.2 million and \$0.5 million, respectively. These purchases, less the preceding June 30 balances, have been excluded from the property additions and the change in accounts payable in the Consolidated Statements of Cash Flows.

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 \$2.9 million at March 31, 2011. We have classified approximately \$0.4 million of these held for sale assets as current assets and they are included in Deferred Income Taxes and Other Current Assets on the Consolidated Balance Sheet. The remaining balance of approximately \$2.5 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.

Earnings Per Share

Earnings per share (EPS) is computed based on the weighted average number of shares of common stock and common stock equivalents (stock options, 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 outstanding stock options, restricted stock and stock-settled stock appreciation rights.

Table of Contents

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

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

| | Three Months Ended March 31 | | Nine Months Ended March 31 | |
|--|--|-------------|---|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 19,441 | \$ 24,222 | \$ 77,071 | \$ 92,154 |
| Net income available to participating securities | (25) | (45) | (109) | (158) |
| Net income available to common shareholders | \$ 19,416 | \$ 24,177 | \$ 76,962 | \$ 91,996 |
| | | | | |
| Weighted average common shares outstanding basic | 27,494 | 28,173 | 27,755 | 28,134 |
| Incremental share effect from: | | | | |
| Stock options | | 1 | | 4 |
| Restricted stock | 3 | 2 | 5 | 6 |
| Stock-settled stock appreciation rights | 23 | 22 | 21 | 19 |
| | | | | |
| Weighted average common shares outstanding diluted | 27,520 | 28,198 | 27,781 | 28,163 |
| | | | | |
| Net income per common share basic and diluted | \$.71 | \$.86 | \$ 2.77 | \$ 3.27 |

Comprehensive Income

Total comprehensive income for the three and nine months ended March 31, 2011 was approximately \$19.5 million and \$77.3 million, respectively. Total comprehensive income for the three and nine months ended March 31, 2010 was approximately \$24.3 million and \$92.6 million, respectively. The March 31, 2011 and 2010 comprehensive income consists of net income and pension and postretirement amortization.

Significant Accounting Policies

There were no changes to our Significant Accounting Policies from those disclosed in our 2010 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 March 31, 2011 and June 30, 2010.

Table of Contents

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

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

| | March 31 2011 | June 30 2010 |
|---|--------------------------|-------------------------|
| Trademarks (40-year life) | | |
| Gross carrying value | \$ 370 | \$ 370 |
| Accumulated amortization | (184) | (177) |
| Net Carrying Value | \$ 186 | \$ 193 |
| Customer Relationships (12 to 15-year life) | | |
| Gross carrying value | \$ 13,020 | \$ 13,020 |
| Accumulated amortization | (4,757) | (4,054) |
| Net Carrying Value | \$ 8,263 | \$ 8,966 |
| Non-compete Agreements (5 to 8-year life) | | |
| Gross carrying value | \$ 1,540 | \$ 1,540 |
| Accumulated amortization | (1,348) | (1,185) |
| Net Carrying Value | \$ 192 | \$ 355 |
| Total Net Carrying Value | \$ 8,641 | \$ 9,514 |

Amortization expense relating to these assets was approximately \$0.3 million and \$0.9 million for both the three and nine months ended March 31, 2011 and 2010, respectively. Total annual amortization expense is estimated to be approximately \$1.1 million next year, \$0.9 million for each of the following three years and \$0.8 million for the fifth year.

Note 4 Long-Term Debt

At March 31, 2011 and June 30, 2010, we had an unsecured revolving credit facility under which we may borrow up to a maximum of \$160 million at any one time, with the potential to expand the total credit availability to \$260 million based on obtaining consent of the issuing bank and certain other conditions. The facility expires in October 2012, and all outstanding amounts are then due and payable. At March 31, 2011 and June 30, 2010, we had no borrowings outstanding under this facility. Loans may be used for general corporate purposes. At March 31, 2011, we had approximately \$6.6 million of standby letters of credit outstanding, which reduce the amount available for borrowing on the unsecured revolving credit facility.

Based on the long-term nature of this facility, when we have outstanding borrowings under this facility, we classify the outstanding balance as long-term debt. We paid no interest for the three and nine months ended March 31, 2011 and 2010.

The facility contains two principal financial covenants: an interest expense test that requires us to maintain an interest coverage ratio not less than 2.5 to 1 at the end of each fiscal quarter; and an indebtedness test that requires us to maintain a leverage ratio not greater than 3 to 1 at all times. The interest coverage ratio is calculated by dividing Consolidated EBIT (as defined more specifically in the credit agreement) by Consolidated Interest Expense (as defined more specifically in the credit agreement), and the leverage ratio is calculated by dividing Consolidated Debt (as defined more specifically in the credit agreement) by Consolidated EBITDA (as defined more specifically in the credit agreement). We met the requirements of these financial covenants at March 31, 2011 and June 30, 2010.

