

LANCASTER COLONY CORP
Form 10-K
August 27, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2018

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 13-1955943
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

380 Polaris Parkway, Suite 400 43082
Westerville, Ohio
(Address of principal executive offices) (Zip Code)
614-224-7141
(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---------------------------------|---|
| Common Stock, without par value | NASDAQ Global Select Market |

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

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

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

Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant computed by reference to the price at which such Common Stock was last sold as of December 31, 2017 was \$2,415.3 million.

As of August 2, 2018, there were 27,490,006 shares of Common Stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed for its November 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

GENERAL

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

As used in this Annual Report on Form 10-K and except as the context otherwise may require, the terms “we,” “us,” “our,” “registrant,” or “the Company” mean Lancaster Colony Corporation and its consolidated subsidiaries, except where it is clear that the term only means the parent company. Unless otherwise noted, references to “year” pertain to our fiscal year which ends on June 30; for example, 2018 refers to fiscal 2018, which is the period from July 1, 2017 to June 30, 2018.

Available Information

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

DESCRIPTION OF AND FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

Effective July 1, 2017, David A. Ciesinski, our President and Chief Operating Officer, succeeded John B. Gerlach, Jr. as our Chief Executive Officer (“CEO”). As President and CEO, Mr. Ciesinski became our principal executive officer and chief operating decision maker (“CODM”). This change resulted in modifications to the CODM’s approach to managing the business, assessing performance and allocating resources. Consequently, beginning on July 1, 2017, our segment reporting structure was amended to align with these changes, and our financial results are now presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied. All historical information was retroactively conformed to the current presentation. These segment changes had no effect on previously reported consolidated net sales, operating income, net income or earnings per share. The financial information relating to our business segments for the three years ended June 30, 2018, 2017 and 2016 is included in Note 10 to the consolidated financial statements, and located in Part II, Item 8 of this Annual Report on Form 10-K. Further description of each business segment within which we operate is provided below.

Retail Segment

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

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

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

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The vast majority of the products we sell in the Retail segment are sold through sales personnel, food brokers and distributors in the United States. We have placement of products in grocery produce departments through our refrigerated salad dressings, vegetable dips and fruit dips. Our flatbread products and sprouted grain bakery products are generally placed in the specialty bakery/deli section of the grocery store. We also have products typically marketed in the shelf-stable section of the grocery store, which include salad dressing, slaw dressing and croutons. Within the frozen food section of the grocery store, we have prominent market positions of frozen yeast rolls and garlic breads. Our top five Retail customers accounted for 55%, 54% and 54% of this segment's total net sales in 2018, 2017 and 2016, respectively.

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

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

Foodservice Segment

The majority of our Foodservice sales are products sold under private label to restaurants.

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

| Products | Brand Names |
|---|--------------------------|
| Dressings and Sauces | |
| Salad dressings | Marzetti, Simply Dressed |
| Frozen Breads and Other | |
| Frozen garlic breads | New York BRAND Bakery |
| Frozen Parkerhouse style yeast rolls and dinner rolls | Sister Schubert's |
| Frozen pasta | Marzetti Frozen Pasta |

The vast majority of the products we sell in the Foodservice segment are sold through sales personnel, food brokers and distributors in the United States. Most of the products we sell in the Foodservice segment are custom-formulated and include salad dressings, sandwich and dipping sauces, frozen breads and yeast rolls.

Our top five Foodservice direct customers accounted for 64%, 68% and 69% of this segment's total net sales in 2018, 2017 and 2016, respectively. Within our Foodservice segment, typically our largest direct customers are distributors that distribute our products primarily to foodservice national chain restaurant accounts.

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

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

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The following table sets forth business segment information with respect to the percentage of net sales contributed by each class of similar products that account for at least 10% of our consolidated net sales in any year from 2016 through 2018:

| | 2018 | 2017 | 2016 |
|--|------|------|------|
| Retail Segment: | | | |
| Frozen breads | 21% | 21% | 20% |
| Refrigerated dressings, dips and other | 18% | 18% | 18% |
| Shelf-stable dressings and croutons | 14% | 14% | 14% |
| Foodservice Segment: | | | |
| Dressings and sauces | 35% | 36% | 37% |
| Frozen breads and other | 12% | 11% | 11% |

Net sales attributable to Walmart Inc. (“Walmart”) totaled 17%, 17% and 16% of consolidated net sales for 2018, 2017 and 2016, respectively. Net sales attributable to McLane Company, Inc. (“McLane”), a wholesale distribution subsidiary of Berkshire Hathaway, Inc., totaled 15%, 16% and 19% of consolidated net sales for 2018, 2017 and 2016, respectively. McLane is a large, national distributor that sells and distributes our products to several of our foodservice national chain restaurant accounts, principally in the quick service, fast casual and casual dining channels. In general, these national chain restaurants have direct relationships with us for culinary research and development, menu development and production needs, but choose to buy our products through McLane, who acts as their distributor. McLane orders our products on behalf of these national chain restaurants, and we invoice McLane for these sales. The decline in net sales to McLane in both 2018 and 2017 was primarily attributed to the choice of certain national chain restaurants to switch to a different distributor. The decline for 2017 was also influenced by our targeted business rationalization efforts with certain national chain restaurants that began in mid-2016. No other direct customer accounted for more than 10% of consolidated net sales during these years.

MANUFACTURING

The majority of our products are manufactured and packaged at our 16 food plants located throughout the United States. Most of these plants produce products for both the Retail and Foodservice segments. Efficient and cost-effective production remains a key focus as evidenced by our lean six sigma initiative. Certain items are also manufactured and packaged by third parties located in the United States, Canada and Europe.

BACKLOG

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

COMPETITION

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

ENVIRONMENTAL MATTERS

Our operations are subject to various federal, state and local environmental protection laws. Based upon available information, compliance with these laws and regulations did not have a material effect upon the level of capital expenditures, earnings or our competitive position in 2018 and is not expected to have a material impact in 2019.

EMPLOYEES AND LABOR RELATIONS

As of June 30, 2018 we had 2,900 employees, 20% of which are represented under various collective bargaining contracts. 4% of our employees are represented under a collective bargaining contract that will expire within one year. While we believe that labor relations with all our employees are satisfactory, a prolonged labor dispute or an organizing attempt could have a material adverse effect on our business and results of operations.

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FOREIGN OPERATIONS AND EXPORT SALES

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

RAW MATERIALS

During 2018, we obtained adequate supplies of raw materials and packaging. We rely on a variety of raw materials and packaging for the day-to-day production of our products, including soybean oil, various sweeteners, eggs, dairy-related products, flour, various films and plastic and paper packaging materials.

We purchase the majority of these materials on the open market to meet current requirements, but we also have some fixed-price contracts with terms generally one year or less. See further discussion in our “Risk Factors” section below and our contractual obligations disclosure in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”). Although the availability and price of certain of these materials are influenced by weather, disease and the level of global demand, we anticipate that future sources of supply for 2019 will generally be available and adequate for our needs.

Item 1A. Risk Factors

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

If any of the following risks occur, our business, results of operations, financial condition and cash flows could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly. We may be subject to business disruptions, product recalls or other claims for real or perceived safety issues regarding our food products.

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

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

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

Certain negative publicity regarding the food industry or our products could also increase our cost of operations. The food industry has been subject to negative publicity concerning the health implications of genetically modified organisms, added sugars, trans fat, salt, artificial growth hormones, ingredients sourced from foreign suppliers and

other supply chain concerns. Consumers may increasingly require that our products and processes meet stricter standards than are required by applicable governmental agencies, thereby increasing the cost of manufacturing our products. If we fail to adequately respond to any such consumer concerns, we could suffer lost sales and damage our brand image or our reputation. Any of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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A disruption of production at certain manufacturing facilities could result in an inability to provide adequate levels of customer service.

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

We are also subject to risks of other business disruptions associated with our dependence on production facilities and distribution systems. Natural disasters, terrorist activity or other unforeseen events could interrupt production or distribution and have a material adverse effect on our business, results of operations, financial condition and cash flows, including the potential for long-term loss of product placement with our customers.

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

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

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

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

Our net sales to Walmart represented 17% of consolidated net sales for the year ended June 30, 2018. Our accounts receivable balance from Walmart as of June 30, 2018 was \$20.1 million. While our relationship with Walmart has been long-standing and is believed to be good, it is important to recognize that we may not be able to maintain this relationship and Walmart is not contractually obligated to purchase from us. In addition, changes in Walmart's general business model, such as reducing the shelf space devoted to the branded products we market, or devoting more shelf space to competing products, could adversely affect the profitability of our business with Walmart, even if we maintain a good relationship. The loss of, or a significant reduction in, this business could have a material adverse effect on our sales and profitability. Unfavorable changes in Walmart's financial condition or other disruptions to Walmart, such as decreased consumer demand or stronger competition, could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

Our net sales to McLane represented 15% of consolidated net sales for the year ended June 30, 2018. Our accounts receivable balance from McLane as of June 30, 2018 was \$7.8 million. McLane is a large, national distributor that sells and distributes our products to several of our foodservice national chain restaurant accounts, principally in the quick service, fast casual and casual dining channels. In general, these national chain restaurants have direct relationships with us for culinary research and development, menu development and production needs, but choose to buy our products through McLane, who acts as their distributor. McLane orders our products on behalf of these national chain restaurants, and we invoice McLane for these sales. Thus, unfavorable changes in the financial condition of McLane could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the loss of, or significant reduction in our business with the underlying national chain restaurants, or other disruptions, such as decreased consumer demand or stronger competition, could also have a

material adverse effect on our business, results of operations, financial condition and cash flows. We believe that our relationship with McLane and the underlying national chain restaurants is good, but we cannot ensure that we will be able to maintain these relationships. McLane and the underlying national chain restaurants are not typically committed to long-term contractual obligations with us, and they may switch to other suppliers that offer lower prices, differentiated products or customer service that McLane and/or the underlying national chain restaurants perceive to be more favorable. In addition, changes in the general business model of McLane, or the underlying national chain restaurants, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

Our net sales to a single national chain restaurant account, which are made indirectly through several foodservice distributors, represented 13% of consolidated net sales for the year ended June 30, 2018. While our relationship has been long-standing and is believed to be very good, it is recognized that we may not be able to maintain this relationship in the future. We do not have any long-term purchase commitments, and we may be unable to continue to sell our products in the same quantities or on the same terms as in the past. The loss of, or a significant reduction in, this business could have a material adverse effect on our sales and profitability. Further, unfavorable changes in this national chain restaurant's financial condition or other disruptions, such as decreased consumer demand or stronger competition, could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

investing in marketing and advertising. The costs of maintaining and enhancing our brands, including maintaining our rights to brands under license agreements, may increase. These increased costs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We manufacture and sell numerous products pursuant to brand license agreements including Olive Garden® dressings and Buffalo Wild Wings® sauces. We believe that our relationships with our brand licensors are good, but we cannot ensure that we will maintain those relationships. Many of our brand license agreements can be terminated or not renewed at the option of the licensor upon short notice to us. The termination of our brand license agreements, the failure to renew our brand license

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agreements on terms favorable to us, or the impairment of our relationship with our brand licensors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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

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

We purchase a majority of our key raw materials on the open market. Our ability to avoid the adverse effects of a pronounced, sustained price increase in our raw materials is limited. We have observed increased volatility in the costs of many of these raw materials in recent years, including 2018. In general, eggs have been our most volatile raw material over the past three years, principally due to an outbreak of avian influenza in late 2015 in the United States and certain issues affecting egg production in Europe beginning in our second quarter of 2018.

Similarly, fluctuating petroleum prices and transportation capacity have, from time to time, impacted our costs of resin-based packaging and our costs of inbound freight on all purchased materials. In 2018, we experienced dramatic changes in our freight costs due to several factors that placed constraints on our transportation capacity in the United States.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cyber attacks or other breaches of network or information technology security may cause equipment failures or disruptions to our operations. Our inability to operate our networks as a result of such events, even for a limited period of time, may result in significant expenses. Cyber attacks, which include the use of malware, computer viruses and

other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. To date, we have not been subject to cyber attacks or other cyber incidents that, individually or in the aggregate, have been material to our operations or financial condition. While we believe we take reasonable steps to protect the security of our information relative to our perceived risks, our preventative actions may be insufficient to defend against a major cyber attack in the future. The costs associated with a major cyber attack could include increased expenditures on cyber security measures, lost revenues from

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business interruption, litigation, regulatory fines and penalties and damage to our reputation. If we fail to prevent the theft of valuable information such as financial data, sensitive information about the Company and intellectual property, or if we fail to protect the privacy of customer, consumer and employee confidential data against breaches of network or information technology security, it could result in damage to our reputation and brand image, which could adversely impact our employee, customer and investor relations. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and cash flows. While we believe our insurance related to these matters is consistent with industry practice, any potential claim under our policies may be subject to certain exceptions; may not be honored fully, in a timely manner, or at all; and we may not have purchased sufficient insurance to cover all material losses.

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

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

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

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

We believe that our labor relations with employees under collective bargaining contracts are satisfactory, but our inability to negotiate the renewal of any collective bargaining agreements, including the agreement at our Milpitas, California facility, which is currently scheduled to expire in December 2018, or any prolonged work stoppages could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may incur liabilities related to multiemployer pension plans which could adversely affect our financial results. Through 2017, we contributed to two multiemployer pension plans under certain collective bargaining agreements that provide pension benefits to employees and retired employees who are part of the plans. On January 21, 2017, the employees at our Bedford Heights, Ohio plant voted to ratify a new collective bargaining agreement that provided for our complete withdrawal from the multiemployer pension plan associated with that facility. At this time, we still contribute to a multiemployer pension plan related to our facility in Milpitas, California.

