MCCORMICK & CO INC
Form 10-Q
October 09, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended August 31, 2008

Commission File Number 001-14920

McCORMICK & COMPANY, INCORPORATED

(Exact name of registrant as specified in its charter)

MARYLAND	**52-0408290**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
18 Loveton Circle, P. O. Box 6000, Sparks, MD	**21152-6000**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (410) 771-7301

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 filing requirements for the past 90 days. Yes x No ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Shares Outstanding August 31, 2008
Common Stock	12,473,304
Common Stock Non-Voting	117,520,834

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

McCORMICK & COMPANY, INCORPORATED

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(in millions except per share amounts)

	Three months ended August 31, 2008	Three months ended August 31, 2007	Nine months ended August 31, 2008	Nine months ended August 31, 2007
Net sales	$ 781.6	$ 716.2	$ 2,269.7	$ 2,056.1
Cost of goods sold	473.2	431.9	1,377.6	1,235.6
Gross profit	308.4	284.3	892.1	820.5
Selling, general and administrative expense	212.9	192.6	639.6	581.8
Restructuring charges	2.6	2.8	1.7	16.6
Operating income	92.9	88.9	250.8	222.1
Interest expense	12.8	15.8	40.3	44.9
Other income, net	(10.0)	(2.4)	(16.4)	(6.5)
Income from consolidated operations before income taxes	90.1	75.5	226.9	183.7
Income taxes	26.8	23.2	68.5	55.9
Net income from consolidated operations	63.3	52.3	158.4	127.8
Income from unconsolidated operations	5.3	4.5	15.0	15.5
Loss on sale of unconsolidated operations				(.8)
Net income	$ 68.6	$ 56.8	$ 173.4	$ 142.5
Earnings per common share basic	$ 0.53	$ 0.44	$ 1.35	$ 1.10
Average shares outstanding basic	129.3	129.1	128.7	129.8
Earnings per common share diluted	$ 0.52	$ 0.43	$ 1.32	$ 1.07
Average shares outstanding diluted	132.3	132.4	131.6	133.3
Cash dividends paid per common share	$ 0.22	$ 0.20	$ 0.66	$ 0.60

See notes to condensed consolidated financial statements (unaudited).

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McCORMICK & COMPANY, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	August 31, 2008 (unaudited)	August 31, 2007 (unaudited)	November 30, 2007
ASSETS			
Current Assets			
Cash and cash equivalents	$ 30.3	$ 45.7	$ 45.9
Receivables, net	429.8	399.9	456.5
Inventories			
Finished products	239.9	229.4	222.0
Raw materials and work-in-process	222.4	210.5	208.2
	462.3	439.9	430.2
Prepaid expenses and other current assets	57.6	58.1	50.5
Total current assets	980.0	943.6	983.1
Property, plant and equipment	1,051.5	1,000.3	1,028.8
Less: accumulated depreciation	(574.9)	(530.8)	(541.2)
Total property, plant and equipment, net	476.6	469.5	487.6
Goodwill, net	1,328.3	835.7	879.5
Intangible assets, net	419.7	204.4	207.5
Prepaid allowances	42.0	46.7	39.3
Investments and other assets	183.7	173.4	190.5
Total assets	$ 3,430.3	$ 2,673.3	$ 2,787.5
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	$ 422.9	$ 304.3	$ 149.2
Current portion of long-term debt	50.6	151.4	.4
Trade accounts payable	249.2	209.3	243.3
Other accrued liabilities	334.4	339.0	468.4
Total current liabilities	1,057.1	1,004.0	861.3
Long-term debt	878.2	418.0	573.5
Other long-term liabilities	279.8	282.0	267.6
Total liabilities	2,215.1	1,704.0	1,702.4
Shareholders Equity			
Common stock	224.8	197.1	201.0
Common stock non-voting	353.3	292.3	300.0
Retained earnings	403.3	298.8	323.8
Accumulated other comprehensive income	233.8	181.1	260.3
Total shareholders equity	1,215.2	969.3	1,085.1

Total liabilities and shareholders equity	$ 3,430.3	$ 2,673.3	$ 2,787.5

See notes to condensed consolidated financial statements (unaudited).