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, at March 31, 2011 there were no 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 or contract.

Table of Contents

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

The following table discloses net periodic benefit cost for our pension plans:

| | Three Months | | Nine Months | |
|--|---------------------|-------------|--------------------|-------------|
| | Ended | | Ended | |
| | March 31 | | March 31 | |
| | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ | | \$ | \$ 45 |
| Interest cost | | 487 | 529 | 1,588 |
| Expected return on plan assets | | (507) | (537) | (1,613) |
| Curtailment charge | | | | 349 |
| Amortization of unrecognized net loss | | 136 | 124 | 372 |
| Amortization of prior service cost | | | | 5 |
| Net periodic benefit cost | \$ | 116 | \$ 116 | \$ 746 |

In the first quarter of 2010, one of our plans became subject to curtailment accounting. This resulted in the immediate recognition of all of the outstanding prior service cost of the plan, which was approximately \$0.3 million. This charge was recorded in Restructuring and Impairment Charges and related to our Specialty Foods segment.

For the three and nine months ended March 31, 2011, we made pension plan contributions totaling approximately \$1.8 million. We do not expect to make any further contributions to our pension plans during the remainder of 2011.

Note 6 Postretirement Benefits

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

The following table discloses net periodic benefit cost for our postretirement plans:

| | Three Months | | Nine Months | |
|--|---------------------|-------------|--------------------|-------------|
| | Ended | | Ended | |
| | March 31 | | March 31 | |
| | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ | 6 | \$ 4 | \$ 12 |
| Interest cost | | 34 | 48 | 144 |
| Amortization of unrecognized gain | | (12) | (4) | (10) |
| Amortization of prior service asset | | (1) | (1) | (3) |
| Net periodic benefit cost | \$ | 27 | \$ 47 | \$ 143 |

For the three and nine months ended March 31, 2011, we made less than \$0.1 million and approximately \$0.1 million, respectively, in contributions to our postretirement medical and life insurance benefit plans. We expect to make approximately \$0.1 million more in contributions to our postretirement medical and life insurance benefit plans during the remainder of 2011.

Note 7 Stock-Based Compensation

As approved by our shareholders in November 1995, the terms of the 1995 Key Employee Stock Option Plan (the 1995 Plan) reserved 3,000,000 common shares for issuance to qualified key employees. All

Table of Contents

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

options granted under the 1995 Plan were exercisable at prices not less than fair market value as of the date of grant. In general, options granted under the 1995 Plan vested immediately and had a maximum term of five years. The 1995 Plan expired in August 2005, but there were options issued under this plan that were exercisable through February 2010. There were no options outstanding under this plan at March 31, 2011.

Our shareholders have 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 Options

Until 2008, we used stock options as the primary vehicle for rewarding certain employees with long-term incentives for their efforts in helping to create long-term shareholder value. We calculated the fair value of option grants using the Black-Scholes option-pricing model. There were no grants of stock options during the nine months ended March 31, 2011 and 2010.

We recognized compensation expense over the requisite service period. Total compensation cost related to stock options was zero for the three and nine months ended March 31, 2011 and 2010. There were no stock option exercises during the nine months ended March 31, 2011, and there are no outstanding stock options at March 31, 2011.

During the three and nine months ended March 31, 2010, we received approximately \$0.3 million and \$4.0 million, respectively, in cash from the exercise of stock options. The aggregate intrinsic value of these options was approximately \$0.1 million and \$0.9 million, respectively. A related tax benefit of less than \$0.1 million and approximately \$0.3 million was recorded in the three and nine months ended March 31, 2010, respectively. These tax benefits were included in the financing section of the Consolidated Statements of Cash Flows and resulted from incentive stock option disqualifying dispositions and exercises of non-qualified options. The benefits included less than \$0.1 million of gross windfall tax benefits for the three and nine months ended March 31, 2010.

Stock-Settled Stock Appreciation Rights

Since 2008, we have used 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 SSSAR exercise from new shares that had been previously authorized.