Because we have withdrawn from the multiemployer pension plan associated with our Bedford Heights plant, we are no longer subject to risks associated with increased contributions with respect to this pension fund. Nonetheless, certain future events related to this pension fund could result in incremental pension-related costs; however, the likelihood of these events occurring is indeterminate at this time.

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

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

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

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

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

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

As of June 30, 2018, Mr. Gerlach owned or controlled 30% of the outstanding shares of our common stock.

Accordingly, Mr. Gerlach has significant influence on all matters submitted to a vote of the holders of our common stock, including the election of directors. Mr. Gerlach's voting power may also have the effect of discouraging transactions involving an actual or a potential change of control of our Company, regardless of whether a premium is offered over then-current market prices.

The interests of Mr. Gerlach may conflict with the interests of other holders of our common stock. This conflict of interest may have an adverse effect on the price of our common stock.

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

Certain provisions of our charter documents, including provisions limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice and provisions classifying our Board of Directors, may make it more difficult for a third party to acquire us or influence our Board of Directors. This may have the effect of delaying or preventing changes of control or management, which could have an adverse effect on the market price of our stock.

Additionally, Ohio corporate law contains certain provisions that could have the effect of delaying or preventing a change of control. The Ohio Control Share Acquisition Act found in Chapter 1701 of the Ohio Revised Code provides that certain notice and informational filings and a special shareholder meeting and voting procedures must be followed prior to consummation of a proposed "control share acquisition," as defined in the Ohio Revised Code. Assuming compliance with the prescribed notice and information filings, a proposed control share acquisition may be accomplished only if, at a special meeting of shareholders, the acquisition is approved by both a majority of the voting power represented at the meeting and a majority of the voting power remaining after excluding the combined voting power of the "interested shares," as defined in the Ohio Revised Code. The Interested Shareholder Transactions Act found in Chapter 1704 of the Ohio Revised Code generally prohibits certain transactions, including mergers, majority share acquisitions and certain other control transactions, with an "interested shareholder," as defined in the Ohio Revised Code, for a three-year period after becoming an interested shareholder, unless our Board of Directors approved the initial acquisition. After the three-year waiting period, such a transaction may require additional approvals under this Act, including approval by two-thirds of our voting shares and a majority of our voting shares not owned by the interested shareholder. The application of these provisions of the Ohio Revised Code, or any similar anti-takeover law adopted in Ohio, could have the effect of delaying or preventing a change of control, which could have an adverse effect on the market price of our stock.

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We use 1.9 million square feet of space for our operations. Of this space, 0.6 million square feet are leased. These amounts exclude facilities operated by third-party service providers.

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

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

(1) Fully leased for terms expiring in fiscal 2019 and fiscal 2024.

The following table summarizes our principal warehouses, which are used to distribute products to our customers:

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

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

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Our common stock trades on The NASDAQ Global Select Market under the symbol LANC. The following table sets forth the high and low prices for Lancaster Colony Corporation common stock and the dividends paid for each quarter of 2018 and 2017. Stock prices were provided by The NASDAQ Stock Market LLC.

| | Stock Prices | | Dividends |
|----------------|--------------|-----------|----------------|
| | High | Low | Paid Per Share |
| 2018 | | | |
| First Quarter | \$ 127.90 | \$ 113.34 | \$ 0.55 |
| Second Quarter | \$ 135.86 | \$ 116.25 | 0.60 |
| Third Quarter | \$ 132.35 | \$ 115.81 | 0.60 |
| Fourth Quarter | \$ 141.58 | \$ 118.91 | 0.60 |
| Year | | | \$ 2.35 |

| | | | |
|----------------|-----------|-----------|---------|
| 2017 | | | |
| First Quarter | \$ 137.71 | \$ 117.50 | \$ 0.50 |
| Second Quarter | \$ 143.67 | \$ 125.71 | 0.55 |
| Third Quarter | \$ 149.30 | \$ 125.82 | 0.55 |
| Fourth Quarter | \$ 131.79 | \$ 119.38 | 0.55 |
| Year | | | \$ 2.15 |

The number of shareholders of record as of August 2, 2018 was approximately 770. This is not the actual number of beneficial owners of our common stock, as shares are held in "street name" by brokers and others on behalf of individual owners. The highest and lowest prices for our common stock from July 1, 2018 to August 2, 2018 were \$147.59 and \$137.97.

We have increased our regular cash dividends for 55 consecutive years. Future dividends will depend on our earnings, financial condition and other factors.

Issuer Purchases of Equity Securities

In November 2010, our Board of Directors approved a share repurchase authorization of 2,000,000 common shares, of which 1,402,219 common shares remained authorized for future repurchases at June 30, 2018. This share repurchase authorization does not have a stated expiration date. In the fourth quarter, we did not repurchase any of our common stock.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet be Purchased Under the Plans |
|------------------|----------------------------------|------------------------------|--|--|
| April 1-30, 2018 | — | \$ | — | 1,402,219 |
| May 1-31, 2018 | — | \$ | — | 1,402,219 |
| June 1-30, 2018 | — | \$ | — | 1,402,219 |
| Total | — | \$ | — | 1,402,219 |

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

The graph set forth below compares the five-year cumulative total return from investing \$100 on June 30, 2013 in each of our Common Stock, the S&P Midcap 400 Index and the Dow Jones U.S. Food Producers Index. The total return calculation assumes that all dividends are reinvested, including any special dividends.

Cumulative Total Return (Dollars)

| | 6/13 | 6/14 | 6/15 | 6/16 | 6/17 | 6/18 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Lancaster Colony Corporation | 100.00 | 124.48 | 121.26 | 181.08 | 176.86 | 203.43 |
| S&P Midcap 400 | 100.00 | 125.24 | 133.25 | 135.02 | 160.09 | 181.71 |
| Dow Jones U.S. Food Producers | 100.00 | 120.27 | 134.23 | 159.55 | 153.11 | 150.01 |

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

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Item 6. Selected Financial Data

LANCASTER COLONY CORPORATION AND SUBSIDIARIES
FIVE YEAR FINANCIAL SUMMARY

| (Thousands Except Per Share Figures) | Years Ended June 30, | | | | | |
|--|----------------------|--------------|--------------|--------------|--------------|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 | |
| Operations | | | | | | |
| Net Sales ⁽¹⁾ | \$ 1,222,925 | \$ 1,201,842 | \$ 1,191,109 | \$ 1,104,514 | \$ 1,041,075 | |
| Gross Profit ⁽¹⁾ | \$ 303,513 | \$ 318,764 | \$ 299,629 | \$ 257,692 | \$ 248,568 | |
| Percent of Net Sales | 24.8 | % 26.5 | % 25.2 | % 23.3 | % 23.9 | % |
| Multiemployer Pension Settlement and Related Costs | \$— | \$ 17,635 | \$— | \$— | \$— | |
| Income From Continuing Operations Before Income Taxes ⁽¹⁾ | \$ 174,203 | \$ 175,516 | \$ 184,633 | \$ 154,552 | \$ 153,279 | |
| Percent of Net Sales | 14.2 | % 14.6 | % 15.5 | % 14.0 | % 14.7 | % |
| Taxes Based on Income ^{(1) (4)} | \$ 38,889 | \$ 60,202 | \$ 62,869 | \$ 52,866 | \$ 52,293 | |
| Income From Continuing Operations ^{(1) (4)} | \$ 135,314 | \$ 115,314 | \$ 121,764 | \$ 101,686 | \$ 100,986 | |
| Percent of Net Sales | 11.1 | % 9.6 | % 10.2 | % 9.2 | % 9.7 | % |
| Continuing Operations Diluted Net Income Per Common Share ^{(1) (4)} | \$ 4.92 | \$ 4.20 | \$ 4.44 | \$ 3.72 | \$ 3.69 | |
| Cash Dividends Per Common Share - Regular | \$ 2.35 | \$ 2.15 | \$ 1.96 | \$ 1.82 | \$ 1.72 | |
| Cash Dividends Per Common Share - Special | \$— | \$— | \$ 5.00 | \$— | \$— | |
| Financial Position | | | | | | |
| Total Assets ⁽²⁾ | \$ 804,491 | \$ 716,405 | \$ 634,732 | \$ 702,156 | \$ 627,301 | |
| Property, Plant and Equipment-Net ⁽¹⁾ | \$ 190,813 | \$ 180,671 | \$ 169,595 | \$ 172,311 | \$ 168,674 | |
| Property Additions ^{(1) (3)} | \$ 31,025 | \$ 27,005 | \$ 16,671 | \$ 18,298 | \$ 15,645 | |
| Depreciation and Amortization ⁽¹⁾ | \$ 26,896 | \$ 24,906 | \$ 24,147 | \$ 21,111 | \$ 18,993 | |
| Long-Term Debt | \$— | \$— | \$— | \$— | \$— | |
| Shareholders' Equity ⁽⁴⁾ | \$ 652,282 | \$ 575,977 | \$ 513,598 | \$ 580,918 | \$ 528,597 | |
| Per Common Share | \$ 23.73 | \$ 20.98 | \$ 18.73 | \$ 21.23 | \$ 19.33 | |
| Weighted Average Common Shares Outstanding-Diluted ⁽⁴⁾ | 27,459 | 27,440 | 27,373 | 27,327 | 27,308 | |

(1) Amounts for 2014 exclude the impact of the discontinued Glassware & Candles segment operations.

Certain prior-year balances were reclassified in 2016 to reflect the impact of the adoption of new accounting guidance about the presentation of deferred tax assets and liabilities. With the adoption, our net deferred tax liability for all periods presented has been classified as noncurrent.

(2) Amounts for 2017 and 2015 exclude property obtained in acquisitions (\$5.1 million in the 2017 acquisition of Angelic Bakehouse and \$6.9 million in the 2015 acquisition of Flatout).

Amounts for 2018 reflect the impact of the adoption of new accounting guidance for stock-based compensation, including the following provisions that were applied on a prospective basis: (a) the inclusion of the tax

(4) consequences related to stock-based compensation within the computation of income tax expense versus equity and (b) assumed proceeds used in the calculation of weighted average shares no longer include the amount of excess tax benefits. As a result, the amounts for 2018 may not be comparable to amounts for prior years.

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

Our fiscal year begins on July 1 and ends on June 30. Unless otherwise noted, references to "year" pertain to our fiscal year; for example, 2018 refers to fiscal 2018, which is the period from July 1, 2017 to June 30, 2018.

The following discussion should be read in conjunction with the "Selected Financial Data" in Item 6 and our consolidated financial statements and the notes thereto in Item 8 of this Annual Report on Form 10-K. The forward-looking statements in this section and other parts of this report involve risks, uncertainties and other factors, including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under the caption "Forward-Looking Statements" and those set forth in Item 1A of this Annual Report on Form 10-K.

OVERVIEW

Business Overview

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

Effective July 1, 2017, David A. Ciesinski, our President and Chief Operating Officer, succeeded John B. Gerlach, Jr. as our CEO. As President and CEO, Mr. Ciesinski became our principal executive officer and CODM. This change resulted in modifications to the CODM's approach to managing the business, assessing performance and allocating resources. Consequently, beginning on July 1, 2017, our segment reporting structure was amended to align with these changes, and our financial results are now presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied. All historical information was retroactively conformed to the current presentation. These segment changes had no effect on previously reported consolidated net sales, operating income, net income or earnings per share. See Note 10 to the consolidated financial statements for further information about our segments.

Our sales are predominately domestic.

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

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

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

- leveraging the strength of our Retail brands to increase current product sales;
- introducing new products and expanding distribution; and
- continuing to rely upon the strength of our reputation in Foodservice product development and quality.

Part of our future growth may result from acquisitions. We continue to review potential acquisitions that we believe will complement our existing product lines, enhance our profitability and/or offer good expansion opportunities in a manner that fits our overall strategic goals.

Consistent with this acquisition strategy, in November 2016 we acquired substantially all of the assets of Angelic Bakehouse, Inc. ("Angelic"), a manufacturer and marketer of premium sprouted grain bakery products based near Milwaukee, Wisconsin. This transaction is discussed in further detail in Note 2 to the consolidated financial statements.

We have made substantial capital investments to support our existing operations and future growth opportunities. For example, we recently expanded our warehousing capacity at Angelic to help meet anticipated growth in demand for our sprouted grain bakery products. Based on our current plans and expectations, we believe our capital expenditures for 2019 could total between \$60 and \$80 million, which includes a substantial investment for a frozen dinner roll capacity expansion project that we expect to complete in mid-2020. We anticipate we will be able to fund all of our

capital needs in 2019 with cash generated from operations and cash on hand.

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Summary of 2018 Results

Consolidated net sales reached a record \$1,223 million during 2018, increasing by 2% as compared to prior-year net sales of \$1,202 million, with both the Retail and Foodservice segments contributing to this growth.

Gross profit decreased 5% to \$303.5 million from the prior-year total of \$318.8 million. This decline resulted from considerably higher commodity and freight costs, partially offset by supply chain savings realized from our lean six sigma program and pricing actions taken beginning in the third quarter of 2018 in response to the cost increases. The prior-year results reflected a notable benefit from significantly lower ingredient costs in the first half of 2017 with only a modest offset from deflationary pricing.

In 2018, net income totaled \$135.3 million, or \$4.92 per diluted share, including a one-time benefit of \$9.5 million, or \$0.35 per diluted share, for the re-measurement of our net deferred tax liability due to the Tax Cuts and Jobs Act of 2017 (“Tax Act”). In 2017, net income totaled \$115.3 million, or \$4.20 per diluted share, including the multiemployer pension after-tax charge of \$11.5 million, or \$0.42 per diluted share, compared to \$121.8 million, or \$4.44 per diluted share, in 2016.