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McCORMICK & COMPANY, INCORPORATED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(in millions)

	Nine months ended August 31, 2008	Nine months ended August 31, 2007
Cash flows from operating activities		
Net income	$ 173.4	$ 142.5
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	64.6	61.4
Stock-based compensation	15.0	17.5
Loss on sale of unconsolidated operations		.8
Income from unconsolidated operations	(15.0)	(15.5)
Changes in operating assets and liabilities	(134.1)	(193.4)
Dividends from unconsolidated affiliates	11.4	9.7
Net cash flow provided by operating activities	115.3	23.0
Cash flows from investing activities		
Acquisition of business	(696.8)	(15.9)
Capital expenditures	(56.7)	(50.7)
Net proceeds from sale of Season-All	14.0	
Proceeds from sale of property, plant and equipment	14.8	.1
Net cash flow used in investing activities	(724.7)	(66.5)
Cash flows from financing activities		
Short-term borrowings, net	524.4	223.6
Long-term debt borrowings	255.0	
Long-term debt repayments	(150.3)	(.3)
Proceeds from exercised stock options	47.6	34.1
Common stock acquired by purchase	(9.3)	(146.8)
Dividends paid	(85.5)	(78.1)
Net cash flow provided by financing activities	581.9	32.5
Effect of exchange rate changes on cash and cash equivalents	11.9	7.6
Decrease in cash and cash equivalents	(15.6)	(3.4)
Cash and cash equivalents at beginning of period	45.9	49.1
Cash and cash equivalents at end of period	$ 30.3	$ 45.7

See notes to condensed consolidated financial statements (unaudited).

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States generally accepted accounting principles for complete financial statements. In our opinion, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position and the results of operations for the interim periods.

The results of consolidated operations for the three and nine month periods ended August 31, 2008 are not necessarily indicative of the results to be expected for the full year. Historically, our consolidated sales, net income and cash flow from operations are lower in the first half of the fiscal year and increase in the second half. The increase in sales, earnings and cash flow from operations in the second half of the year is mainly due to the U.S. consumer business cycle, where customers typically purchase more products in the fourth quarter due to the holiday season.

For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended November 30, 2007.

Accounting and Disclosure Changes

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities. This standard is intended to improve financial reporting by requiring transparency about the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under SFAS No 133; and how derivative instruments and related hedged items affect its financial position, financial performance and cash flows. SFAS No. 161 is effective for our first quarter of 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This standard outlines the accounting and reporting for ownership interest in a subsidiary held by parties other than the parent. SFAS No. 160 is effective for our first quarter of 2010. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

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In December 2007, the FASB issued SFAS No. 141R, Business Combinations. This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. This standard also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for us for acquisitions made after November 30, 2009. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements, however, the implementation of SFAS No. 141R may have a material impact on our financial statements for businesses we acquire post-adoption.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. This standard requires us to (a) record an asset or a liability on our balance sheet for our pension plans overfunded or underfunded status (b) record any changes in the funded status of our pension and postretirement plans in the year in which the changes occur (reported in comprehensive income) and (c) measure our pension and postretirement assets and liabilities at November 30 versus our current measurement date of September 30. We complied with the requirement to record the funded status and provided additional disclosures with our filing for our year ended November 30, 2007. The requirement to change the measurement date is effective for our year ending November 30, 2009. The impact of measuring the funded status as of November 30, 2009 will be dependent upon interest rates, market performance and other factors at the measurement date and therefore cannot be determined.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This standard defines fair value and provides guidance for measuring fair value and the necessary disclosures. This standard does not require any new fair value measurements but rather applies to all other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued a one-year deferral for non-financial assets and liabilities to comply with SFAS No. 157. We adopted SFAS No. 157 for financial assets and liabilities in the first quarter of 2008 (see Note 10 for further details). There was no material effect upon adoption of this new accounting pronouncement on our financial statements. We have not yet determined the impact on our financial statements from adoption of SFAS No. 157 as it pertains to non-financial assets and liabilities for our first quarter of 2009.

On December 1, 2007, we adopted FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements. FIN 48 sets a threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For each tax position, we must determine whether it is more likely than not that

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the position will be sustained on audit based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize in the financial statements. See Note 8 for further details.

2. ACQUISITIONS

Acquisitions of brands are part of our growth strategy to increase sales and profits and improve margins.

