ASSOCIATED ESTATES REALTY CORP
Form PRE 14A
March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ASSOCIATED ESTATES REALTY CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x **No fee required.**

¨ **Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.**

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ **Fee paid previously with preliminary materials.**

¨ **Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

In accordance with Rule 14a-6(d) under Regulation 14A of the Securities Exchange Act of 1934, please be advised that Associated Estates Realty Corporation intends to release definitive copies of the proxy statement to security holders on or about [__________], 2015.

[________], 2015

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Associated Estates Realty Corporation (the Company) to be held on Friday, May 22, 2015 at 10:00 a.m., local time, at One Cleveland Center, 1375 East 9th Street, Cleveland, Ohio 44114.

The attached Notice of Annual Meeting and Proxy Statement describe the matters expected to be acted upon at the meeting. We encourage you to review these materials carefully.

Your vote is very important. If you are unable to attend the meeting, please cast your vote electronically through the Internet, by telephone, or by completing, signing and returning the **WHITE** proxy card enclosed with the proxy statement.

Your Board of Directors strongly urges you to vote **FOR** the election of Jeffrey I. Friedman, Douglas Crocker II, Jon A. Fosheim, Michael E. Gibbons, James J. Sanfilippo, James A. Schoff and Richard T. Schwarz, the seven nominees recommended by your Board of Directors.

Your Board of Directors strongly recommends that you vote **FOR** an amendment to the Company s Code of Regulations that would enable your Board to increase in size to eight directors, and facilitate the election of John S. Gates, Jr. as an independent director on your board.

You should know that Land & Buildings Capital Growth Fund, L.P. (Land & Buildings) has stated it intends to nominate a slate of three nominees for election as directors at the Annual Meeting in opposition to the nominees recommended by your Board of Directors. Your Board of Directors does not endorse the election of any of Land & Buildings nominees.

You may receive solicitation materials from Land & Buildings or its affiliates, including a proxy statement and a [___] proxy card. We are not responsible for the accuracy of any information provided by or relating to Land & Buildings or its nominees contained in solicitation materials filed or disseminated by or on behalf of Land & Buildings or any other statements of Land & Buildings.

Your Board of Directors unanimously recommends that you vote **FOR** the election of each of our Director nominees on the enclosed **WHITE** proxy card. Your Board of Directors strongly urges you not to sign or return any [___] proxy card sent to you by or on behalf of Land & Buildings. If you have already returned a proxy card for Land & Buildings, you can revoke that proxy by using the enclosed **WHITE** proxy card to vote your shares today by telephone, by Internet or signing, dating and returning the enclosed **WHITE** proxy card. Only your latest-dated proxy will count.

Regardless of the number of shares you own and whether or not you plan to attend the Annual Meeting, it is important that you exercise your right to vote as a shareholder. Please indicate your vote on the enclosed **WHITE** proxy card and return it promptly using the envelope provided, or vote by telephone or by Internet according to the instructions on the enclosed **WHITE** proxy card. Be assured that your votes are completely confidential.

This is your opportunity to voice your opinion on matters affecting Associated Estates. We look forward to receiving your **WHITE** proxy and perhaps seeing you at our annual meeting.

Sincerely,

Jeffrey I. Friedman

Chairman, President and Chief Executive Officer

Notice Of 2015 Annual Meeting Of Shareholders

Friday, May 22, 2015

10:00 a.m. Local Time

One Cleveland Center, 1375 East 9th Street, Cleveland, Ohio 44114

TO OUR SHAREHOLDERS:

ITEMS OF BUSINESS:

1. To elect up to seven directors, each to hold office for a one-year term and until his successor has been duly elected and qualified;

2. To approve an amendment to the Associated Estates Realty Corporation Amended and Restated Code of Regulations;

3. Subject to the approval of Proposal Two, to elect John S. Gates, Jr. as a director of the Company.

4. To approve the Associated Estates Realty Corporation Third Amended and Restated Articles of Incorporation;

5. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the Company s fiscal year ending December 31, 2015;