Looking Forward

For 2019, we expect volume-driven growth in our Retail segment with support from recent and upcoming new product introductions. We also anticipate continued progress with net price realization from the price increases that began in the second half of 2018 and better-optimized trade spending in the Retail segment. In the Foodservice segment, we anticipate volume growth from select national chain restaurant accounts and distributors of our branded products, as well as continued benefits from Foodservice segment price increases that were implemented early in the third quarter of 2018.

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

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

Based on current market conditions, commodity costs are projected to remain unfavorable in fiscal 2019, although to a lesser extent than we experienced in fiscal 2018. Freight costs are also expected to persist as a headwind through the first half of the fiscal year. We have initiatives in place or planned for both the short- and long-term to address these higher freight and commodity costs including pricing actions, a more optimized distribution network and tactical procurement. Future changes in ingredient costs, as well as other material costs, will be influenced by the size of agricultural harvests in both the United States and other parts of the world and related global demand, economic conditions, tariffs and the regulatory environment.

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

The Tax Act was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. The statutory federal income tax rate for our 2019 tax return will be 21%, a reduction from the blended rate of 28.1% for our 2018 federal tax return. We expect an overall effective tax rate of approximately 24% for 2019.

We will adopt new accounting guidance for revenue recognition on July 1, 2018. The adoption of this standard will not have a material impact on our financial position or results of operations. However, there will be additional required disclosures in the notes to the consolidated financial statements upon adoption. See further discussion in Note 1 to the consolidated financial statements.

We will adopt new accounting guidance for changes in the presentation of net periodic pension cost and net periodic postretirement benefit cost on July 1, 2018. The amendments will require retrospective application for the income statement presentation provisions. We expect only changes in classification on the income statement. See further

discussion in Note 1 to the consolidated financial statements.

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

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RESULTS OF CONSOLIDATED OPERATIONS

Segment Sales Mix

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

2018 2017 2016

Segment Sales Mix:

Retail 53% 53% 52%

Foodservice 47% 47% 48%

Net Sales and Gross Profit

| (Dollars in thousands) | Year Ended June 30, | | | Change | |
|------------------------|---------------------|-------------|-------------|---------------|--------------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Net Sales | | | | | |
| Retail | \$650,234 | \$641,417 | \$619,384 | \$8,817 | 1 % \$22,033 4 % |
| Foodservice | 572,691 | 560,425 | 571,725 | 12,266 | 2 % (11,300) (2)% |
| Total | \$1,222,925 | \$1,201,842 | \$1,191,109 | \$21,083 | 2 % \$10,733 1 % |
| Gross Profit | \$303,513 | \$318,764 | \$299,629 | \$(15,251) | (5)% \$19,135 6 % |
| Gross Margin | 24.8 | % 26.5 | % 25.2 | % | |

In November 2016, we acquired Angelic and its results of operations have been included in the Retail segment within our consolidated financial statements from the date of acquisition.

2018 to 2017

Consolidated net sales for the year ended June 30, 2018 increased 2% to a new record of \$1,223 million from the prior-year record total of \$1,202 million. This growth was driven by increases in both Retail and Foodservice net sales and resulted from pricing actions, which were taken during the second half of 2018 in response to higher freight and commodity costs, as well as reduced retail trade spending and lower coupon expense. Our sales volume, as measured by pounds shipped, was essentially flat. Retail net sales represented 53% of total net sales in both 2018 and 2017. Our gross margin declined to 24.8% in 2018 compared to 26.5% in 2017 due to the impact of increased commodity costs, most notably eggs, as well as soybean oil, flour and dairy ingredients, and higher freight costs. The increase in freight costs resulted from several factors adversely affecting transportation capacity within the United States, including severe weather, rising diesel fuel costs, new regulations, driver availability and a growing U.S. economy. These increased costs were partially offset by supply chain savings realized from our lean six sigma program and pricing actions taken in our Retail and Foodservice segments primarily in the second half of 2018. Excluding the impact of pricing, total raw-material costs were estimated to have negatively affected our gross margins by 1% of net sales. We estimate higher freight costs to have negatively affected our gross margins by nearly 1% of net sales. The prior-year results reflected a notable benefit from significantly lower ingredient costs in the first half of 2017 with only a modest offset from deflationary pricing.

2017 to 2016

Consolidated net sales for the year ended June 30, 2017 increased 1% to a then record of \$1,202 million from the prior-year record total of \$1,191 million. This growth was driven by higher Retail net sales as partially offset by lower Foodservice net sales. Excluding Angelic, our overall sales volume, as measured by pounds shipped, improved by 1%. Pricing had a net deflationary impact of nearly 1% of net sales for 2017. As a percentage of total net sales, Retail net sales increased slightly to 53% from 52% in 2016.

Our gross margin increased to 26.5% in 2017 compared with 25.2% in 2016 due to the influence of overall lower raw-material costs, primarily for eggs, but also for flour, honey and certain packaging materials. Margins also benefited from a more favorable sales mix, partially offset by higher retail trade spending and deflationary pricing in the Foodservice segment. Excluding pricing actions, total raw-material costs were estimated to have positively affected our gross margins by 2% of net sales.

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Selling, General and Administrative Expenses

| (Dollars in thousands) | Year Ended June 30, | | | Change | |
|--|---------------------|-----------|-----------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| SG&A Expenses | \$131,406 | \$126,381 | \$115,059 | \$5,025 4% | \$11,322 10% |
| SG&A Expenses as a Percentage of Net Sales | 10.7 | % 10.5 | % 9.7 | % | % |

The 2018 increase in selling, general and administrative (“SG&A”) expenses reflected a higher level of investments in personnel and business growth initiatives, incremental amortization expense and other recurring noncash charges attributed to Angelic during the first half of 2018, and the impact of a prior-year one-time benefit from the full settlement of a class-action lawsuit related to a provider of in-store promotional advertising. The higher level of SG&A expenses was partially offset by lower promotional spending and savings gained through the realignment of our retail broker network beginning in the second half of 2018. The 2017 increase in SG&A expenses reflected investments in key leadership personnel and strategic business initiatives during the second half of 2017 to support future growth. Transaction costs, incremental amortization expense and other recurring noncash charges attributed to the Angelic business acquired in November 2016 also impacted SG&A expenses in 2017.

Multiemployer Pension Settlement and Related Costs

In 2017 the employees at our Bedford Heights, Ohio plant voted to ratify a new collective bargaining agreement. Among other terms, the new agreement provided for our complete withdrawal from the underfunded multiemployer Cleveland Bakers and Teamsters Pension Fund. In lieu of contributions to the pension fund, we are making non-elective contributions for the union employees at the Bedford Heights, Ohio plant into a union-sponsored 401(k) plan. We initially funded the new 401(k) plan and paid a withdrawal liability as settlement of our portion of underfunded pension benefits of the multiemployer plan. We recorded a one-time charge of \$17.6 million in 2017 for the multiemployer pension settlement and other benefit-related costs. Given the unusual nature of these significant indirect costs, this charge was not allocated to our two reportable segments.

Operating Income

| (Dollars in thousands) | Year Ended June 30, | | | Change | |
|--|---------------------|-----------|-----------|------------------|-----------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Operating Income | | | | | |
| Retail | \$126,391 | \$138,470 | \$134,900 | \$(12,079) (9)% | \$3,570 3 % |
| Foodservice | 58,432 | 66,216 | 61,692 | (7,784) (12)% | 4,524 7 % |
| Multiemployer Pension Settlement and Related Costs | — | (17,635) | — | 17,635 (100)% | (17,635) N/M |
| Corporate Expenses | (12,716) | (12,303) | (12,022) | (413) 3 % | (281) 2 % |
| Total | \$172,107 | \$174,748 | \$184,570 | \$(2,641) (2)% | \$(9,822) (5)% |
| Operating Margin | | | | | |
| Retail | 19.4 | % 21.6 | % 21.8 | % | % |
| Foodservice | 10.2 | % 11.8 | % 10.8 | % | % |
| Total | 14.1 | % 14.5 | % 15.5 | % | % |

See discussion of operating results by segment following the discussion of “Net Income” below.

The level of the 2018 corporate expenses presented above was consistent with our expectations and was similar to those of 2017 and 2016.

Income Before Income Taxes

As impacted by the factors discussed above, income before income taxes for 2018 of \$174.2 million decreased 1% from the 2017 total of \$175.5 million. The 2016 income before income taxes was \$184.6 million.

Taxes Based on Income

Our effective tax rate was 22.3%, 34.3% and 34.1% in 2018, 2017 and 2016, respectively. The current-year rate was impacted by the Tax Act, which was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. Since we file our tax return based on our fiscal year, the statutory federal income tax rate for our 2018 tax return will be a

blended rate of 28.1%. In addition to the effect of the lower overall federal tax rate, the Tax Act resulted in a \$9.5 million one-time benefit for the re-

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measurement of our net deferred tax liability in 2018. Looking ahead to 2019, we expect an overall effective tax rate of approximately 24%. See Note 9 to the consolidated financial statements for a reconciliation of the statutory rate to the effective rate for 2018, 2017 and 2016.

Our taxes based on income for the year ended June 30, 2018 consisted of the following components:

| | | |
|--|----------|---------|
| (Dollars in thousands) | 2018 | |
| Federal, state and local provision | \$49,186 | 28.2 % |
| One-time benefit on re-measurement of net deferred tax liability | (9,542) | (5.5)% |
| Net windfall tax benefits - stock-based compensation | (755) | (0.4)% |
| Taxes Based on Income | \$38,889 | 22.3 % |

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 allows for a measurement period in which companies can either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates cannot be determined at the time of the preparation of the financial statements until the actual impacts can be determined. We recorded an estimate of the impact of the Tax Act within our December 31, 2017 financial statements, including the impact of items recorded within accumulated other comprehensive loss. There were no material changes to these estimates in the six months ended June 30, 2018. We will continue to evaluate the impacts of the Tax Act and record adjustments, as needed, including adjustments related to the filing of our 2018 federal tax return, but do not expect material changes to the amounts recorded. In February 2018, the Financial Accounting Standards Board issued new accounting guidance to allow a reclassification from accumulated other comprehensive income/loss to retained earnings for stranded tax effects resulting from the Tax Act. We recorded this reclassification in the quarter ended March 31, 2018. See further discussion under the caption “Recently Adopted Accounting Standards” in Note 1 to the consolidated financial statements.

On July 1, 2017, we adopted new accounting guidance for stock-based compensation that, among other things, requires the recognition of windfall tax benefits and shortfall tax deficiencies in our income tax expense, instead of equity. For 2018, the impact of net windfall tax benefits reduced our effective tax rate by 0.4%. This adoption may result in increased volatility to our quarterly and annual income tax expense and resulting net income, dependent upon, among other variables, the price of our common stock and the timing and volume of share-based payment award activity such as employee exercises of stock-settled stock appreciation rights and vesting of restricted stock awards. This adoption is discussed in further detail under the caption “Recently Adopted Accounting Standards” in Note 1 to the consolidated financial statements.

Net Income

As influenced by the factors discussed above, particularly the impact of the Tax Act in 2018 and the multiemployer pension charge in 2017, net income for 2018 of \$135.3 million increased from the 2017 net income of \$115.3 million, which had decreased from 2016 net income of \$121.8 million. Diluted weighted average common shares outstanding for each of the years ended June 30, 2018, 2017 and 2016 have remained relatively stable. As a result, and due to the change in net income for each year, diluted net income per share totaled \$4.92 in 2018, an increase from the 2017 total of \$4.20 per diluted share. The 2016 net income per share totaled \$4.44 per diluted share.

In 2018, the Tax Act resulted in a one-time deferred tax benefit of \$0.35 per diluted share. In 2017, the estimated impact of the multiemployer pension charge was \$0.42 per diluted share.

RESULTS OF OPERATIONS - SEGMENTS**Retail Segment**

| (Dollars in thousands) | Year Ended June 30, | | | Change | | 2017 vs. 2016 |
|------------------------|---------------------|-----------|-----------|---------------|------|------------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | | |
| Net Sales | \$650,234 | \$641,417 | \$619,384 | \$8,817 | 1 % | \$22,033 4% |
| Operating Income | \$126,391 | \$138,470 | \$134,900 | \$(12,079) | (9)% | \$3,570 3% |
| Operating Margin | 19.4 % | 21.6 % | 21.8 % | | | |

2018 to 2017

In 2018, net sales for the Retail segment reached \$650.2 million, a 1% increase from the prior-year total of \$641.4 million. This increase was driven by increased sales volumes for shelf-stable dressings and sauces sold under license agreements, the incremental sales from the Angelic Bakehouse business acquired in November 2016, pricing actions, reduced trade spending and lower coupon expense, partially offset by reduced sales of frozen garlic bread products in the second and

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third quarters of 2018 due to a supply disruption. Pricing actions were implemented starting in the second half of 2018 with a resulting net impact of less than 1% of Retail net sales for 2018.

In 2018, Retail segment operating income and related margins decreased due to the impact of increased commodity and freight costs, investments in personnel and business growth initiatives and incremental amortization expense and other recurring noncash charges attributed to Angelic during the first half of the year. These higher costs were partially offset by supply chain savings realized from our lean six sigma program, some net price realization, lower consumer promotional and other trade spending and lower brokerage costs due to the mid-year realignment of our retail broker network. The prior-year operating income and related margins reflected a significant benefit from lower ingredient costs in the first half of the year.