In February 2011 and 2010, we granted 94,000 and 167,950 SSSARs, respectively, to various employees under the terms of the 2005 Plan. The weighted average per right fair value of the 2011 SSSARs grant was \$10.12 and was estimated at the date of grant using the following assumptions: risk-free interest rate of 1.27%; dividend yield of 2.28%; volatility factor of the expected market price of our common stock of 28.78%; and a weighted average expected life of 3.11 years. The weighted average per right fair value of the 2010 SSSARs grant was \$11.81 and was estimated at the date of grant using the following assumptions: risk-free interest rate of 1.67%; dividend yield of 2.04%; volatility factor of the expected market price of our common stock of 29.97%; and a weighted average expected life of 3.5 years. For both 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 SSSARs from both grants vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date and one-third on the third anniversary of the grant date. We are assuming a forfeiture rate of four percent for each of these grants.

We recognize compensation expense over the requisite service period. Total compensation cost related to SSSARs was approximately \$0.3 million and \$0.9 million for the three and nine months ended March 31,

Table of Contents

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

2011, respectively, as compared to approximately \$0.2 million and \$0.4 million for the three and nine months ended March 31, 2010, respectively. These amounts were reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees' salaries expense classification and were allocated to each segment appropriately. We recorded a tax benefit of approximately \$0.1 million and \$0.3 million for the three and nine months ended March 31, 2011, respectively, as compared to less than \$0.1 million and approximately \$0.1 million for the three and nine months ended March 31, 2010, respectively. We also recorded gross windfall tax benefits of approximately \$0.1 million for the three and nine months ended March 31, 2011, as compared to approximately \$0.3 million for the three and nine months ended March 31, 2010. These windfall tax benefits were included in the financing section of the Consolidated Statements of Cash Flows.

The following table summarizes the activity relating to SSSARs granted under the 2005 Plan for the nine months ended March 31, 2011:

| | Number of Rights | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life in Years | Aggregate Intrinsic Value |
|--|------------------------|--|--|---------------------------------|
| Outstanding at beginning of period | 309 | \$ 49.55 | | |
| Exercised | (30) | \$ 39.21 | | |
| Granted | 94 | \$ 57.78 | | |
| Forfeited | (9) | \$ 51.74 | | |
| Outstanding at end of period | 364 | \$ 52.49 | 3.70 | \$ 2,952 |
| Exercisable and vested at end of period | 139 | \$ 46.39 | 2.87 | \$ 1,972 |
| Vested and expected to vest at end of period | 358 | \$ 52.49 | 3.69 | \$ 2,905 |

The following table summarizes the status of, and changes to, unvested SSSARs during the nine months ended March 31, 2011:

| | Number of Rights | Weighted Average Grant Date Fair Value |
|---------------------------------|------------------------|---|
| Unvested at beginning of period | 266 | \$ 9.77 |
| Granted | 94 | \$ 10.12 |
| Vested | (127) | \$ 8.63 |
| Forfeited | (8) | \$ 10.12 |
| Unvested at end of period | 225 | \$ 10.55 |

At March 31, 2011, there was approximately \$2.2 million of unrecognized compensation cost related to SSSARs that we will recognize over a weighted-average period of approximately 2.23 years.

Restricted Stock

Since 2008, we have used 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 February 2011 and 2010, we granted a total of 6,750 and 25,000 shares of restricted stock, respectively, to various key employees under the terms of the 2005 Plan. The restricted stock granted in 2011 had a grant date fair value of approximately \$0.4 million based on a per share closing stock price of \$57.78. The restricted stock granted in 2010 had a grant date fair value of approximately \$1.5 million based on a per share closing stock price of \$58.79. The restricted stock under each of these grants vests on the third anniversary of the grant date. We are assuming a forfeiture rate of four percent for each of these grants. Under the terms of the grants, employees will receive dividends on unforfeited restricted stock regardless of

Table of Contents

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

their vesting status. An additional 21,500 shares of restricted stock that were granted to various key employees in February 2008 vested during the third quarter of 2011.

In November 2010, we granted a total of 8,155 shares of restricted stock to our seven nonemployee directors under the terms of the 2005 Plan. The restricted stock had a grant date fair value of approximately \$0.4 million based on a per share closing stock price of \$51.52. This restricted stock vests over a one-year period, and all of these shares are expected to vest. Dividends earned on the stock during the vesting period are held in escrow and will be paid to the directors at the time the stock vests. An additional 8,435 shares of restricted stock that were granted to our seven nonemployee directors in November 2009 vested during the second quarter of 2011, and the directors were paid the related dividends that had been held in escrow.