6. To approve, on an advisory basis, the compensation of our named executive officers; and

7. To transact all other business that properly comes before the meeting.

RECORD DATE:	The Board has fixed the close of business on April 6, 2015 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting, or any adjournment(s) or postponement(s) thereof.
PROXY VOTING:	Your vote is very important to us. Whether or not you plan to attend the Annual Meeting, we urge you to submit the enclosed **WHITE** proxy or voting instructions as soon as possible to ensure your shares are represented at the Annual Meeting. If you attend the Annual Meeting and vote in person, your proxy or voting instructions will not be used.

By Order of the Board of Directors,

Scott D. Irwin

Senior Vice President, General Counsel and Secretary

[__________], 2015

Richmond Heights, Ohio

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS MEETING TO BE HELD ON MAY 22, 2015

The Notice of Annual Meeting, Proxy Statement and our 2014 Annual Report on Form 10-K are available at [www.____________].

You are encouraged to access and review all of the important information contained in our proxy materials before voting.

PROXY STATEMENT

RECENT HIGHLIGHTS AND PROXY SUMMARY

We prepared the following summary to provide highlights of our recent performance, and to assist you in reviewing matters to be considered at our 2015 Annual Meeting of Shareholders. This summary should be read in conjunction with the other information contained in this proxy statement, as well as our Annual Report on Form 10-K for the year ended December 31, 2014. We are mailing this proxy statement and the accompanying notice and proxy materials, along with our Annual Report to Shareholders, on or about [______], 2015.

Strengthening Our Portfolio

A critical component of our strategic plan for creating ever increasing shareholder value is the efficient recycling of capital to reduce the average age and improve the quality of our multifamily portfolio while continuing to increase our operating margins. Our focus is on prudently investing in Class A properties, including accretive development opportunities. We have strategically analyzed the apartment markets and developed a comprehensive portfolio transformation plan, to ensure it is comprised of newer properties in faster growing markets. For example, during 2014, we completed five property dispositions representing 1,209 units with an average age of 22 years and total proceeds of approximately $216 million, generating GAAP gains of $133.3 million. The blended, unlevered IRR on these sales was 16.2%, and the blended market cap rate was 5.4% (calculated on trailing twelve months NOI after a 3% management fee and marking real estate taxes to market).

Following this strategy, we have cultivated a diversified portfolio of high-quality properties in growing submarkets with an average age of 15 years (second youngest among the public multifamily REITs) by selling 48 properties since 2005 (average age of 22 years) while acquiring 23 properties (average age of six years):

	Portfolio 10 Years Ago (1)	Portfolio 5 Years Ago (1)	Portfolio Today (2)
Total # of Units	16,903	12,108	12,734
Total Revenue / Occupied Unit	$757	$935	$1,282
Average Occupancy	91.9%	93.5%	94.4%
Portfolio Quality	B- / C+ (3)	B+ (3)	A- / A (3)
Operating Margins	53.6%	58.4%	63.6%
Average Age	14	15	15
Top 5 Markets % of NOI			

Source: Sec Filings

(1) Information is as of Q4 2004 and 2009
(2) Information is as of Q4 2014, excludes assets disposed of throughout year
(3) Per Green Street Advisors, LLC

In 2013, we announced an agreement to acquire a portfolio of seven Class A apartment communities located in high growth submarkets in the Raleigh-Durham, Charlotte, Atlanta and Tampa markets:

	St. Mary s Square Raleigh, NC	Year Built:	2013
		Acquisition Date:	2013
		Units:	134
		Occupancy:	97.0%
		Avg. Rent:	$1,430
	Lofts at Weston Lakeside Cary, NC	Year Built:	2013
		Acquisition Date:	2013
		Units:	215
		Occupancy:	96.7%
		Avg. Rent:	$1,301