2017 to 2016

In 2017, net sales for the Retail segment reached \$641.4 million, a 4% increase from the 2016 total of \$619.4 million with sprouted grain bakery products, shelf-stable dressings sold under license agreements and frozen bread products among the most notable contributing product lines. Higher trade promotion costs served to limit Retail sales growth. The impact of pricing on Retail net sales was minimal for 2017.

In 2017, Retail segment operating income increased while related margins were essentially flat as the influence of overall lower raw-material costs, primarily for eggs, but also for flour, honey and certain packaging materials, were partially offset by higher retail trade spending, investments in key leadership personnel and strategic business initiatives during the second half of 2017 and the transaction costs, incremental amortization expense and other recurring noncash charges attributed to the Angelic business.

Foodservice Segment

| (Dollars in thousands) | Year Ended June 30, | | | Change | |
|------------------------|---------------------|-----------|-----------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Net Sales | \$572,691 | \$560,425 | \$571,725 | \$12,266 | 2 % |
| Operating Income | \$58,432 | \$66,216 | \$61,692 | \$(7,784) | (12)% |
| Operating Margin | 10.2 | % 11.8 | % 10.8 | % | 7 % |

2018 to 2017

In 2018, Foodservice net sales increased 2% to \$572.7 million from the 2017 total of \$560.4 million reflecting improvements due to pricing actions that were taken beginning in the third quarter and higher volumes for frozen breads and frozen pasta. This increase was partially offset by the impact of general softness in the restaurant industry in the first half of 2018. Inflationary pricing totaled 1% of Foodservice net sales for 2018.

In 2018, the decline in Foodservice segment operating income and related margins was driven by increased commodity and freight costs and our investments in personnel and business growth initiatives. These higher costs were partially offset by supply chain savings realized from our lean six sigma program and inflationary pricing. The 2017 operating income and related margins reflected a significant benefit from lower ingredient costs in the first half of the year.

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

2017 to 2016

In 2017, net sales for the Foodservice segment reached \$560.4 million, a 2% decrease from the 2016 total of \$571.7 million as influenced by our targeted business rationalization efforts with certain national chain restaurants that began in the third quarter of 2016 and deflationary pricing, primarily from lower egg costs.

In 2017, Foodservice segment operating income and related margins increased due to the influence of overall lower raw-material costs, primarily for eggs, but also for flour, honey and certain packaging materials, partially offset by deflationary pricing and investments in key leadership personnel and strategic business initiatives during the second half of 2017.

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FINANCIAL CONDITION

Liquidity and Capital Resources

We maintain sufficient flexibility in our capital structure to ensure our capitalization is adequate to support our future internal growth prospects, acquire food businesses consistent with our strategic goals, and maintain cash returns to our shareholders through cash dividends and opportunistic share repurchases. Our balance sheet maintained fundamental financial strength during 2018 as we ended the year with \$206 million in cash and equivalents, along with shareholders' equity of \$652 million and no debt.

Under our unsecured revolving credit facility ("Facility"), we may borrow up to a maximum of \$150 million at any one time. We had no borrowings outstanding under the Facility at June 30, 2018. At June 30, 2018, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. The Facility expires in April 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be classified as long-term debt. The Facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. At June 30, 2018, we were in compliance with all applicable provisions and covenants of this facility, and we exceeded the requirements of the financial covenants by substantial margins. At June 30, 2018, there were no events that would constitute a default under this facility.

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

We believe that cash provided by operating activities and our existing balances in cash and equivalents, in addition to that available under the Facility, should be adequate to meet our cash requirements through 2019. If we were to borrow outside of the Facility under current market terms, our average interest rate may increase significantly and have an adverse effect on our results of operations.

Cash Flows

| (Dollars in thousands) | Year Ended June 30, | | | Change | |
|----------------------------------|---------------------|------------|-------------|---------------|----------------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| Provided By Operating Activities | \$160,714 | \$146,385 | \$145,903 | \$14,329 | 10 % \$482 — % |
| Used In Investing Activities | \$(31,452) | \$(60,608) | \$(17,423) | \$29,156 | 48 % \$(43,185) N/M |
| Used In Financing Activities | \$(66,614) | \$(60,753) | \$(192,602) | \$(5,861) | (10)% \$131,849 68 % |

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

Cash provided by operating activities in 2018 totaled \$160.7 million, an increase of 10% as compared with the 2017 total of \$146.4 million, which increased less than 1% as compared to the 2016 total of \$145.9 million. The 2018 increase was primarily due to higher net income, including the benefit from the lower tax rate resulting from the Tax Act. The 2017 increase reflected lower working capital requirements, primarily in accounts payable and accrued liabilities, an increase in deferred tax liabilities related to property and increases in noncash charges for depreciation and amortization and the noncash change in acquisition-related contingent consideration. These changes were largely offset by lower net income in 2017, which included the one-time multiemployer pension charge. The increase in amortization and the change in acquisition-related contingent consideration were the result of the November 2016 acquisition of Angelic.

Cash used in investing activities totaled \$31.5 million in 2018 as compared to \$60.6 million in 2017 and \$17.4 million in 2016. The 2018 decrease in cash used in investing activities was due to the \$35.2 million paid for the acquisition of Angelic in November 2016, as partially offset by a higher level of capital expenditures in 2018, with the largest amounts spent on warehousing and new equipment to increase capacity and/or improve operational efficiencies. The 2017 increase in cash used in investing activities primarily reflected the cash paid for the acquisition of Angelic in

November 2016, as well as a higher level of capital expenditures in 2017, with the largest amounts spent on packaging equipment to accommodate growth and build-out costs related to our corporate office relocation. Capital expenditures totaled \$31.0 million in 2018, compared to \$27.0 million in 2017 and \$16.7 million in 2016.

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Financing activities used net cash totaling \$66.6 million, \$60.8 million and \$192.6 million in 2018, 2017 and 2016, respectively. In general, cash used in financing activities reflects the payment of dividends. The regular dividend payout rate for 2018 was \$2.35 per share, as compared to \$2.15 per share in 2017 and \$1.96 per share in 2016. This past fiscal year marked the 55th consecutive year in which our dividend rate was increased. A \$5.00 per share special dividend was paid in December 2015, which totaled \$136.7 million.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

We have various contractual obligations that are appropriately recorded as liabilities in our consolidated financial statements. Certain other contractual obligations are not recognized as liabilities in our consolidated financial statements. Examples of such items are commitments to purchase raw materials or packaging inventory that has not yet been received as of June 30, 2018 and future minimum lease payments for the use of property and equipment under operating lease agreements.

The following table summarizes our contractual obligations as of June 30, 2018 (dollars in thousands):

| Contractual Obligations | Payment Due by Period | | | | |
|---|-----------------------|---------------------|-----------|-----------|-------------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Operating Lease Obligations (1) | \$23,152 | \$6,839 | \$8,211 | \$4,274 | \$3,828 |
| Purchase Obligations (2) | 199,737 | 180,944 | 17,472 | 971 | 350 |
| Other Noncurrent Liabilities (as reflected on Consolidated Balance Sheet) (3) | 17,720 | — | 640 | 17,080 | — |
| Total | \$240,609 | \$187,783 | \$26,323 | \$22,325 | \$4,178 |

(1) Operating leases are primarily entered into for warehouse and office facilities and certain equipment. See Note 5 to the consolidated financial statements for further information.

(2) Purchase obligations represent purchase orders and longer-term purchase arrangements related to the procurement of raw materials, supplies, services, and property, plant and equipment.

This amount does not include \$23.9 million of other noncurrent liabilities recorded on the balance sheet, which largely consist of the underfunded defined benefit pension liability, other post employment benefit obligations, tax liabilities, noncurrent workers compensation obligations, deferred compensation and interest on deferred compensation. These items are excluded, as it is not certain when these liabilities will become due. See Notes 9, 12 and 13 to the consolidated financial statements for further information.

IMPACT OF INFLATION

Our business results can be influenced by significant changes in the costs of our raw materials. We attempt to mitigate the impact of inflation on our raw materials by entering into longer-term fixed-price contracts for a portion of our most significant commodities, soybean oil and flour. As we enter 2019, we will begin to implement a new

procurement strategy for a portion of our egg needs through the use of grain-based pricing contracts to reduce our exposure to egg market spot prices. However, we remain exposed to events and trends in the marketplace for our other raw-material and packaging costs. While we attempt to pass through sustained increases in raw-material costs via price adjustments on our retail and foodservice products, such price adjustments will often lag the changes in the related input costs.

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As we transitioned from 2015 to 2016, we saw a significant increase in the price of egg-based ingredients due to a major outbreak of avian influenza in the United States. Due to timing and the degree of the increase in egg costs, we lagged obtaining cost recovery during the first half of 2016, but we had largely recovered such costs as we exited our then third fiscal quarter. During the first half of 2017, we experienced a deflationary pricing environment within our foodservice channel as the cost of eggs had retreated to historical prices, and we adjusted pricing charged to our foodservice national chain restaurant accounts to reflect the lower input cost of eggs and other key ingredients. Consequently, while the deflationary pricing was more than offset by lower egg costs during the first half of 2017, the deflationary pricing negatively impacted net sales growth from our foodservice channel during the period. During the second half of 2017, the net impact of inflation was not significant, but some residual deflationary pricing did impact Foodservice net sales and gross profit in the period.

In 2018, we experienced increased commodity costs across many ingredient and packaging materials, most notably for eggs. The increase in egg costs was principally due to egg-producing issues in Europe which resulted in significantly higher exports from the United States. Additionally, freight costs increased significantly due to capacity constraints in the transportation industry. We implemented pricing actions in both our Retail and Foodservice segments in the second half of 2018. Entering 2019, under current market conditions, we foresee unfavorable material and freight cost comparisons, although to a lesser extent than in 2018. We expect net price realization in 2019 to offset the impact of material and freight cost inflation.

Although typically less notable, we are also exposed to the impacts of general inflation beyond material costs, especially in the areas of annual wage adjustments and benefit costs. Over time, we attempt to minimize the exposure to such cost increases through greater manufacturing and distribution efficiencies via our lean six sigma program and strategic investments in plant equipment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

We recognize revenue upon transfer of title and risk of loss, provided that evidence of an arrangement exists, pricing is fixed or determinable, and collectability is probable. Net sales are recorded net of estimated sales discounts, returns, trade promotions and certain other sales incentives, including coupon redemptions and rebates. See discussion of new accounting guidance for revenue recognition, which will be applicable for us beginning on July 1, 2018, under the caption “Recently Issued Accounting Standards” in Note 1 to the consolidated financial statements.

Receivables and Related Allowances

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

Goodwill and Other Intangible Assets

Goodwill is not amortized. It is evaluated annually at April 30 by applying impairment testing procedures. Other intangible assets are amortized on a straight-line basis over their estimated useful lives to Selling, General and Administrative Expenses. We evaluate the future economic benefit of the recorded goodwill and other intangible

assets when events or circumstances indicate potential recoverability concerns. Carrying amounts are adjusted appropriately when determined to have been impaired.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

FORWARD-LOOKING STATEMENTS

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”). This Annual Report on Form 10-K contains various “forward-looking statements” within the meaning of the PSLRA and other applicable securities laws. Such statements can be identified by the use of the forward-looking words “anticipate,” “estimate,” “project,” “believe,” “intend,” “plan,” “expect,” “hope” or similar words. These statements discuss future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, one should not place undue reliance on such statements that are based on current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such forward-looking statements, except as required by law.

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

- adverse changes in freight, energy or other costs of producing, distributing or transporting our products;
- fluctuations in the cost and availability of ingredients and packaging;
- the reaction of customers or consumers to price increases we may implement;
- price and product competition;
- the impact of customer store brands on our branded retail volumes;
- the lack of market acceptance of new products;
- dependence on contract manufacturers, distributors and freight transporters;
- capacity constraints that may affect our ability to meet demand or may increase our costs;
- the success and cost of new product development efforts;
- dependence on key personnel and changes in key personnel;
- the effect of consolidation of customers within key market channels;
- the ability to successfully grow recently acquired businesses;
- 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;
- the potential for loss of larger programs or key customer relationships;
- changes in demand for our products, which may result from loss of brand reputation or customer goodwill;
- maintenance of competitive position with respect to other manufacturers;
- efficiencies in plant operations;
- the impact of any regulatory matters affecting our food business, including any required labeling changes and their impact on consumer demand;
- stability of labor relations;
- the outcome of any litigation or arbitration;
- the impact, if any, of certain contingent liabilities associated with our withdrawal from a multiemployer pension plan;
- the impact of fluctuations in our pension plan asset values on funding levels, contributions required and benefit costs;
- changes in estimates in critical accounting judgments; and
- certain other risk factors, including those discussed in other filings we have submitted to the Securities and Exchange Commission.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

RAW MATERIAL PRICE RISK

We purchase a variety of commodities and other raw materials, such as soybean oil, flour, eggs and dairy-based materials, which we use to manufacture our products. The market prices for these commodities are subject to fluctuation based upon a number of economic factors and may become volatile at times. While we do not use any derivative commodity instruments to hedge against commodity price risk, we do actively manage a portion of the risk through a structured forward purchasing program for certain key materials such as soybean oil and flour. This program, coupled with short-term fixed price arrangements on other significant raw materials, gives us more predictable input costs, which may help stabilize our short-term margins during periods of volatility in commodity markets.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lancaster Colony Corporation and Subsidiaries (the “Company”) as of June 30, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended June 30, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 27, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Columbus, Ohio
August 27, 2018