We recognize compensation expense over the requisite service period. Total compensation cost related to restricted stock for the three and nine months ended March 31, 2011 was approximately \$0.3 million and \$0.9 million, respectively, as compared to approximately \$0.2 million and \$0.6 million in the corresponding periods of the prior year. These amounts were reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees' salaries expense classification and were allocated to each segment appropriately. We recorded a tax benefit of approximately \$0.1 million and \$0.3 million for the three and nine months ended March 31, 2011, respectively, as compared to approximately \$0.1 million and \$0.2 million in the corresponding periods of the prior year. We recorded gross windfall tax benefits of approximately \$0.1 million for the three and nine months ended March 31, 2011. We recorded gross windfall tax benefits of zero and less than \$0.1 million for the three and nine months ended March 31, 2010, respectively. These windfall tax benefits were included in the financing section of the Consolidated Statements of Cash Flows.

The following table summarizes the activity relating to restricted stock granted under the 2005 Plan for the nine-month period ended March 31, 2011:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|--|---------------------------------|---|
| Unvested restricted stock at beginning of period | 61 | \$ 48.43 |
| Granted | 15 | \$ 54.35 |
| Vested | (30) | \$ 41.83 |
| Forfeited | (2) | \$ 49.86 |
| Unvested restricted stock at end of period | 44 | \$ 54.88 |
| Expected to vest restricted stock at end of period | 44 | \$ 54.89 |

At March 31, 2011, there was approximately \$1.6 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of approximately 1.88 years.

Note 8 Restructuring and Impairment Charges**Specialty Foods Segment Fiscal 2010**

In 2010, we closed our dressings and sauces manufacturing operation located in Wilson, New York. During the three and nine months ended March 31, 2010, we recorded restructuring charges of approximately \$0.1 million (less than \$0.1 million after taxes) and \$2.3 million (\$1.5 million after taxes), respectively. The total costs associated with this plant closure were approximately \$2.3 million (\$1.5 million after taxes) and were mainly recorded in the first half of 2010. This closure was essentially complete at December 31, 2009. We do not expect any other restructuring costs or cash expenditures related to this closure.

Note 9 Income Taxes

The gross tax contingency reserve at March 31, 2011 was approximately \$1.5 million and consisted of tax liabilities of approximately \$0.8 million and penalties and interest of approximately \$0.7 million. We

Table of Contents

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

have classified approximately \$0.1 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 \$1.4 million is included in long-term 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.

During 2010, we executed several state tax voluntary disclosure agreements. The settlement of these liabilities resulted in pre-tax income of approximately \$0.9 million, which impacted our effective tax rate for the nine months ended March 31, 2010 by approximately 0.5%.

Note 10 Business Segment Information

The following summary of financial information by business segment is consistent with the basis of segmentation and measurement of segment profit or loss presented in our June 30, 2010 consolidated financial statements:

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|--------------------|------------|-------------------|------------|
| | March 31 | | March 31 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net Sales | | | | |
| Specialty Foods | \$ 217,436 | \$ 216,471 | \$ 692,539 | \$ 675,911 |
| Glassware and Candles | 35,187 | 33,857 | 141,373 | 132,692 |
| Total | \$ 252,623 | \$ 250,328 | \$ 833,912 | \$ 808,603 |
| Operating Income | | | | |
| Specialty Foods | \$ 31,664 | \$ 38,702 | \$ 121,025 | \$ 138,000 |
| Glassware and Candles | 676 | 1,672 | 5,044 | 9,485 |
| Corporate Expenses | (2,866) | (2,866) | (9,661) | (8,407) |
| Total | \$ 29,474 | \$ 37,508 | \$ 116,408 | \$ 139,078 |

Note 11 Commitments and Contingencies

In addition to the items discussed below, at March 31, 2011, we were a party to various claims and litigation matters arising in the ordinary course of business. Such matters did not have a material adverse effect on the current-year results of operations and, in our opinion, their ultimate disposition will not have a material adverse effect on our consolidated financial statements.

The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) provides for the distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately \$1.0 million in the second quarter of 2011, as compared to a distribution of approximately \$0.9 million in the corresponding period of 2010. These remittances related to certain candles being imported from the People's Republic of China.

Legislation was enacted in February 2006 to repeal the applicability of the CDSOA to duties collected on products imported after September 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.

In addition to this legislative development, cases have been brought in U.S. courts challenging the 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

Table of Contents

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

case. This effectively ended the constitutional challenges brought in these cases, but other cases challenging the CDSOA remain active.

Subsequent to March 31, 2011, we received notice of special CDSOA distributions totaling approximately \$12.5 million, of which we have received \$2.6 million and expect to receive the remainder by June 30, 2011. These distributions relate to the resolution of the constitutional challenges discussed above.