	The Apartments at Blakeney Charlotte, NC	Year Built:	2008
		Acquisition Date:	2013
		Units:	295
		Occupancy:	95.3%
		Avg. Rent:	$1,426
	Alpha Mill (Phases I & II) Charlotte, NC	Year Built:	2007 (I); 2013 (II)
		Acquisition Date:	2014
		Units:	134
		Occupancy:	94.4%
		Avg. Rent:	$1,248
	1160 Hammond (f/k/a Perimeter Town Center) Atlanta, GA	Year Built:	2015
		Acquisition Date:	2015
		Units:	345
		Occupancy:	[38.9%] (Lease up)
	Varela Westshore Tampa, FL	Year Built:	Under construction
		Acquisition Date:	2015 (projected)
		Units:	350
		Occupancy:	[24.0%] (Lease up)

In addition to our committed acquisition in Tampa, we have an agreement to acquire The Edge at Flagler Village, a 331-unit apartment community presently in lease up in downtown Fort Lauderdale, Florida:

	The Edge at Flagler Village Ft. Lauderdale, FL	Year Built:	2015
		Acquisition Date:	2016 (projected)
		Units:	331
		Occupancy:	[66.5%] (Lease up)

Enhancing our successful track record of improving margins and elevating the value of our portfolio through property acquisitions and dispositions is our proven development and redevelopment platform. Relying on our deep bench of experienced construction management and development professionals, we are uniquely equipped to create value for our shareholders by developing new apartment communities that offer greater returns on investment than could be achieved by acquiring stabilized Class A properties. For example, in 2010, we entered into a 90/10 joint venture with a local developer to build the 242-unit Vista Germantown apartment community in Nashville, Tennessee. Construction was completed in 2012. In 2013, we bought out the 10% interest of our local development partner for $4.5 million. In 2014, we sold Vista Germantown for $53.3 million, representing a market cap rate of 4.5%, an IRR of 19.8% and a gain of $15.8 million (42%). Furthermore, our development platform enables us to create incremental value by also redeveloping our existing properties to improve our competitiveness, support rent growth and increase the value of our properties.

Our robust development pipeline includes five projects under various stages of construction in California, Maryland and Texas. The remaining development spend for these projects is currently fully-funded through a combination of project-specific construction loan financing, free cash flow and proceeds from property dispositions:

	Cantabria at Turtle Creek Dallas, TX	Est. Completion Date:	2015
		Est. Stabilization Date:	2015
		Units:	249
		Occupancy:	[38.2]%
		Features:	Parking garage Rooftop sky lounge Resort style pool Turtle Creek / Uptown location
	7001 Arlington at Bethesda Bethesda, MD	Est. Completion Date:	2015
		Est. Stabilization Date:	2015
		Units:	140
		Features:	Parking garage 6,898 s.f. retail space 100% smoke-free community Walking distance to Bethesda Row / Metro Rail Station
	The Desmond on Wilshire Los Angeles, CA	Est. Completion Date:	2015
		Est. Stabilization Date:	2016
		Units:	175
		Features:	Parking Garage 100% smoke-free community Multi-level fitness center Rooftop sky lounge Outdoor pool with cabanas Mid-Wilshire location
	950 East Third Los Angeles, CA	Est. Completion Date:	2017
		Est. Stabilization Date:	2017
		Units:	472
		JV Partner:	Legendary Developments LLC
		Features:	Parking garage

			19,700 s.f. retail space Rooftop sky lounge LA Arts District location

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	350 8th	Est. Completion Date:	2016
		Est. Stabilization Date:	2017
	San Francisco, CA	Units:	410
		JV Partner:	AIG Global Real Estate
		Features:	Parking garage 40,000 s.f. retail space Multiple roof decks SoMa Neighborhood location

Strengthening Our Balance Sheet

Successfully executing our strategic plan to create long-term value for our shareholders requires the foundation of a strong, investment-grade balance sheet. Our relentless focus on improving our already strong credit metrics has enabled Associated Estates to achieve investment grade ratings from Moody s, Fitch and S&P, while reducing our net debt to annualized EBITDA from 8.1x in 2011 to 6.6x at December 31, 2014, increasing the fixed charge coverage ratio from 2.3x in 2011 to 3.3x at December 31, 2014, and expanding unencumbered NOI from 44.2% in 2011 to 75.9% at December 31, 2014.