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

Table of ContentsLANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Amounts in thousands, except share data) | June 30, | |
|--|------------|------------|
| | 2018 | 2017 |
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$205,752 | \$143,104 |
| Receivables | 72,960 | 69,922 |
| Inventories: | | |
| Raw materials | 32,673 | 28,447 |
| Finished goods | 58,188 | 47,929 |
| Total inventories | 90,861 | 76,376 |
| Other current assets | 9,304 | 11,744 |
| Total current assets | 378,877 | 301,146 |
| Property, Plant and Equipment: | | |
| Land, buildings and improvements | 132,318 | 124,673 |
| Machinery and equipment | 293,409 | 272,582 |
| Total cost | 425,727 | 397,255 |
| Less accumulated depreciation | 234,914 | 216,584 |
| Property, plant and equipment-net | 190,813 | 180,671 |
| Other Assets: | | |
| Goodwill | 168,030 | 168,030 |
| Other intangible assets-net | 56,176 | 60,162 |
| Other noncurrent assets | 10,595 | 6,396 |
| Total | \$804,491 | \$716,405 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$57,978 | \$41,353 |
| Accrued liabilities | 35,789 | 35,270 |
| Total current liabilities | 93,767 | 76,623 |
| Other Noncurrent Liabilities | | |
| Deferred Income Taxes | 16,804 | 25,207 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock-authorized 3,050,000 shares; outstanding-none | | |
| Common stock-authorized 75,000,000 shares; outstanding-2018-27,487,989 shares; 2017-27,448,424 shares | 119,232 | 115,174 |
| Retained earnings | 1,279,343 | 1,206,671 |
| Accumulated other comprehensive loss | (8,259) | (8,936) |
| Common stock in treasury, at cost | (738,034) | (736,932) |
| Total shareholders' equity | 652,282 | 575,977 |
| Total | \$804,491 | \$716,405 |
| See accompanying notes to consolidated financial statements. | | |

Table of ContentsLANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| (Amounts in thousands, except per share data) | Years Ended June 30, | | |
|--|----------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Net Sales | \$ 1,222,925 | \$ 1,201,842 | \$ 1,191,109 |
| Cost of Sales | 919,412 | 883,078 | 891,480 |
| Gross Profit | 303,513 | 318,764 | 299,629 |
| Selling, General and Administrative Expenses | 131,406 | 126,381 | 115,059 |
| Multiemployer Pension Settlement and Related Costs | — | 17,635 | — |
| Operating Income | 172,107 | 174,748 | 184,570 |
| Other, Net | 2,096 | 768 | 63 |
| Income Before Income Taxes | 174,203 | 175,516 | 184,633 |
| Taxes Based on Income | 38,889 | 60,202 | 62,869 |
| Net Income | \$ 135,314 | \$ 115,314 | \$ 121,764 |
| Net Income Per Common Share: | | | |
| Basic | \$ 4.93 | \$ 4.21 | \$ 4.45 |
| Diluted | \$ 4.92 | \$ 4.20 | \$ 4.44 |
| Weighted Average Common Shares Outstanding: | | | |
| Basic | 27,403 | 27,376 | 27,336 |
| Diluted | 27,459 | 27,440 | 27,373 |
| See accompanying notes to consolidated financial statements. | | | |

Table of ContentsLANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Amounts in thousands) | Years Ended June 30, | | |
|---|----------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Net Income | \$135,314 | \$115,314 | \$121,764 |
| Other Comprehensive Income (Loss): | | | |
| Defined Benefit Pension and Postretirement Benefit Plans: | | | |
| Net gain (loss) arising during the period, before tax | 3,041 | 3,334 | (4,200) |
| Prior service credit arising during the period, before tax | — | — | 1,770 |
| Amortization of loss, before tax | 536 | 677 | 505 |
| Amortization of prior service credit, before tax | (182) | (182) | (126) |
| Total Other Comprehensive Income (Loss), Before Tax | 3,395 | 3,829 | (2,051) |
| Tax Attributes of Items in Other Comprehensive Income (Loss): | | | |
| Net gain (loss) arising during the period, tax | (710) | (1,231) | 1,551 |
| Prior service credit arising during the period, tax | — | — | (654) |
| Amortization of loss, tax | (180) | (250) | (186) |
| Amortization of prior service credit, tax | 61 | 66 | 47 |
| Total Tax (Expense) Benefit | (829) | (1,415) | 758 |
| Other Comprehensive Income (Loss), Net of Tax | 2,566 | 2,414 | (1,293) |
| Comprehensive Income | \$137,880 | \$117,728 | \$120,471 |

See accompanying notes to consolidated financial statements.

Table of ContentsLANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Amounts in thousands) | Years Ended June 30, | | |
|---|----------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Cash Flows From Operating Activities: | | | |
| Net income | \$135,314 | \$115,314 | \$121,764 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Impacts of noncash items: | | | |
| Depreciation and amortization | 26,896 | 24,906 | 24,147 |
| Change in acquisition-related contingent consideration | 2,052 | 1,156 | — |
| Deferred income taxes and other changes | (8,502) | 2,347 | (525) |
| Stock-based compensation expense | 5,039 | 4,248 | 3,326 |
| Gain on sale of property | (10) | (629) | — |
| Pension plan activity | (434) | (244) | (296) |
| Changes in operating assets and liabilities: | | | |
| Receivables | (3,040) | (2,598) | (3,547) |
| Inventories | (14,485) | 150 | 1,802 |
| Other current assets | 2,164 | (2,958) | 1,445 |
| Accounts payable and accrued liabilities | 15,720 | 4,693 | (2,213) |
| Net cash provided by operating activities | 160,714 | 146,385 | 145,903 |
| Cash Flows From Investing Activities: | | | |
| Cash paid for acquisitions, net of cash acquired | (318) | (35,169) | (12) |
| Payments for property additions | (31,025) | (27,005) | (16,671) |
| Proceeds from sale of property | 38 | 1,475 | — |
| Other-net | (147) | 91 | (740) |
| Net cash used in investing activities | (31,452) | (60,608) | (17,423) |
| Cash Flows From Financing Activities: | | | |
| Purchase of treasury stock | (1,102) | (866) | (155) |
| Payment of dividends (including special dividend payment, 2018-\$0; 2017-\$0; 2016-\$136,677) | (64,531) | (58,980) | (190,546) |
| Tax withholdings for stock-based compensation | (981) | (907) | (1,901) |
| Net cash used in financing activities | (66,614) | (60,753) | (192,602) |
| Net change in cash and equivalents | 62,648 | 25,024 | (64,122) |
| Cash and equivalents at beginning of year | 143,104 | 118,080 | 182,202 |
| Cash and equivalents at end of year | \$205,752 | \$143,104 | \$118,080 |
| See accompanying notes to consolidated financial statements. | | | |

Table of ContentsLANCASTER COLONY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Amounts in thousands, except per share data) | Common Stock Outstanding | | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Shareholders' Equity |
|--|-----------------------------|------------|----------------------|---|-------------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance, June 30, 2015 | 27,361 | \$ 107,767 | \$ 1,219,119 | \$ (10,057) | \$(735,911) | \$ 580,918 |
| Net income | | | 121,764 | | | 121,764 |
| Net pension and postretirement benefit losses, net of (\$758) tax effect | | | | (1,293) | | (1,293) |
| Cash dividends - common stock (\$6.96 per share) | | | (190,546) | | | (190,546) |
| Purchase of treasury stock | (2) | | | | (155) | (155) |
| Stock-based plans, including excess tax benefits | 65 | (416) | | | | (416) |
| Stock-based compensation expense | | 3,326 | | | | 3,326 |
| Balance, June 30, 2016 | 27,424 | 110,677 | 1,150,337 | (11,350) | (736,066) | 513,598 |
| Net income | | | 115,314 | | | 115,314 |
| Net pension and postretirement benefit gains, net of \$1,415 tax effect | | | | 2,414 | | 2,414 |
| Cash dividends - common stock (\$2.15 per share) | | | (58,980) | | | (58,980) |
| Purchase of treasury stock | (6) | | | | (866) | (866) |
| Stock-based plans, including excess tax benefits | 30 | 249 | | | | 249 |
| Stock-based compensation expense | | 4,248 | | | | 4,248 |
| Balance, June 30, 2017 | 27,448 | 115,174 | 1,206,671 | (8,936) | (736,932) | 575,977 |
| Net income | | | 135,314 | | | 135,314 |
| Net pension and postretirement benefit gains, net of \$829 tax effect | | | | 2,566 | | 2,566 |
| Tax Cuts and Jobs Act of 2017, Reclassification from accumulated other comprehensive loss to retained earnings | | | 1,889 | (1,889) | | — |
| Cash dividends - common stock (\$2.35 per share) | | | (64,531) | | | (64,531) |
| Purchase of treasury stock | (9) | | | | (1,102) | (1,102) |
| Stock-based plans | 49 | (981) | | | | (981) |
| Stock-based compensation expense | | 5,039 | | | | 5,039 |
| Balance, June 30, 2018 | 27,488 | \$ 119,232 | \$ 1,279,343 | \$ (8,259) | \$(738,034) | \$ 652,282 |

See accompanying notes to consolidated financial statements.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Note 1 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Lancaster Colony Corporation and our wholly-owned subsidiaries, collectively referred to as “we,” “us,” “our,” “registrant,” or the “Company.” Intercompany transactions and accounts have been eliminated in consolidation. Our fiscal year begins on July 1 and ends on June 30. Unless otherwise noted, references to “year” pertain to our fiscal year; for example, 2018 refers to fiscal 2018, which is the period from July 1, 2017 to June 30, 2018.

Effective July 1, 2017, David A. Ciesinski, our President and Chief Operating Officer, succeeded John B. Gerlach, Jr. as Chief Executive Officer (“CEO”). As President and CEO, Mr. Ciesinski became our principal executive officer and chief operating decision maker (“CODM”). This change resulted in modifications to the CODM’s approach to managing the business, assessing performance and allocating resources. Consequently, beginning on July 1, 2017, our segment reporting structure was amended to align with these changes, and our financial results are now presented as two reportable segments: Retail and Foodservice. See Note 10 for additional details. All historical information was retroactively conformed to the current presentation.

Use of Estimates

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

Cash and Equivalents

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

Receivables and Related Allowances

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

Credit Risk

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

Inventories

Inventories are valued at the lower of cost or net realizable value and are costed by various methods that approximate actual cost on a first-in, first-out basis. Due to the nature of our business, work in process inventory is not a material component of inventory. When necessary, we provide allowances to adjust the carrying value of our inventory to the

lower of cost or net realizable value, including any costs to sell or dispose. The determination of whether inventory items are slow moving, obsolete or in excess of needs requires estimates about the future demand for our products. The estimates as to future demand used in the valuation of inventory are subject to the ongoing success of our products and may differ from actual due to factors such as changes in customer and consumer demand.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Property, Plant and Equipment

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

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

| | 2018 | 2017 | 2016 |
|--|---------|-------|---------|
| Construction in progress in Accounts Payable | \$2,070 | \$622 | \$1,000 |

The following table sets forth depreciation expense in each of the years ended June 30:

| | 2018 | 2017 | 2016 |
|----------------------|----------|----------|----------|
| Depreciation expense | \$22,168 | \$20,430 | \$20,114 |

Long-Lived Assets

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

Goodwill and Other Intangible Assets

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

Accrued Distribution

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

Accruals for Self-Insurance

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

Shareholders' Equity

We are authorized to issue 3,050,000 shares of preferred stock consisting of 750,000 shares of Class A Participating Preferred Stock with \$1.00 par value, 1,150,000 shares of Class B Voting Preferred Stock without par value and 1,150,000 shares of Class C Nonvoting Preferred Stock without par value. Our Board of Directors approved a share repurchase authorization of 2,000,000 common shares in November 2010. At June 30, 2018, 1,402,219 common shares remained authorized for future purchase.

Revenue Recognition

We recognize revenue upon transfer of title and risk of loss, provided that evidence of an arrangement exists, pricing is fixed or determinable, and collectability is probable. Net sales are recorded net of estimated sales discounts, returns,

trade promotions and certain other sales incentives, including coupon redemptions and rebates. See discussion of new accounting guidance for revenue recognition, which will be applicable for us beginning on July 1, 2018, under the caption “Recently Issued Accounting Standards” below.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Advertising Expense

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

| | 2018 | 2017 | 2016 |
|--|------|------|------|
| Advertising expense as a percentage of net sales | 2 % | 3 % | 3 % |

Research and Development Costs

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

Distribution Costs

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

Stock-Based Employee Compensation Plans

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

Income Taxes

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

Our annual effective tax rate is determined based on our income, statutory tax rates and the permanent tax impacts of items treated differently for tax purposes than for financial reporting purposes. Tax law requires certain items be included in the tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. See further discussion in Note 9.

Realization of certain deferred tax assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to the expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not that our deferred tax assets will be realized and thus we have not recorded any valuation allowance for the years ended June 30, 2018 or 2017.

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

Earnings Per Share

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

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

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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:

| | 2018 | 2017 | 2016 |
|--|-----------|-----------|-----------|
| Net income | \$135,314 | \$115,314 | \$121,764 |
| Net income available to participating securities | (271) | (196) | (242) |
| Net income available to common shareholders | \$135,043 | \$115,118 | \$121,522 |

| | | | |
|--|--------|--------|--------|
| Weighted average common shares outstanding - basic | 27,403 | 27,376 | 27,336 |
|--|--------|--------|--------|

Incremental share effect from:

| | | | |
|--|--------|--------|--------|
| Nonparticipating restricted stock | 3 | 3 | 3 |
| Stock-settled stock appreciation rights | 53 | 61 | 34 |
| Weighted average common shares outstanding - diluted | 27,459 | 27,440 | 27,373 |

| | | | |
|-------------------------------------|--------|--------|--------|
| Net income per common share - basic | \$4.93 | \$4.21 | \$4.45 |
|-------------------------------------|--------|--------|--------|

| | | | |
|---------------------------------------|--------|--------|--------|
| Net income per common share - diluted | \$4.92 | \$4.20 | \$4.44 |
|---------------------------------------|--------|--------|--------|

Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

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

Included in other comprehensive income (loss) are pension and postretirement benefits adjustments.