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 we may receive. Any change in CDSOA distributions could affect our earnings and cash flow.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
LANCASTER COLONY CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
(Tabular dollars in thousands)

OVERVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) describes the matters that we consider to be important in understanding the results of our operations for the three and nine months ended March 31, 2011 and our financial condition as of March 31, 2011. 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, 2011 refers to fiscal 2011, which is the period from July 1, 2010 to June 30, 2011. In the discussion that follows, we analyze the results of our operations for the three and nine months ended March 31, 2011, including the trends in our overall business, followed by a discussion of our financial condition.

The following discussion should be read in conjunction with our 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.

EXECUTIVE SUMMARY

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. Over 90% of the sales of each segment are made to customers in the United States.

In recent years, our strategy has shifted away from operating businesses in a variety of industries towards emphasizing the growth and success we have achieved in our Specialty Foods segment. Fiscal years prior to 2009 were significant years in implementing this strategy as we divested various nonfood operations and focused our capital investment in the 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;

demonstrated 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.

Table of Contents

We have made substantial capital investments to support our existing food operations and future growth opportunities. Based on our current plans and expectations, including a current plant expansion at our Kentucky frozen roll facility, we believe that total capital expenditures for 2011 will approach \$40 million.

Summary of 2011 Results

The following is a comparative overview of our consolidated operating results for the three and nine months ended March 31, 2011 and 2010.

Net sales for the third quarter ended March 31, 2011 increased 1% to approximately \$252.6 million from the prior-year total of \$250.3 million. This sales growth reflects higher sales in both operating segments. The Specialty Foods segment's increase reflects higher foodservice sales, which were partially offset by lower retail sales. The increase in sales of the Glassware and Candles segment primarily reflects product placement with new customers. Gross margin decreased 15% to approximately \$52.5 million from the prior-year third quarter total of \$61.9 million. Increasing raw-material costs, as well as a less favorable sales mix and higher freight costs within the Specialty Foods segment, contributed to the lower gross margin. Net income for the three months ended March 31, 2011 totaled approximately \$19.4 million, or \$.71 per diluted share. Net income totaled approximately \$24.2 million in the third quarter of 2010, or \$.86 per diluted share.

Year-to-date net sales for the period ended March 31, 2011 increased 3% to approximately \$833.9 million from the prior year-to-date total of \$808.6 million. Gross margin decreased to approximately \$188.8 million from the prior year-to-date total of \$210.4 million. Net income for the nine months ended March 31, 2011 totaled approximately \$77.1 million, or \$2.77 per diluted share. Net income totaled approximately \$92.2 million in the nine months ended March 31, 2010, or \$3.27 per diluted share.

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

| | Three Months Ended March 31 | | | Nine Months Ended March 31 | | | Change | |
|--------------------------|--------------------------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|--------------------|--------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | | |
| Net Sales | | | | | | | | |
| Specialty Foods | \$ 217,436 | \$ 216,471 | \$ 965 | 0% | \$ 692,539 | \$ 675,911 | \$ 16,628 | 2% |
| Glassware and Candles | 35,187 | 33,857 | 1,330 | 4% | 141,373 | 132,692 | 8,681 | 7% |
| Total | \$ 252,623 | \$ 250,328 | \$ 2,295 | 1% | \$ 833,912 | \$ 808,603 | \$ 25,309 | 3% |
| Gross Margin | \$ 52,534 | \$ 61,923 | \$ (9,389) | (15)% | \$ 188,849 | \$ 210,407 | \$ (21,558) | (10)% |

**Gross Margin
as a Percentage
of Sales**

| | | | | |
|--|--------------|-------|--------------|-------|
| | 20.8% | 24.7% | 22.6% | 26.0% |
|--|--------------|-------|--------------|-------|

Consolidated net sales for the third quarter and nine months ended March 31, 2011 increased 1% and 3%, respectively, reflecting higher sales in both operating segments.

For the three and nine months ended March 31, 2011, net sales of the Specialty Foods segment increased by less than 1% and approximately 2%, respectively. Contribution from higher pricing for these respective periods was approximately 2% and less than 1%. The segment's foodservice net sales rose approximately 12% and 9% for the three and nine month periods, respectively, on increased volumes, particularly from new programs with existing large chain restaurants, and higher pricing. Retail net sales for the nine month period were approximately 3% lower than the prior-year comparative period as influenced by the prior year rationalization of some product lines associated with the December 2009 closing of one of our dressing facilities. Retail net sales for the three-month period declined by approximately 9%, reflecting weaker demand for certain product lines, especially frozen rolls and refrigerated dips.