Strengthening Our Corporate Governance

By transforming our high-quality apartment portfolio and strengthening our investment grade balance sheet, we have positioned Associated Estates to deliver long-term value for our shareholders and industry leading returns. However, standing in isolation, these accomplishments are but spokes in a wheel of value creation. The hub of that wheel, and the indispensable necessity for creating sustainable, long-term value for shareholders, are sound corporate governance policies and best practices. During 2014, our Board took action to further enhance our corporate governance:

ü Appointing multifamily industry veteran, Douglas Crocker II, the former Vice Chairman and Chief Executive Officer of Equity Residential (NYSE: EQR), to our Board as an independent director.

ü Appointing Mr. Crocker to serve as Chairman of our Finance and Planning Committee, which, in consultation with Citigroup Global Markets Inc., our financial advisor, is conducting a thorough review of our business.

ü

Appointing REIT industry veteran, Jon A. Fosheim, co-founder and former Principal of Green Street Advisors, to our Board as an independent director.

ü Appointing Mr. Fosheim to replace Jeffrey I. Friedman as a member of our Finance and Planning Committee.

ü Seeking shareholder approval at the 2015 Annual Meeting to eliminate our 4.0% share ownership limit, which we have regularly waived to allow institutional shareholders to acquire shares in excess of the limit.

ü Seeking shareholder approval at the 2015 Annual Meeting to increase the size of our Board of Directors from seven to eight members, and recommending the election of John S. Gates, Jr. as the eighth director.

ü Eliminating our shareholder rights plan.

ü Eliminating the Executive Committee of the Board, which has historically served almost exclusively to declare quarterly dividends authorized by the Board.

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These most recent actions by the Board followed the numerous enhancements we have implemented in recent years to elevate our corporate governance policies and compensation practices, including:

ü Increasing the percentage of independent directors to 86% (100% of non-employee directors), each of whom is elected annually.

ü Adopting clawback provisions with respect to equity-based and cash incentive compensation.

ü Adding a double trigger change-in-control feature to the equity based award plan.

ü Eliminated the evergreen provision and the tax gross up provision in the CEO s contract.

ü Adopting robust minimum share ownership requirements for Directors and Section 16 officers.

ü Modifying the Directors deferred compensation plan to facilitate payment of deferred compensation (including cash) and related earnings in shares upon distribution.

ü Reducing the cash retainer portion and increasing the equity based component of Director s compensation.

Sharpening Our Executive Compensation

Our executive compensation program supports our commitment to creating long-term shareholder value, achieving performance objectives, executing our strategic plan, and attracting and retaining the best executive team in the multifamily real estate industry. The program is designed to provide a strong linkage between our executives pay and their ability to influence both short-term and long-term performance-based financial and organizational objectives. Additionally, the program is designed to place at risk a high percentage of executive s compensation earned through the achievement of both single-year and multi-year performance metrics. At our 2014 Annual Meeting, over 95% of shareholders that voted on the say-on-pay proposal voted in favor of our compensation program and policies, and the compensation paid to the our named executive officers for fiscal 2013. As part of our commitment to continually improving our executive compensation program and practices, and strengthening the existing alignment between executive pay and shareholder interests, we have implemented important changes to our executive compensation program for fiscal 2015:

ü We are interested in the feedback received from our compensation consultants, the proxy advisory firms who reviewed our 2014 Proxy Statement and our shareholders. As such, we have improved our disclosure in the Compensation Discussion and Analysis section of this proxy statement:

- The Annual Incentive Plan, which is paid in cash based on achievement of single-year performance metrics, is now referred to as the Single-Year Cash Incentive.