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

| | 2018 | 2017 |
|---|-----------|------------|
| Accumulated other comprehensive loss at beginning of year | \$(8,936) | \$(11,350) |
| Defined Benefit Pension Plan Items: | | |
| Net gain arising during the period | 2,987 | 3,339 |
| Amortization of unrecognized net loss ⁽¹⁾ | 572 | 715 |
| Postretirement Benefit Plan Items: ⁽²⁾ | | |
| Net gain (loss) arising during the period | 54 | (5) |
| Amortization of unrecognized net gain | (36) | (38) |
| Amortization of prior service credit | (182) | (182) |
| Total other comprehensive income, before tax | 3,395 | 3,829 |
| Total tax expense | (829) | (1,415) |
| Other comprehensive income, net of tax | 2,566 | 2,414 |
| Tax Cuts and Jobs Act of 2017, Reclassification from accumulated other comprehensive loss to retained earnings ⁽³⁾ | (1,889) | — |
| Accumulated other comprehensive loss at end of year | \$(8,259) | \$(8,936) |

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

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

(3) See further discussion of this reclassification under the caption “Recently Adopted Accounting Standards” within Note 1.

Recently Issued Accounting Standards

In March 2017, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by disaggregating the service cost component from the other components of net periodic benefit cost. The amendments require an employer to present service cost in the same line item(s) as compensation costs for the pertinent employees whereas the other components of net periodic benefit cost must be reported separately from service cost and outside of income from operations. The amendments also allow only the service cost component to be eligible for capitalization. The

amendments require retrospective application for the income statement presentation provisions and prospective application for the capitalization of the service cost component. However, as a result of prior years' restructuring activities, we no longer have any active employees continuing to accrue service cost.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Therefore, the service cost provisions are not applicable to us, and we expect only changes in classification on the income statement. We will adopt the new guidance on July 1, 2018.

In May 2014, the FASB issued new accounting guidance for the recognition of revenue and issued subsequent clarifications of this new guidance in 2016 and 2017. The core principle of the new guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model is based on a control approach rather than the current risks and rewards model. We have completed a review of selected customer contracts and evaluated the impact of the new standard on certain common practices currently employed by us and by other manufacturers of consumer products. We have also finalized our assessment of the impact this standard will have on our accounting policies, processes, system requirements, internal controls and disclosures using internal resources and the assistance of a third party. We will adopt the new guidance on July 1, 2018 using a modified retrospective approach, but we will not record a cumulative-effect adjustment from initially applying the standard as the adoption will not have a material impact on our financial position or results of operations. There will be additional required disclosures in the notes to the consolidated financial statements upon adoption.

In February 2016, the FASB issued new accounting guidance to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months and issued subsequent clarifications of this new guidance in 2018. This guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record a right-of-use asset and a lease liability based upon the present value of the lease payments. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the consolidated financial statements. The guidance will be effective for us in fiscal 2020 including interim periods. In July 2018, the FASB issued guidance that allows for an alternate transition method whereby companies can recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than restating comparative periods. We are currently evaluating the impact of this guidance.

Recently Adopted Accounting Standards

In February 2018, the FASB issued new accounting guidance to allow a reclassification from accumulated other comprehensive income/loss to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Act"). GAAP requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax rates with the effect of the change included in income from continuing operations even when the related income tax effects of items in accumulated other comprehensive income/loss were originally recognized in other comprehensive income rather than in income from continuing operations. We adopted the new guidance on a prospective basis in the quarter ended March 31, 2018 and elected to reclassify these stranded tax effects resulting from the Tax Act from accumulated other comprehensive loss to retained earnings in the period of adoption. These tax effects related to the impact of the change in the federal income tax rate on pension and postretirement benefit amounts remaining in accumulated other comprehensive loss, and the reclassification resulted in a net increase in accumulated other comprehensive loss of \$1.9 million and a corresponding increase in retained earnings. Our accounting policy is to release stranded tax effects from accumulated other comprehensive loss. As this guidance only relates to balance sheet classification, there was no impact on the Consolidated Statements of Income.

In March 2016, the FASB issued new accounting guidance to simplify the accounting for stock-based compensation. The amendments include changes to the accounting for share-based payment transactions, including: the inclusion of the tax consequences related to stock-based compensation within the computation of income tax expense versus equity; the classification of awards as either equity or liabilities; and the classification of share-based activity on the

statement of cash flows. The adoption may result in increased volatility to our quarterly and annual income tax expense and resulting net income in future periods dependent upon, among other variables, the price of our common stock and the timing and volume of share-based payment award activity such as employee exercises of stock-settled stock appreciation rights and vesting of restricted stock awards. We adopted the new guidance on July 1, 2017 and elected to continue to estimate forfeitures. The adoption of this guidance resulted in 1) the prospective recognition of windfall tax benefits and shortfall tax deficiencies in income tax expense; 2) the retrospective reclassification of windfall tax benefits on the Consolidated Statements of Cash Flows from financing activities to operating activities; and 3) the retrospective reclassification of employee tax withholdings on the Consolidated Statements of Cash Flows from operating activities to financing activities. There was no material impact on our consolidated financial statements as a result of this adoption.

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Note 2 – Acquisition

On November 17, 2016, we acquired substantially all of the assets of Angelic Bakehouse, Inc. (“Angelic”). Angelic, a privately owned manufacturer and marketer of premium sprouted grain bakery products, is based near Milwaukee, Wisconsin. The purchase price of \$35.5 million was funded by cash on hand and includes immaterial post-closing adjustments, which were paid in April 2017 and July 2017, but excludes contingent consideration relating to an additional earn-out payment which is tied to performance-based conditions. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Angelic for fiscal 2021. We are unable to provide a range for the amount of this earn-out because it is based on the future adjusted EBITDA of Angelic, and the earn-out does not contain a minimum or maximum value. See further discussion of the earn-out in Note 3. Angelic is reported in our Retail segment, and its results of operations have been included in our consolidated financial statements from the date of acquisition.

The following table summarizes the consideration related to the acquisition and the final purchase price allocation based on the fair value of the net assets acquired:

| | |
|--|----------|
| Consideration | |
| Purchase price | \$35,487 |
| Contingent consideration - fair value of earn-out at date of closing | 13,872 |
| Fair value of total consideration | \$49,359 |
| Purchase Price Allocation | |
| Trade receivables | \$831 |
| Other receivables | 550 |
| Inventories | 430 |
| Other current assets | 19 |
| Property, plant and equipment | 5,083 |
| Goodwill (tax deductible) | 24,242 |
| Other intangible assets | 18,749 |
| Current liabilities | (545) |
| Net assets acquired | \$49,359 |

Note 3 – Fair Value

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

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

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

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

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

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Our contingent consideration, which is measured at fair value on a recurring basis, is included in Other Noncurrent Liabilities on the Consolidated Balance Sheets. The following table summarizes our contingent consideration as of June 30:

| | Fair Value Measurements at June 30, 2018 | | |
|--|--|------------|---------------|
| | Level 1 | Level 2 | Level 3 Total |
| Acquisition-related contingent consideration | \$— | — | \$17,080 |

| | Fair Value Measurements at June 30, 2017 | | |
|--|--|------------|---------------|
| | Level 1 | Level 2 | Level 3 Total |
| Acquisition-related contingent consideration | \$— | — | \$15,028 |

The contingent consideration resulted from the earn-out associated with our November 17, 2016 acquisition of Angelic. The purchase price did not include the future earn-out payment which is tied to performance-based conditions. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Angelic for fiscal 2021. The fair value of the contingent consideration was estimated using a present value approach, which incorporates factors such as business risks and projections, to estimate an expected value. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Using this valuation technique, the fair value of the contingent consideration was determined to be \$13.9 million at November 17, 2016. The following table represents our Level 3 fair value measurements using significant other unobservable inputs for acquisition-related contingent consideration:

| | 2018 | 2017 |
|--|----------|----------|
| Acquisition-related contingent consideration at beginning of year | \$15,028 | \$— |
| Additions | — | 13,872 |
| Changes in fair value included in Selling, General and Administrative Expenses | 2,052 | 1,156 |
| Acquisition-related contingent consideration at end of year | \$17,080 | \$15,028 |

Note 4 – Long-Term Debt

At June 30, 2018 and 2017, we had an unsecured credit facility (“Facility”) under which we could borrow, on a revolving credit basis, up to a maximum of \$150 million at any one time, with potential to expand the total credit availability to \$225 million subject to us obtaining consent of the issuing banks and certain other conditions. The Facility expires on April 8, 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be classified as long-term debt.

At June 30, 2018 and 2017, we had no borrowings outstanding under the Facility. At June 30, 2018, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. We paid no interest in 2018 and 2017.

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

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Note 5 – Commitments

We have operating leases with initial noncancelable lease terms in excess of one year covering the rental of various facilities and equipment, which expire at various dates through fiscal year 2027. Certain of these leases contain renewal options, some provide options to purchase during the lease term and some require contingent rentals. The future minimum rental commitments due under these leases are summarized as follows:

| | |
|------------|---------|
| 2019 | \$6,839 |
| 2020 | \$4,736 |
| 2021 | \$3,475 |
| 2022 | \$2,781 |
| 2023 | \$1,493 |
| Thereafter | \$3,828 |

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

| | 2018 | 2017 | 2016 |
|------------------------------|---------|---------|---------|
| Operating leases: | | | |
| Minimum rentals | \$6,663 | \$6,529 | \$5,298 |
| Contingent rentals | — | 4 | 11 |
| Short-term cancelable leases | 1,257 | 1,508 | 1,611 |
| Total | \$7,920 | \$8,041 | \$6,920 |

Note 6 – Contingencies

In addition to the items discussed below, at June 30, 2018, 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.

With our acquisition of Angelic, we have a contingent liability recorded for the earn-out associated with the transaction. See further discussion in Note 3.

20% of our employees are represented under various collective bargaining contracts. The labor contract for our Milpitas, California plant facility, which produces various sauce and dressing products, will expire on December 15, 2018. 4% of our employees are represented under this collective bargaining contract. None of our other collective bargaining contracts will expire within one year.

Note 7 – Goodwill and Other Intangible Assets

As described in Notes 1 and 10, we changed our reportable segments as of July 1, 2017 when our organizational structure changed. Using a relative fair value approach, we reassigned our existing goodwill balance to the two new reporting units that directly align with our new Retail and Foodservice reportable segments. Based on this approach, goodwill attributable to the Retail and Foodservice segments was \$119.3 million and \$48.7 million, respectively, at June 30, 2018 and 2017.

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

| | 2018 | 2017 |
|---|----------|----------|
| Tradenames (20 to 30-year life) | | |
| Gross carrying value | \$50,321 | \$50,321 |
| Accumulated amortization | (5,071) | (3,130) |
| Net carrying value | \$45,250 | \$47,191 |
| Trademarks (27-year life) | | |
| Gross carrying value | \$370 | \$370 |
| Accumulated amortization | (370) | (241) |
| Net carrying value | \$— | \$129 |
| Customer Relationships (10 to 15-year life) | | |
| Gross carrying value | \$14,207 | \$14,207 |
| Accumulated amortization | (8,283) | (7,160) |
| Net carrying value | \$5,924 | \$7,047 |
| Technology / Know-how (10-year life) | | |
| Gross carrying value | \$6,350 | \$6,350 |
| Accumulated amortization | (1,682) | (1,047) |
| Net carrying value | \$4,668 | \$5,303 |
| Non-compete Agreements (5-year life) | | |
| Gross carrying value | \$791 | \$791 |
| Accumulated amortization | (457) | (299) |
| Net carrying value | \$334 | \$492 |
| Total net carrying value | \$56,176 | \$60,162 |

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

| | 2018 | 2017 | 2016 |
|----------------------|---------|---------|---------|
| Amortization expense | \$3,986 | \$3,453 | \$2,905 |

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

| | |
|------|---------|
| 2019 | \$3,858 |
| 2020 | \$3,823 |
| 2021 | \$3,738 |
| 2022 | \$3,664 |
| 2023 | \$3,105 |

Note 8 – Liabilities

Accrued liabilities at June 30 were composed of:

| | 2018 | 2017 |
|------------------------------------|----------|----------|
| Compensation and employee benefits | \$23,135 | \$21,864 |
| Distribution | 8,579 | 7,711 |
| Other taxes | 1,306 | 1,266 |
| Marketing | 485 | 1,197 |
| Other | 2,284 | 3,232 |
| Total accrued liabilities | \$35,789 | \$35,270 |

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Other noncurrent liabilities at June 30 were composed of:

| | 2018 | 2017 |
|--|----------|----------|
| Acquisition-related contingent consideration | \$17,080 | \$15,028 |
| Workers compensation | 12,850 | 8,492 |
| Deferred compensation and accrued interest | 4,611 | 4,968 |
| Pension benefit liability | 1,312 | 4,344 |
| Gross tax contingency reserve | 1,298 | 1,241 |
| Postretirement benefit liability | 926 | 968 |
| Other | 3,561 | 3,557 |
| Total other noncurrent liabilities | \$41,638 | \$38,598 |

Note 9 – Income Taxes

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

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 allows for a measurement period in which companies can either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates cannot be determined at the time of the preparation of the financial statements until the actual impacts can be determined. We recorded an estimate of the impact of the Tax Act within our December 31, 2017 financial statements, including the impact of items recorded within accumulated other comprehensive loss. There were no material changes to these estimates in the six months ended June 30, 2018. We will continue to evaluate the impacts of the Tax Act and record adjustments, as needed, including adjustments related to the filing of our 2018 federal tax return, but do not expect material changes to the amounts recorded. In February 2018, the FASB issued new accounting guidance to allow a reclassification from accumulated other comprehensive income/loss to retained earnings for stranded tax effects resulting from the Tax Act. We recorded this reclassification in the quarter ended March 31, 2018. See further discussion under the caption “Recently Adopted Accounting Standards” in Note 1.