On July 31, 2008, we completed the purchase of the assets of the Lawry s business from Conopco, Inc. an indirect subsidiary of Unilever N.V. (Unilever). Lawry s manufactures and sells a variety of marinades and seasoning blends under the well-known Lawry s and Adolph s brands in North America. The acquisition included the rights to the brands as well as related inventory and a small number of dedicated production lines. It did not include any manufacturing facilities or employees. The annual sales of this business are approximately $150 million. The allocation of Lawry s sales is expected to be approximately 90% to our consumer segment and approximately 10% to our industrial segment. The purchase price was $604 million in cash, the assumption of certain liabilities relating to the purchased assets and transaction costs of $15 million. We used cash on hand and borrowings under our commercial paper program to fund the purchase price. On September 3, 2008 we issued $250 million in medium term debt ($248 million in net proceeds) to repay a portion of our outstanding commercial paper issued to fund the Lawry s acquisition (see Note 9). Because we refinanced a portion of the commercial paper borrowings associated with the Lawry s transaction, $248 million of short-term borrowings has been classified as long-term debt in the August 31, 2008 balance sheet. The purchase agreement has undergone a regulatory review and the Federal Trade Commission (FTC) granted final approval for the transaction. As part of that approval, we sold our Season-All business to Morton International, Inc. With annual sales of approximately $18 million, the Season-All business was sold for $15 million in cash (with net cash proceeds of $14 million). This resulted in a pre-tax gain of $12.9 million which was recorded as part of Other income, net in our income statement.

We are accounting for the acquisition of Lawry s as a purchase of a business under United States generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of Lawry s are recorded as of the acquisition date, at their respective fair values, and consolidated with our assets and liabilities. The excess purchase price over the estimated fair value of the tangible net assets purchased was $609.7 million, which includes $15 million of transaction costs. The allocation of the purchase price is based on preliminary estimates, subject to revision after appraisals have been finalized. Revisions to the allocation, which may be significant,

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will be reported as changes to various assets and liabilities, including goodwill and other intangible assets. As of August 31, 2008, $202.0 million was allocated to other intangible assets and $407.7 million to goodwill. The significant amount of goodwill is due to the profitability of the Lawry s business, our plans to grow this business and achieve synergies during the integration process. We expect the final valuation to result in a value for brands and other intangible assets, a portion of which will be amortizable and a portion of which will be non-amortizable. We have included an estimate of intangible asset amortization in our income statement since the date of acquisition.

In these financial statements we have not included pro-forma historical information, as if the results of Lawry s had been included from the beginning of the periods presented, since the use of forward-looking information would be necessary in order to meaningfully present the effects of the acquisition. Forward looking information, rather than historical information, would be required as Lawry s was operated as a part of a larger business within Unilever and the expense structure and level of brand support will be different under our ownership. Net sales for the three and nine months ended August 31, 2008 from this acquisition were $12.4 million. Operating expenses for the three and nine months ended August 31, 2008 include amortization of intangible assets from the Lawry s acquisition of $0.5 million.

On February 20, 2008, we purchased Billy Bee Honey Products Ltd. (Billy Bee) for $76.4 million in cash, a business which operates in North America and is primarily included in our consumer segment from the date of acquisition. Billy Bee markets and sells under the Billy Bee and Doyon brands. The annual sales of this business are approximately $37.0 million and include branded, private label and industrial products.

The excess purchase price over the estimated fair value of the tangible net assets purchased was $71.6 million. The allocation of the purchase price is based on preliminary estimates, subject to revision after appraisals have been finalized. Revisions to the allocation, which may be significant, will be reported as changes to various assets and liabilities, including goodwill and other intangible assets. As of August 31, 2008, $18.6 million was allocated to other intangible assets and $53.0 million to goodwill. We expect the final valuation to result in a value for brands and other intangible assets, a portion of which will be amortizable and a portion of which will be non-amortizable. We have included an estimate of intangible asset amortization in our income statement since the date of acquisition.

On July 30, 2007, we purchased Thai Kitchen SA (Thai Kitchen) for $12.8 million in cash, a business which operates in Europe and is included in our consumer segment from the date of acquisition. This acquisition complements our U.S. purchase of Simply Asia Foods in 2006. The annual sales are approximately $7.0 million.

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On January 31, 2007, we purchased the assets of Fish Crisp Enterprises, Inc. (Fish Crisp) for $3.1 million in cash. This business operates in North America and is included in our consumer segment from the date of acquisition. Fish Crisp markets and sells seafood products under the Rocky Madsen s Fish Crisp Original and Gourmet Grill brands and has annual sales of approximately $2 million.

3. EARNINGS PER SHARE

The following table sets forth the reconciliation of average shares outstanding (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	**2007**	**2008**	**2007**
Average shares outstanding basic	129.3	129.1	128.7	129.8
Effect of dilutive securities:				
Stock options, Restricted Stock Units (RSUs) and employee stock purchase plan	3.0	3.3	2.9	3.5
Average shares outstanding diluted	132.3	132.4	131.6	133.3

The following table sets forth the stock options and RSUs for the three and nine months ended August 31, 2008 and 2007 which were not considered in our earnings per share calculation since they were anti-dilutive.