- The Single-Year component of the Long Term Incentive Plan (SYLTIP), which is paid in restricted shares based on achievement of single-year performance metrics, is now referred to as the Single-Year Equity Incentive.

- The Multi-Year component of the Long Term Incentive Plan (MYLTIP), which is paid in restricted shares based on achievement of three-year performance metrics, is now referred to as the Multi-Year Equity Incentive.

ü In recognition of our relatively small size compared to the other public multifamily REITs, and based on input we received from FPL Associates, our compensation consultant, we adopted a size-based peer group that will serve as the primary benchmark in determining compensation for our executive officers.

ü We enhanced our clawback policy that enforces the recoupment of incentive compensation if a material accounting restatement is required, to include cash compensation paid.

Creating Long-Term Value For Our Shareholders

Strengthening our portfolio, balance sheet, corporate governance and executive compensation serve the singular objective of Associated Estates: maximizing the creation of long-term value for our shareholders. During the approximately 10 years our current Board and management team have been together, we have delivered a total return to our shareholders of approximately 195%, greatly exceeding the approximately 138% return provided by the public multifamily REIT sector, and the approximately 98% return of the Morgan Stanley REIT Index (RMS):

Source: SNL Financial

(1) Land & Buildings first letter to AEC was published on 6/3/2014.

Our full year 2014 total return of 52.6% was the highest among the public multifamily REITs:

Source: SNL Financial

Proxy Summary

ANNUAL MEETING **Meeting Logistics**

Meeting Date:	May 22, 2015 at 10:00 a.m. local time
Record Date:	April 6, 2015
Location:	One Cleveland Center 1375 East 9th Street Cleveland, OH 44114

Voting

At September 30, 2011, there was approximately $1.0 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of approximately 1.60 years.

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

Note 8 Income Taxes

The gross tax contingency reserve at September 30, 2011 was approximately $1.8 million and consisted of tax liabilities of approximately $1.0 million and penalties and interest of approximately $0.8 million. We 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 $1.7 million is 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.

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, 2011 consolidated financial statements:

	Three Months Ended September 30	
	2011	2010
Net Sales		
Specialty Foods	**$ 236,947**	$ 220,512
Glassware and Candles	**37,569**	44,539
Total	**$ 274,516**	$ 265,051
Operating Income (Loss)		
Specialty Foods	**$ 35,199**	$ 37,973
Glassware and Candles	**(337)**	2
Corporate Expenses	**(2,350)**	(3,149)
Total	**$ 32,512**	$ 34,826

Note 10 Commitments and Contingencies

In addition to the items discussed below, at September 30, 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 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 antidumping cases to qualifying domestic producers. Our reported CDSOA receipts totaled approximately $14.4 million for fiscal year 2011 and were received in the second and fourth quarters. CDSOA remittances have related to certain candles being imported from the People s Republic of China.

Legislation was enacted in February 2006 to repeal the applicability of 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 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 CDSOA remain active.

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

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.

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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)

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 months ended September 30, 2011 and our financial condition as of September 30, 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, 2012 refers to fiscal 2012, which is the period from July 1, 2011 to June 30, 2012. In the discussion that follows, we analyze the results of our operations for the three months ended September 30, 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 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. The sales of each segment are predominantly 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. 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;
- 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.

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We have made substantial capital investments to support our existing food operations and future growth opportunities. Based on our current plans and expectations, our total capital expenditures for 2012 are not expected to exceed $23 million.

Summary of 2012 Results

The following is a comparative overview of our consolidated operating results for the three months ended September 30, 2011 and 2010.

Net sales for the three months ended September 30, 2011 increased 4% to approximately $274.5 million from the prior-year total of $265.1 million. This sales increase reflects higher sales in the Specialty Foods segment as partially offset by a decline in sales of the Glassware and Candles segment. The Specialty Foods segment s increase reflects higher retail and foodservice sales. The decrease in sales of the Glassware and Candles segment primarily reflects lower unit volume.