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

| | 2018 | 2017 | 2016 |
|---|----------|----------|----------|
| Currently payable: | | | |
| Federal | \$40,766 | \$51,524 | \$57,116 |
| State and local | 7,355 | 6,319 | 6,502 |
| Total current provision | 48,121 | 57,843 | 63,618 |
| Deferred federal, state and local (benefit) provision | (9,232) | 2,359 | (749) |
| Total taxes based on income | \$38,889 | \$60,202 | \$62,869 |

In 2018, we adopted new accounting guidance for stock-based compensation. One of the changes resulting from this new guidance is the inclusion of the tax consequences related to stock-based compensation within the computation of income tax expense versus equity. We adopted this provision on a prospective basis. Prior to 2018, certain tax benefits were recorded directly to common stock, and these amounts totaled \$1.1 million and \$1.4 million for 2017 and 2016, respectively.

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

| | 2018 | 2017 | 2016 |
|--|--------|--------|--------|
| Statutory rate | 28.1 % | 35.0 % | 35.0 % |
| State and local income taxes | 3.0 | 2.4 | 2.3 |
| One-time benefit on re-measurement of net deferred tax liability | (5.5) | — | — |
| Domestic manufacturing deduction for qualified income | (2.3) | (2.8) | (3.0) |
| Net windfall tax benefits - stock-based compensation | (0.4) | — | — |
| ESOP dividend deduction | (0.1) | (0.1) | (0.4) |
| Other | (0.5) | (0.2) | 0.2 |
| Effective rate | 22.3 % | 34.3 % | 34.1 % |

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

| | 2018 | 2017 |
|-------------------------------------|------------|------------|
| Deferred tax assets: | | |
| Employee medical and other benefits | \$6,407 | \$10,349 |
| Receivables | 3,992 | 5,314 |
| Inventories | 1,112 | 1,041 |
| Other accrued liabilities | 1,029 | 1,905 |
| Total deferred tax assets | 12,540 | 18,609 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (15,551) | (22,188) |
| Intangible assets | (8,518) | (14,070) |
| Goodwill | (5,044) | (7,092) |
| Other | (231) | (466) |
| Total deferred tax liabilities | (29,344) | (43,816) |
| Net deferred tax liability | \$(16,804) | \$(25,207) |

Prepaid federal income taxes of \$3.6 million and \$6.1 million were included in Other Current Assets at June 30, 2018 and 2017, respectively. Prepaid state and local income taxes of \$0.9 million were included in Other Current Assets at June 30, 2018 and 2017.

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

| | 2018 | 2017 | 2016 |
|------------------------------------|----------|----------|----------|
| Net cash payments for income taxes | \$46,198 | \$59,008 | \$62,901 |

The gross tax contingency reserve at June 30, 2018 was \$1.3 million and consisted of estimated tax liabilities of \$0.7 million and interest and penalties of \$0.6 million. The unrecognized tax benefits recorded as the gross tax contingency reserve noted in the following table for June 30, 2018 and 2017 would affect our effective tax rate, if recognized.

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

| | 2018 | 2017 |
|--|---------|---------|
| Balance, beginning of year | \$1,808 | \$1,599 |
| Tax positions related to the current year: | | |
| Additions | 12 | 82 |
| Reductions | — | — |
| Tax positions related to prior years: | | |
| Additions | 86 | 153 |
| Reductions | (41) | (26) |
| Lapse of statute of limitations | (567) | — |
| Settlements | — | — |
| Balance, end of year | \$1,298 | \$1,808 |

We have not classified any of the gross tax contingency reserve at June 30, 2018 in Accrued Liabilities as none of these amounts are expected to be resolved within the next 12 months. Consequently, the entire liability of \$1.3 million was included in Other Noncurrent Liabilities. We expect that the amount of these liabilities will change within the next 12 months; however, we do not expect the change to have a significant effect on our financial position or results of operations.

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

| | 2018 | 2017 |
|---|--------|-------|
| (Benefit) expense recognized for net tax-related interest and penalties | \$(78) | \$112 |

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

| | 2018 | 2017 |
|--|-------|-------|
| Accrued interest and penalties included in the gross tax contingency reserve | \$605 | \$683 |

We file federal and various state and local income tax returns in the United States. With limited exceptions, we are no longer subject to examination of U.S. federal or state and local income taxes for years prior to 2015.

The American Jobs Creation Act provided a tax deduction calculated as a percentage of qualified income from manufacturing in the United States. The deduction percentage for 2018 was 9%. In accordance with FASB guidance, this deduction is treated as a special deduction, as opposed to a tax rate reduction and is properly reflected in the effective tax rate table. This deduction was repealed by the Tax Act. Therefore, 2018 is the final year that we will be able to claim this deduction.

Note 10 – Business Segment Information

Effective July 1, 2017, David A. Ciesinski, our President and Chief Operating Officer, succeeded John B. Gerlach, Jr. as CEO. As President and CEO, Mr. Ciesinski became our principal executive officer and CODM. This change resulted in modifications to the CODM's approach to managing the business, assessing performance and allocating resources. Consequently, beginning on July 1, 2017, our segment reporting structure was amended to align with these changes, and our financial results are now presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied. All historical information was retroactively conformed to the current presentation. These segment changes had no effect on previously reported consolidated net sales, operating income, net income or earnings per share. We continue to evaluate our segments based on net sales and operating income.

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

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Foodservice - The vast majority of the products we sell in the Foodservice segment are sold through sales personnel, food brokers and distributors in the United States. Most of the products we sell in the Foodservice segment are custom-formulated and include salad dressings, sandwich and dipping sauces, frozen breads and yeast rolls. The majority of our Foodservice sales are products sold under private label to restaurants. We also manufacture and sell various branded Foodservice products.

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

The following table sets forth net sales contributed by each class of similar products in each of the years ended June 30:

| | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| Retail | | | |
| Frozen breads | \$252,186 | \$253,965 | \$240,799 |
| Refrigerated dressings, dips and other | 226,276 | 221,422 | 212,640 |
| Shelf-stable dressings and croutons | 171,772 | 166,030 | 165,945 |
| Total Retail net sales | \$650,234 | \$641,417 | \$619,384 |
| Foodservice | | | |
| Dressings and sauces | \$430,944 | \$427,017 | \$435,747 |
| Frozen breads and other | 141,747 | 133,408 | 135,978 |
| Total Foodservice net sales | \$572,691 | \$560,425 | \$571,725 |
| Total net sales | \$1,222,925 | \$1,201,842 | \$1,191,109 |

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

| | 2018 | 2017 | 2016 |
|--|--------------|--------------|--------------|
| Net Sales ^{(1) (2)} | | | |
| Retail | \$ 650,234 | \$ 641,417 | \$ 619,384 |
| Foodservice | 572,691 | 560,425 | 571,725 |
| Total | \$ 1,222,925 | \$ 1,201,842 | \$ 1,191,109 |
| Operating Income ⁽²⁾ | | | |
| Retail | \$ 126,391 | \$ 138,470 | \$ 134,900 |
| Foodservice | 58,432 | 66,216 | 61,692 |
| Multiemployer Pension Settlement and Related Costs | — | (17,635) | — |
| Corporate Expenses ⁽³⁾ | (12,716) | (12,303) | (12,022) |
| Total | \$ 172,107 | \$ 174,748 | \$ 184,570 |
| Identifiable Assets ^{(1) (4)} | | | |
| Retail & Foodservice ⁽⁵⁾ | \$ 589,509 | \$ 577,509 | \$ 515,553 |
| Corporate | 214,982 | 138,896 | 119,179 |
| Total | \$ 804,491 | \$ 716,405 | \$ 634,732 |
| Capital Expenditures | | | |
| Retail & Foodservice ⁽⁵⁾ | \$ 31,025 | \$ 26,031 | \$ 16,652 |
| Corporate | — | 974 | 19 |
| Total | \$ 31,025 | \$ 27,005 | \$ 16,671 |
| Depreciation and Amortization | | | |
| Retail & Foodservice ⁽⁵⁾ | \$ 26,685 | \$ 24,752 | \$ 24,001 |
| Corporate | 211 | 154 | 146 |
| Total | \$ 26,896 | \$ 24,906 | \$ 24,147 |

(1) Net sales and long-lived assets are predominately domestic.

(2) All intercompany transactions have been eliminated.

Our Corporate Expenses include various expenses of a general corporate nature, as well as costs related to certain divested or closed nonfood operations, including the expense associated with retirement plans applicable to those closed units. By their very nature, these costs have not been allocated to the Retail and Foodservice segments.

Retail and Foodservice identifiable assets include those assets used in our operations and other intangible assets allocated to purchased businesses. Corporate assets consist principally of cash and equivalents. The increase in Corporate identifiable assets from June 30, 2017 to June 30, 2018 was primarily due to the increase in cash and equivalents. The increase in Retail and Foodservice identifiable assets from June 30, 2016 to June 30, 2017 was due to the acquisition of Angelic.

(5) As discussed above, we do not present identifiable assets, capital expenditures or depreciation and amortization by reportable segment.

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

| | 2018 | 2017 | 2016 |
|---|------------|------------|------------|
| Net sales to Walmart | \$ 209,860 | \$ 201,484 | \$ 189,417 |
| As a percentage of consolidated net sales | 17 % | 17 % | 16 % |
| Net sales to McLane | \$ 185,226 | \$ 198,153 | \$ 232,241 |

As a percentage of consolidated net sales 15 % 16 % 19 %

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(Tabular amounts in thousands, except per share data)

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

| | 2018 | 2017 |
|---------|------|------|
| Walmart | 28 % | 26 % |
| McLane | 11 % | 12 % |

Note 11 – Stock-Based Compensation

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

We adopted new accounting guidance for stock-based compensation on July 1, 2017. See further discussion in Note 1. We recognize compensation expense over the requisite service period of the grant. Compensation expense is reflected in Cost of Sales or Selling, General and Administrative Expenses based on the grantees’ salaries expense classification. We record tax benefits and excess tax benefits related to stock-settled stock appreciation rights (“SSSARs”) and restricted stock awards. These excess tax benefits are included in the operating section of the Consolidated Statements of Cash Flows. We estimate a forfeiture rate for our SSSARs and restricted stock grants based on historical experience.

Stock-Settled Stock Appreciation Rights

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

In 2018, 2017 and 2016, we granted SSSARs to various employees under the terms of the plans. The following table summarizes information relating to these grants:

| | 2018 | 2017 | 2016 |
|--|---------|---------|-----------|
| SSSARs granted | 185 | 166 | 240 |
| Weighted average grant date fair value per right | \$17.85 | \$17.59 | \$12.23 |
| Weighted average assumptions used in fair value calculations: | | | |
| Risk-free interest rate | 2.39 | % 1.36 | % 0.86 % |
| Dividend yield | 1.98 | % 1.64 | % 1.93 % |
| Volatility factor of the expected market price of our common stock | 22.57 | % 22.41 | % 20.88 % |
| Expected life in years | 2.85 | 2.47 | 2.69 |

For these grants, the volatility factor was estimated based on actual historical volatility of our stock for a time period equal to the term of the SSSARs. The expected average life was determined based on historical exercise experience for this type of grant. The SSSARs we grant vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date and one-third on the third anniversary of the grant date.

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

| | 2018 | 2017 | 2016 |
|--|------|------|------|
|--|------|------|------|

| | | | |
|------------------------------|---------|---------|---------|
| Compensation expense | \$2,455 | \$1,882 | \$1,472 |
| Tax benefits | \$690 | \$659 | \$515 |
| Intrinsic value of exercises | \$2,381 | \$2,281 | \$3,788 |
| Excess tax benefits | \$669 | \$798 | \$1,341 |

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

| | 2018 | 2017 | 2016 |
|-----------------------------|---------|---------|---------|
| Fair value of vested rights | \$2,330 | \$1,916 | \$1,192 |

The following table summarizes the activity relating to SSSARs granted under the plans for the year ended June 30, 2018:

| | Number of Rights | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life in Years | Aggregate Intrinsic Value |
|--|------------------|---------------------------------|--|---------------------------|
| Outstanding at beginning of year | 521 | \$ 109.70 | | |
| Exercised | (105) | \$ 93.67 | | |
| Granted | 185 | \$ 121.09 | | |
| Forfeited | (15) | \$ 115.85 | | |
| Outstanding at end of year | 586 | \$ 115.99 | 3.42 | \$ 13,156 |
| Exercisable and vested at end of year | 225 | \$ 107.41 | 2.54 | \$ 6,986 |
| Vested and expected to vest at end of year | 562 | \$ 116.31 | 3.42 | \$ 12,423 |

The following table summarizes information about the SSSARs outstanding by grant year at June 30, 2018:

| Grant Years | Outstanding | | Weighted Average Remaining Contractual Life in Years | | Exercisable | |
|-------------|--------------------------|--------------------|--|----------------|--------------------|---------------------------------|
| | Range of Exercise Prices | Number Outstanding | Contractual Life in Years | Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| 2018 | \$117.76-\$124.29 | 181 | 4.65 | \$121.09 | — | \$— |
| 2017 | \$121.54-\$138.96 | 159 | 3.67 | \$134.01 | 54 | \$134.03 |
| 2016 | \$101.70-\$112.62 | 172 | 2.70 | \$104.73 | 97 | \$105.26 |
| 2015 | \$91.13 | 63 | 1.65 | \$91.13 | 63 | \$91.13 |
| 2014 | \$89.29 | 11 | 0.66 | \$89.29 | 11 | \$89.29 |

At June 30, 2018, there was \$4.7 million of unrecognized compensation expense related to SSSARs that we will recognize over a weighted-average period of 2 years.