The later Easter holiday occurring in 2011 also affected the sales comparisons, with the impact being estimated to total approximately 3% and 1%, respectively, of the segment's net sales for the three and nine month periods. The later Easter timing should improve retail sales comparisons for the three months ended June 30, 2011, although the ultimate effect on demand from recently implemented pricing actions is uncertain.

The increase in net sales of the Glassware and Candles segment for both the three and nine months ended March 31, 2011 primarily reflected the addition of new customer accounts.

Table of Contents

As a percentage of sales, our consolidated gross margin for the three and nine months ended March 31, 2011 was 20.8% and 22.6%, respectively, as compared to 24.7% and 26.0% achieved in the prior-year comparative periods.

In the Specialty Foods segment, gross margin percentages declined in both the three and nine months ended March 31, 2011, reflecting comparatively higher ingredient costs (especially for soybean oil, dairy products, sugar and eggs), higher distribution costs, a less favorable sales mix and lower production levels within our frozen roll operations. We estimate that higher material costs adversely affected our gross margins in these periods by approximately 3% and 2% of net sales, respectively. The increase in freight and warehousing costs were, in part, influenced by higher diesel costs. Looking forward, we see higher material and freight costs continuing to persist, presenting a comparative challenge to the fourth fiscal quarter. Based on current market conditions, we expect to offset most of the higher material costs with the benefit of recent price increases, including various retail pricing actions taken late in the third fiscal quarter.

Despite the benefits of achieving higher sales volumes, gross margin percentages in the Glassware and Candles segment declined from the prior-year periods primarily due to higher wax costs, which we believe are likely to persist and adversely affect comparative results through at least the end of our fiscal 2011. This segment also experienced a less favorable sales mix.

Selling, General and Administrative Expenses

| | Three Months Ended March 31 | | | | Nine Months Ended March 31 | | | |
|---|-----------------------------|-----------|-------------------|-------------|----------------------------|-----------|-----------------|-----------|
| | 2011 | 2010 | Change | | 2011 | 2010 | Change | |
| Selling, General and Administrative Expenses | \$ 23,060 | \$ 24,328 | \$ (1,268) | (5)% | \$ 72,441 | \$ 69,196 | \$ 3,245 | 5% |
| SG&A Expenses as a Percentage of Sales | 9.1% | 9.7% | | | 8.7% | 8.6% | | |

Consolidated selling, general and administrative costs of approximately \$23.1 million and \$72.4 million for the three and nine months ended March 31, 2011 decreased by 5% and increased by 5%, respectively, from the \$24.3 million and \$69.2 million incurred for the three and nine months ended March 31, 2010, respectively. The third quarter decrease reflects lower consumer-directed marketing expenses and professional fees within the Specialty Foods segment. Higher sales-based expenses, increased compensation expense, greater consumer-directed marketing costs and higher corporate expenses related to idle real estate contributed to the overall increase for the nine months ended March 31, 2011.

**Restructuring and Impairment Charges
Specialty Foods Segment Fiscal 2010**

In 2010, we closed our dressings and sauces manufacturing operation located in Wilson, New York. During the three and nine months ended March 31, 2010, we recorded restructuring charges of approximately \$0.1 million (less than \$0.1 million after taxes) and \$2.3 million (\$1.5 million after taxes), respectively. The total costs associated with this plant closure were approximately \$2.3 million (\$1.5 million after taxes) and were mainly recorded in the first half of 2010. This closure was essentially complete at December 31, 2009. We do not expect any other restructuring costs or cash expenditures related to this closure.

Table of Contents**Operating Income**

The foregoing factors contributed to consolidated operating income totaling approximately \$29.5 million and \$116.4 million for the three and nine months ended March 31, 2011, respectively. These amounts represent decreases of 21% and 16%, respectively, from the corresponding periods of the prior year. By segment, our operating income can be summarized as follows:

| | Three Months Ended March 31 | | | Nine Months Ended March 31 | | | Change | Change |
|-------------------------|-----------------------------|------------------|-------------------|----------------------------|-------------------|-------------------|--------------------|--------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | | |
| Operating Income | | | | | | | | |
| Specialty Foods | \$ 31,664 | \$ 38,702 | \$ (7,038) | (18)% | \$ 121,025 | \$ 138,000 | \$ (16,975) | (12)% |
| Glassware and Candles | 676 | 1,672 | (996) | (60)% | 5,044 | 9,485 | (4,441) | (47)% |
| Corporate Expenses | (2,866) | (2,866) | 0% | | (9,661) | (8,407) | (1,254) | 15% |
| Total | \$ 29,474 | \$ 37,508 | \$ (8,034) | (21)% | \$ 116,408 | \$ 139,078 | \$ (22,670) | (16)% |