Gross margin decreased 5% to approximately $55.4 million from the prior-year total of $58.1 million. Substantially higher material costs contributed to the lower gross margin.

Net income for the quarter was approximately $21.3 million, or $.78 per diluted share, compared to $22.8 million, or $.81 per diluted share, in the prior year.

RESULTS OF CONSOLIDATED OPERATIONS

Net Sales and Gross Margin

	Three Months Ended September 30			
	2011	2010	**Change**	
Net Sales				
Specialty Foods	**$ 236,947**	$ 220,512	**$ 16,435**	**7%**
Glassware and Candles	**37,569**	44,539	**(6,970)**	**(16)%**
Total	**$ 274,516**	$ 265,051	**$ 9,465**	**4%**
Gross Margin	**$ 55,430**	$ 58,071	**$ (2,641)**	**(5)%**
Gross Margin as a Percentage of Sales	**20.2%**	21.9%		

Consolidated net sales for the first quarter increased 4%, reflecting higher sales in the Specialty Foods segment as partially offset by lower sales in the Glassware and Candles segment.

For the quarter ended September 30, 2011, net sales of the Specialty Foods segment totaled approximately $236.9 million, an increase of 7% from the prior-year total of $220.5 million. Higher product pricing totaled approximately five percent of segment net sales. In addition to the higher pricing, retail sales also reflected the incremental benefit from some recently-introduced or newer food products. Sales volumes were also higher among branded retail products, especially frozen items. The segment s foodservice sales also increased on expanded volumes associated with programs among existing customers.

Net sales of the Glassware and Candles segment for the quarter ended September 30, 2011 totaled approximately $37.6 million, a 16% decrease from the prior-year total of $44.5 million. The decline in net sales was influenced by the exiting of some lower-margin business, including some seasonal candle programs, with higher pricing helping to offset some of these declines. We expect this segment s sales to again markedly decline in the quarter ending December 31, 2011, primarily as a result of lower seasonal sales of candles.

As a percentage of sales, our consolidated gross margin for the three months ended September 30, 2011 was 20.2%, as compared to 21.9% achieved in the prior-year comparative period. Higher raw-material costs contributed to the lower percentage.

In the Specialty Foods segment, gross margin percentages declined for the quarter, reflecting comparatively higher ingredient costs (especially for soybean oil and flour), as partially offset by higher pricing. We estimate that higher material costs adversely affected our gross margins by approximately seven percent of segment net sales. Looking forward, under current market conditions, we see our material costs continuing to pose a comparative challenge through the second quarter of 2012, but anticipate less of an impact for the second half of the year.

Gross margin percentages in the Glassware and Candles segment declined slightly from the prior-year period primarily due to the impact of continued higher wax costs, lower sales and reduced production levels. These factors were somewhat mitigated by higher pricing and an improved sales mix. We expect the segment s gross margins to remain similarly challenged through the second quarter of 2012.

Selling, General and Administrative Expenses

	Three Months Ended September 30			
	2011	2010	**Change**	
Selling, General and Administrative Expenses	**$ 22,918**	$ 23,245	**$ (327)**	**(1)%**
SG&A Expenses as a Percentage of Sales	**8.3%**	8.8%		

Consolidated selling, general and administrative costs of approximately $22.9 million for the three months ended September 30, 2011 decreased by 1% from the $23.2 million for the three months ended September 30, 2010, and were lower as a percentage of sales compared to the same period in the prior year due to lower consumer-directed marketing costs and lower corporate expenses related to real estate available for sale.