Restricted Stock

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

In 2018, 2017 and 2016, we granted shares of restricted stock to various employees under the terms of the plans. The following table summarizes information relating to these grants:

| | 2018 | 2017 | 2016 |
|--|----------|----------|----------|
| Employees | | | |
| Restricted stock granted | 27 | 12 | 28 |
| Grant date fair value | \$3,218 | \$1,591 | \$2,923 |
| Weighted average grant date fair value per award | \$121.09 | \$134.07 | \$102.89 |

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

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(Tabular amounts in thousands, except per share data)

In 2018, 2017 and 2016, we also granted shares of restricted stock to our nonemployee directors under the terms of the plans. The following table summarizes information relating to each of these grants:

| | 2018 | 2017 | 2016 |
|--|----------|----------|----------|
| Nonemployee directors | | | |
| Restricted stock granted | 6 | 5 | 6 |
| Grant date fair value | \$759 | \$759 | \$639 |
| Weighted average grant date fair value per award | \$123.11 | \$138.96 | \$112.05 |

The 2018 grant vests over a one-year period, and all of these shares are expected to vest. Dividends earned on the stock during the vesting period will be paid to the directors at the time the stock vests.

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

| | 2018 | 2017 | 2016 |
|----------------------|---------|---------|---------|
| Compensation expense | \$2,584 | \$2,366 | \$1,854 |
| Tax benefits | \$726 | \$828 | \$649 |
| Excess tax benefits | \$92 | \$325 | \$76 |

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

| | 2018 | 2017 | 2016 |
|-----------------------------|---------|---------|---------|
| Fair value of vested shares | \$1,508 | \$2,420 | \$1,124 |

The following table summarizes the activity relating to restricted stock granted under the plans for the year ended June 30, 2018:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|--|------------------|--|
| Unvested restricted stock at beginning of year | 52 | \$ 111.87 |
| Granted | 33 | \$ 121.47 |
| Vested | (13) | \$ 110.60 |
| Forfeited | (4) | \$ 107.86 |
| Unvested restricted stock at end of year | 68 | \$ 116.99 |

At June 30, 2018, there was \$4.2 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of 2 years.

Note 12 – Pension Benefits

Defined Benefit Pension Plans

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

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

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

| | 2018 | 2017 |
|---|-------|-------|
| Weighted-average assumption as of June 30 | | |
| Discount rate | 4.07% | 3.68% |

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES

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(Tabular amounts in thousands, except per share data)

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

| | 2018 | 2017 | 2016 |
|--|-------|-------|-------|
| Discount rate | 3.68% | 3.39% | 4.12% |
| Expected long-term return on plan assets | 7.00% | 7.00% | 7.00% |

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

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

| | Target Percentage | | Actual Percentage of Plan Assets | |
|----------------------|-------------------|------|----------------------------------|---|
| | of Plan Assets at | | of Plan Assets | |
| | June 30 | | | |
| | 2018 | 2018 | 2017 | |
| Cash and equivalents | 0%-10% | 5 | 3 | % |
| Equity securities | 30%-70% | 51 | 49 | |
| Fixed income | 30%-70% | 44 | 48 | |
| Total | | 100 | 100 | % |

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

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

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

| Asset Category | June 30, 2017 | | | |
|----------------------|---------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and equivalents | \$472 | \$— | \$— | —\$472 |
| Money market funds | 599 | — | — | 599 |

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| | | | | |
|-----------------------------|----------|---------|----|-----------|
| U.S. government obligations | — | 3,598 | — | 3,598 |
| Municipal obligations | — | 36 | — | 36 |
| Corporate obligations | — | 3,805 | — | 3,805 |
| Mortgage obligations | — | 2,199 | — | 2,199 |
| Mutual funds fixed income | 8,109 | — | — | 8,109 |
| Mutual funds equity | 17,951 | — | — | 17,951 |
| Total | \$27,131 | \$9,638 | \$ | —\$36,769 |

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

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

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

| | 2018 | 2017 | | 2018 | 2017 |
|--|----------|-----------|----------|-----------|------|
| Change in benefit obligation | | | | | |
| Benefit obligation at beginning of year | \$40,941 | \$44,152 | | | |
| Interest cost | 1,463 | 1,457 | | | |
| Actuarial gain | (3,070) | (2,297) | | | |
| Benefits paid | (2,442) | (2,371) | | | |
| Benefit obligation at end of year | \$36,892 | \$40,941 | | | |
| Change in plan assets | | | | | |
| Fair value of plan assets at beginning of year | \$36,769 | \$35,682 | | | |
| Actual return on plan assets | 2,366 | 3,458 | | | |
| Employer contributions | 20 | — | | | |
| Benefits paid | (2,442) | (2,371) | | | |
| Fair value of plan assets at end of year | \$36,713 | \$36,769 | | | |
| Reconciliation of funded status | | | | | |
| Net accrued benefit cost | \$(179) | \$(4,172) | | | |
| | | | 2018 | 2017 | |
| Amounts recognized in the Consolidated Balance Sheets consist of | | | | | |
| Prepaid benefit cost (Other Noncurrent Assets) | | | \$1,133 | \$172 | |
| Accrued benefit liability (Other Noncurrent Liabilities) | | | (1,312) | (4,344) | |
| Net amount recognized | | | \$(179) | \$(4,172) | |

| | 2018 | 2017 |
|--------------------------------|----------|----------|
| Accumulated benefit obligation | \$36,892 | \$40,941 |

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

| | 2018 | 2017 |
|--|---------|----------|
| Benefit obligations | \$6,012 | \$38,236 |
| Fair value of plan assets at end of year | \$4,700 | \$33,892 |

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

| | 2018 | 2017 |
|--------------------|----------|----------|
| Net actuarial loss | \$12,821 | \$16,380 |
| Income taxes | (2,996) | (6,052) |
| Total | \$9,825 | \$10,328 |

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost during the next fiscal year is as follows:

| | 2019 |
|--------------------|-------|
| Net actuarial loss | \$447 |

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

| | 2018 | 2017 | 2016 |
|---|----------|----------|----------|
| Components of net periodic benefit income | | | |
| Interest cost | \$1,463 | \$1,457 | \$1,685 |
| Expected return on plan assets | (2,491) | (2,416) | (2,520) |
| Amortization of unrecognized net loss | 572 | 715 | 539 |
| Settlement charge | 42 | — | — |
| Net periodic benefit income | \$(414) | \$(244) | \$(296) |

We have not yet finalized our anticipated funding level for 2019, but based on initial estimates, we do not expect our 2019 contributions to our pension plans to be material.

Benefit payments estimated for future years are as follows:

| | |
|-------------|----------|
| 2019 | \$2,364 |
| 2020 | \$2,383 |
| 2021 | \$2,389 |
| 2022 | \$2,401 |
| 2023 | \$2,396 |
| 2024 - 2028 | \$12,057 |

Note 13 – Defined Contribution and Other Employee Plans

Company-Sponsored Defined Contribution Plans

We sponsored four defined contribution plans established pursuant to Section 401(k) of the Internal Revenue Code during 2018. Contributions are determined under various formulas, and we contributed to two of these plans in 2018.

Costs related to such plans for each of the years ended June 30 were as follows:

| | 2018 | 2017 | 2016 |
|---|---------|---------|-------|
| Costs related to company-sponsored defined contribution plans | \$1,352 | \$1,111 | \$992 |

Multiemployer Plans

In the three years ended June 30, 2018, certain of our subsidiaries participated in multiemployer plans that provide pension benefits to retiree workers under collective bargaining contracts at such locations. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining contract, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

(1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers and (3) if a participating employer chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status

of the plan, referred to as a withdrawal liability.

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In 2017 the employees at our Bedford Heights, Ohio plant voted to ratify a new collective bargaining agreement. Among other terms, the new agreement provided for our complete withdrawal from the underfunded multiemployer Cleveland Bakers and Teamsters Pension Fund. As settlement of our portion of underfunded pension benefits of the multiemployer plan, we paid \$17.0 million in 2017 for a full withdrawal from the plan. Our participation in multiemployer pension plans for the three years ended June 30, 2018 is reflected in the following table. All information in the table is as of December 31 of the relevant year, except contributions which are based on our fiscal year, or except as otherwise noted. The EIN-PN column provides the Employer Identification Number (“EIN”) and the Plan Number (“PN”). The pension protection act zone status is based on information that we received from the plan. Among other factors, generally, plans in critical status (red zone) are less than 65 percent funded, plans in endangered or seriously endangered status (yellow zone or orange zone, respectively) are less than 80 percent funded, and plans at least 80 percent funded are said to be in the green zone. The FIP/RP status pending/implemented column indicates plans for which a funding improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented by the trustees of each plan. Except as noted below regarding contributions to the Cleveland Bakers and Teamsters Pension Fund, there have been no significant changes that affect the comparability of 2018, 2017 or 2016 contributions.

| Plan Name | EIN/PN | Pension Protection Act Zone Status | | FIP/RP Status Pending / Implemented | Fiscal Year Contributions ⁽¹⁾ | | | Surcharge Imposed | Expiration Date of Collective Bargaining Agreement |
|--|----------------|------------------------------------|-------------------|-------------------------------------|--|---------|---------|-------------------|--|
| | | 2017 | 2016 | | 2018 | 2017 | 2016 | | |
| Cleveland Bakers and Teamsters Pension Fund ⁽²⁾ | 34-0904419-001 | Red 12/31/16 | Red 12/31/15 | Yes, Implemented | \$— | \$2,098 | \$1,605 | No | n/a |
| Western Conference of Teamsters Pension Plan | 91-6145047-001 | Green 12/31/16 | Green 12/31/15 | No | 356 | 409 | 420 | No | 12/15/2018 |
| Total contributions to multiemployer plans | | | | | \$356 | \$2,507 | \$2,025 | | |

(1) Contributions do not include payments related to multiemployer pension withdrawals/settlements.

(2) As discussed above, we withdrew from this plan in 2017 and did not make any contributions in 2018. Our 2017 contributions included amounts related to a new collective bargaining contract.

Our contributions to the Cleveland Bakers and Teamsters Pension Fund exceeded 5% of the total contributions to the plan in the plan year ended December 31, 2016.

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

| | 2018 | 2017 | 2016 |
|---|---------|---------|---------|
| Multiemployer health and welfare plan contributions | \$3,167 | \$3,570 | \$3,559 |

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

respectively, including \$0.6 million to initially fund this 401(k) plan in 2017.

Deferred Compensation Plan

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

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

| | 2018 | 2017 |
|--|---------|---------|
| Liability for deferred compensation and accrued interest | \$4,611 | \$4,968 |

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

2018 2017 2016

Deferred compensation expense \$210 \$170 \$151

Note 14 – Selected Quarterly Financial Data (Unaudited)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|--|------------------|-------------------|------------------|-------------------|-------------|
| 2018 | | | | | |
| Net Sales | \$298,916 | \$319,665 | \$296,174 | \$308,170 | \$1,222,925 |
| Gross Profit | \$75,477 | \$83,941 | \$67,913 | \$76,182 | \$303,513 |
| Net Income ⁽¹⁾ | \$29,386 | \$45,920 | \$27,621 | \$32,387 | \$135,314 |
| Diluted Net Income Per Common Share ^{(1) (3)} | \$1.07 | \$1.67 | \$1.00 | \$1.18 | \$4.92 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|--|------------------|-------------------|------------------|-------------------|-------------|
| 2017 | | | | | |
| Net Sales | \$291,361 | \$326,773 | \$293,834 | \$289,874 | \$1,201,842 |
| Gross Profit | \$80,634 | \$93,739 | \$71,905 | \$72,486 | \$318,764 |
| Net Income ⁽²⁾ | \$33,400 | \$38,956 | \$14,471 | \$28,487 | \$115,314 |
| Diluted Net Income Per Common Share ^{(2) (3)} | \$1.22 | \$1.42 | \$0.53 | \$1.04 | \$4.20 |

Included in the second quarter net income was the one-time preliminary deferred tax benefit of \$8.9 million, or (1) approximately \$0.32 per diluted share, resulting from the Tax Act. The fiscal year impact was \$9.5 million, or approximately \$0.35 per diluted share.

Included in the third quarter and fiscal year net income was expense of \$11.5 million, net of taxes, or (2) approximately \$0.42 per diluted share, related to a multiemployer pension settlement and other benefit-related costs.

(3) Diluted net income per common share amounts are calculated independently for each of the quarters presented. Accordingly, the sum of the quarterly net income per common share amounts may not agree with the fiscal year.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures

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

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2018.

REPORT OF MANAGEMENT

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

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is only possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has used the framework set forth in the report entitled Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. Management has concluded that our internal control over financial reporting was effective as of the end of the most recent year.

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

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and the Board of Directors of Lancaster Colony Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lancaster Colony Corporation and subsidiaries (the “Company”) as of June 30, 2018, based on criteria established in Internal Control – Integrated Framework (2013)