Operating Income as a Percentage of Sales

| | | | | |
|-----------------------|-------|-------|-------|-------|
| Specialty Foods | 14.6% | 17.9% | 17.5% | 20.4% |
| Glassware and Candles | 1.9% | 4.9% | 3.6% | 7.1% |
| Consolidated | 11.7% | 15.0% | 14.0% | 17.2% |

Other Income Continued Dumping and Subsidy Offset Act

The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) provides for the distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately \$1.0 million in the second quarter of 2011, as compared to a distribution of approximately \$0.9 million in the corresponding period of 2010. These remittances related to certain candles being imported from the People's Republic of China.

Legislation was enacted in February 2006 to repeal the applicability of the CDSOA to duties collected on products imported after September 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.

In addition to this legislative development, cases have been brought in U.S. courts challenging the 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 effectively ended the constitutional challenges brought in these cases, but other cases challenging the CDSOA remain active.

Subsequent to March 31, 2011, we received notice of special CDSOA distributions totaling approximately \$12.5 million, of which we have received \$2.6 million and expect to receive the remainder by June 30, 2011. These distributions relate to the resolution of the constitutional challenges discussed above.

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 we may receive. Any change in CDSOA distributions could affect our earnings and

cash flow.

Interest Income and Other Net

Interest income and other was less than \$0.1 million and approximately \$0.1 million for the three and nine months ended March 31, 2011, respectively, as compared to less than \$0.1 million for the three and nine months ended March 31, 2010.

Table of Contents

Income Before Income Taxes

As impacted by the factors discussed above, income before income taxes for the three months ended March 31, 2011 decreased by approximately \$8.0 million to \$29.5 million from the prior-year total of \$37.5 million. Income before income taxes for the nine months ended March 31, 2011 and 2010 was approximately \$117.5 million and \$140.0 million, respectively. Our effective tax rate of 34.4% for the nine months ended March 31, 2011 increased slightly from the prior-year rate of 34.2%. This increase reflected, in part, the prior-year favorable resolution of certain previously-reserved state tax matters, as further discussed in Note 9 to the consolidated financial statements.

Net Income

Third quarter net income for 2011 of approximately \$19.4 million decreased from the preceding year's net income for the quarter of \$24.2 million, as influenced by the factors noted above. Year-to-date net income of approximately \$77.1 million was lower than the prior year-to-date total of \$92.2 million. Net income per share for the third quarter of 2011 totaled \$.71 per basic and diluted share, as compared to \$.86 per basic and diluted share recorded in the prior year. Year-to-date net income per share was \$2.77 per basic and diluted share, as compared to \$3.27 per basic and diluted share for the prior-year period.

FINANCIAL CONDITION

For the nine months ended March 31, 2011, net cash provided by operating activities totaled approximately \$98.0 million as compared to \$86.9 million in the prior-year period. The increase results from relative changes in working capital, including the effect of routine differences in the timing and amounts associated with our Federal income tax accruals and payments, as partially offset by lower net income. The increase in receivables since June 2010 relates to the strength of sales in March relative to June.

Cash used in investing activities for the nine months ended March 31, 2011 was approximately \$26.6 million as compared to \$9.0 million in the prior year. This increase reflects a higher level of capital expenditures in 2011 due to the expansion of our frozen roll facility in Kentucky. This project is anticipated to be completed by the middle of calendar 2011.

Cash used in financing activities for the nine months ended March 31, 2011 of approximately \$64.6 million increased from the prior-year total of \$20.7 million due primarily to a higher level of share repurchases and lower proceeds from the exercise of stock awards. At March 31, 2011, approximately 1,679,000 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 \$160 million at any one time. Loans may be used for general corporate purposes. We had no borrowings outstanding under this facility at March 31, 2011. The facility expires in October 2012, and all outstanding amounts are then due and payable. At March 31, 2011, we had approximately \$6.6 million of standby letters of credit outstanding, which reduce the amount available for borrowing on the unsecured revolving credit facility.

The facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. At March 31, 2011, we were in compliance with all applicable provisions and covenants of the facility, and we met 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 March 31, 2011, we were not aware of any event that would constitute a default under the facility.

We believe that internally generated funds and our existing aggregate balances in cash and equivalents, in addition to our currently available bank credit arrangements, should be adequate to meet our foreseeable cash requirements. 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 consolidated financial statements.