Operating Income (Loss)

The foregoing factors contributed to consolidated operating income totaling approximately $32.5 million for the three months ended September 30, 2011. By segment, our operating income can be summarized as follows:

	Three Months Ended September 30			
	2011	2010	**Change**	
Operating Income (Loss)				
Specialty Foods	**$ 35,199**	$ 37,973	**$ (2,774)**	**(7)%**
Glassware and Candles	**(337)**	2	**(339)**	**N/M**
Corporate Expenses	**(2,350)**	(3,149)	**799**	**(25)%**
Total	**$ 32,512**	$ 34,826	**$ (2,314)**	**(7)%**
Operating Income (Loss) as a Percentage of Sales				
Specialty Foods	**14.9%**	17.2%		
Glassware and Candles	**(0.9)%**	%		
Consolidated	**11.8%**	13.1%		

Interest Income and Other Net

Interest income and other was less than $0.1 million for the quarters ended September 30, 2011 and 2010.

Income Before Income Taxes

As impacted by the factors discussed above, income before income taxes for the three months ended September 30, 2011 decreased by approximately $2.3 million to $32.5 million from the prior-year total of $34.8 million. Our effective tax rate of 34.6% for the three months ended September 30, 2011 was comparable to the prior-year rate of 34.7%.

Net Income

First quarter net income for 2012 of approximately $21.3 million decreased from the prior-year s net income for the quarter of $22.8 million, as influenced by the factors noted above. Net income per share for the first quarter of 2012 totaled approximately $.78 per basic and diluted share, as compared to $.81 per basic and diluted share recorded in the prior year.

FINANCIAL CONDITION

For the three months ended September 30, 2011, net cash provided by operating activities totaled approximately $17.6 million as compared to $9.3 million in the prior-year period. The increase results from the relative changes in working capital, particularly the lower level of inventory held in the Glassware and Candles segment. The increase in receivables since June 2011 primarily relates to seasonal influences on sales within the Glassware and Candles segment but is also impacted by higher sales in the Specialty Foods segment.

Cash used in investing activities for the three months ended September 30, 2011 was approximately $4.7 million as compared to $6.3 million in the prior year. This decrease reflects a lower level of capital expenditures in 2012 as we substantially completed the expansion of our frozen roll facility in Kentucky during June 2011.

Cash used in financing activities for the three months ended September 30, 2011 of approximately $16.9 million increased slightly from the prior-year total of $16.4 million. This increase was due to the relative changes in the cash overdraft balance and higher dividend payments, as partially offset by a lower level of share repurchases in the current year. At September 30, 2011, approximately 1,483,000 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 September 30, 2011. The facility expires in October 2012, and all outstanding amounts are then due and payable. At September 30, 2011, we had approximately $6.7 million of standby letters of credit outstanding, which reduced 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 September 30, 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 September 30, 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.

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 September 30, 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, there have been no significant changes to the contractual obligations disclosed in our 2011 Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies from those disclosed in our 2011 Annual Report on Form 10-K.

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RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-09, *Compensation Retirement Benefits Multiemployer Plans: Disclosures about an Employer s Participation in a Multiemployer Plan* (ASU 11-09). This ASU requires that employers provide additional separate quantitative and qualitative disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. ASU 11-09 will be effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. We do not expect the adoption of this update to have a material 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 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not expect the adoption of this update to have a material impact on our financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income* (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 will be effective for public companies for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We do not expect the adoption of this update to have a material impact on our financial position or results of operations.

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 stat 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. 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;

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

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- 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 or mislabeled 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;
- the outcome of any litigation or arbitration; 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 2011 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, 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, 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 2011 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 1,483,000 shares remained authorized for future repurchases at September 30, 2011. This share repurchase authorization does not have a stated expiration date. In the first 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
July 1-31, 2011		$		1,618,350
August 1-31, 2011	75,221	$ 57.57	75,221	1,543,129
September 1-30, 2011	60,178	$ 59.14	60,178	1,482,951
Total	135,399	$ 58.27	135,399	1,482,951

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 7, 2011	By: /s/ John B. Gerlach, Jr. John B. Gerlach, Jr. *Chairman, Chief Executive Officer, President and Director (Principal Executive Officer)*
Date: November 7, 2011	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, 2011
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	Furnished herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Furnished herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Furnished herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Furnished herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Furnished herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Furnished herewith