Table of Contents

CONTRACTUAL OBLIGATIONS

We have various contractual obligations that are appropriately recorded as liabilities in our consolidated financial statements. Certain other items, such as purchase obligations, are not recognized as liabilities in our consolidated financial statements. Examples of items not recognized as liabilities in our consolidated financial statements are commitments to purchase raw materials or inventory that have not yet been received as of March 31, 2011 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 and the planned plant expansion noted in the following paragraph, there have been no significant changes to the contractual obligations disclosed in our 2010 Annual Report on Form 10-K.

In August 2010, Sister Schubert's Homemade Rolls, Inc. (SS), an indirect wholly owned subsidiary of ours, entered into a Construction Contract (the Contract) with Gray Construction, Inc. (Gray) for an addition to the existing SS production facility located in Hart County, Kentucky. Subject to certain conditions, the Contract provides that the total cost to be charged SS for Gray's work is not to exceed a guaranteed maximum price of approximately \$13 million. The Contract was included as Exhibit 10.1 on our Form 8-K, which was filed on August 27, 2010. As of March 31, 2011, we were still obligated for approximately \$4 million under the Contract and we had equipment purchase commitments of approximately \$4 million outstanding.

CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies from those disclosed in our 2010 Annual Report on Form 10-K.

RECENTLY ISSUED ACCOUNTING STANDARDS

There were no recently issued accounting pronouncements that impact 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 or similar words. These statements state our future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, you should not place undue reliance on such statements that are based on current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such forward-looking statements. More detailed statements regarding significant events that could affect our financial results are included in Item 1A of our Annual Report on Form 10-K and also our Quarterly Reports on Form 10-Q as filed with the Securities and Exchange Commission and are available on our website at www.lancastercolony.com.

Specific influences relating to these forward-looking statements include, but are not limited to:

the potential for loss of larger programs or key customer relationships;

the effect of consolidation of customers within key market channels;

the continued solvency of key customers;

the success and cost of new product development efforts;

the lack of market acceptance of new products;

Table of Contents

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

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

changes in market trends;

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

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

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

the overall strength of the economy;

changes in financial markets;

slower than anticipated sales growth;

the extent of operational efficiencies achieved;

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;

effect of governmental regulations, including environmental matters;

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

access to any required financing;

changes in income tax laws;

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

changes in estimates in critical accounting judgments; and

innumerable other factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks have not changed materially from those disclosed in our 2010 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 March 31, 2011 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is 1) recorded, processed,

Table of Contents

summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and 2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

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

PART II OTHER INFORMATION**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed under Item 1A in our 2010 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 1,679,000 shares remained authorized for future repurchases at March 31, 2011. This share repurchase authorization does not have a stated expiration date. In the third quarter, we made the following repurchases 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 |
|--------------------------------------|---|---|---|---|
| January 1 - 31, 2011 | 70,163 | \$ 54.34 | 70,163 | 1,852,822 |
| February 1 - 28, 2011 ⁽¹⁾ | 92,374 | \$ 57.52 | 92,374 | 1,760,448 |
| March 1 - 31, 2011 | 81,904 | \$ 56.51 | 81,904 | 1,678,544 |
| Total | 244,441 | \$ 56.27 | 244,441 | 1,678,544 |

⁽¹⁾ Includes 7,128 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 2005 Stock Plan.

Item 6. Exhibits

See Index to Exhibits following Signatures.

Table of Contents

SIGNATURES

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

Lancaster Colony Corporation

(Registrant)

Date: May 10, 2011

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

Date: May 10, 2011

By: /s/John L. Boylan
John L. Boylan
*Treasurer, Vice President,
Assistant Secretary,
Chief Financial Officer and Director
(Principal Financial and Accounting
Officer)*

Table of Contents

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FORM 10-Q
MARCH 31, 2011
INDEX TO EXHIBITS

| Exhibit Number | Description | Located at |
|---------------------------|--|--------------------|
| 10.1* | Form of Restricted Stock Award Agreement for employees and consultants under the Lancaster Colony Corporation 2005 Stock Plan | Filed herewith |
| 10.2* | Form of Stock Appreciation Rights Award Agreement for employees and consultants under the Lancaster Colony Corporation 2005 Stock Plan | Filed herewith |
| 31.1 | Certification of CEO under Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of CFO under Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32 | Certification of CEO and CFO under Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 101.INS | XBRL Instance Document | Furnished herewith |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Furnished herewith |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Furnished herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | Furnished herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Furnished herewith |

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