	Three months ended August 31,		Nine months ended August 31,	
	2008	**2007**	**2008**	**2007**
Anti-dilutive securities	1.0	3.1	3.3	2.9

The following table sets forth the common stock activity for the three and nine months ended August 31, 2008 and 2007 under the Company s stock option and employee stock purchase plans and the repurchases of common stock under its stock repurchase program (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	**2007**	**2008**	**2007**
Shares issued under stock option and employee stock purchase plans and RSUs	1.2	.4	2.4	1.5
Shares repurchased in connection with the stock repurchase program	.2	2.5	.2	4.0

As of August 31, 2008, $40 million remained of the $400 million share repurchase authorization.

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4. COMPREHENSIVE INCOME

The following table sets forth the components of comprehensive income (in millions):

	Three months ended August 31, 2008	Three months ended August 31, 2007	Nine months ended August 31, 2008	Nine months ended August 31, 2007
Net income	$ 68.6	$ 56.8	$ 173.4	$ 142.5
Other comprehensive income (loss), (net of tax):				
Pension and other postretirement costs	3.6	(.6)	5.6	(1.3)
Foreign currency translation adjustments	(90.5)	14.9	(37.9)	43.2
Derivative financial instruments	5.4	(1.4)	5.9	(1.1)
Comprehensive (loss) income	$ (12.9)	$ 69.7	$ 147.0	$ 183.3

The following table sets forth the components of accumulated other comprehensive income, net of tax where applicable (in millions):

	August 31, 2008	August 31, 2007	November 30, 2007
Foreign currency translation adjustment	$ 308.7	$ 266.6	$ 346.6
Unrealized gain (loss) on foreign currency exchange contracts	0.8	(.6)	(2.1)
Fair value of open interest rate swaps		(4.1)	(9.9)
Unamortized value of settled interest rate swaps	(7.0)		
Pension and other postretirement costs	(68.7)	(80.8)	(74.3)
Accumulated other comprehensive income	$ 233.8	$ 181.1	$ 260.3

5. PENSION AND POSTRETIREMENT BENEFITS

The following table presents the components of our pension expense of the defined benefit plans for the three months ended August 31 (in millions):

	United States 2008	United States 2007	International 2008	International 2007
Defined benefit plans				
Service cost	$ 2.7	$ 3.0	$ 1.5	$ 1.7
Interest costs	6.5	6.1	3.0	2.7
Expected return on plan assets	(6.6)	(6.2)	(3.2)	(2.5)
Amortization of prior service costs			.1	
Recognized net actuarial loss	1.2	2.5	.5	.8
Total pension expense	$ 3.8	$ 5.4	$ 1.9	$ 2.7

The following table presents the components of our pension expense of the defined benefit plans for the nine months ended August 31 (in millions):

	United States	International

	2008	2007	2008	2007
Defined benefit plans				
Service cost	$ 8.0	$ 8.8	$ 4.6	$ 5.0
Interest costs	19.6	18.4	8.9	7.8
Expected return on plan assets	(19.8)	(18.6)	(9.5)	(7.2)
Amortization of prior service costs		.1	.2	.1
Recognized net actuarial loss	3.6	7.5	1.6	2.3
Total pension expense	$ 11.4	$ 16.2	$ 5.8	$ 8.0

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During the nine months ended August 31, 2008, we have not made any contributions to our major U.S. pension plan as we were in an overfunded status as of November 30, 2007. However, we may need to make changes in the funding of our U.S. pension plan in the future depending upon economic conditions and investment performance. In the first quarter of 2007, we made a $22 million contribution to our major U.S. pension plan. Contributions to international plans and our nonqualified U.S. plan are generally funded throughout the year. Total contributions to our international pension plans and our nonqualified U.S. plan in 2008 are expected to be approximately $25 million.

The following table presents the components of our other postretirement benefits expense (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Other postretirement benefits				
Service cost	$ .9	$ .9	$ 2.6	$ 2.6
Interest costs	1.6	1.4	4.8	4.3
Amortization of prior service costs	(.3)	(.3)	(1.0)	(.8)
Amortization of (gains) and losses	.2	.2	.7	.6
Total other postretirement expense	$ 2.4	$ 2.2	$ 7.1	$ 6.7

6. STOCK-BASED COMPENSATION

The following table sets forth the stock-based compensation recorded in selling, general and administrative (SG&A) expense (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Stock-based compensation expense	$ 3.1	$ 4.1	$ 15.0	$ 17.3

Our 2008 annual grant of stock options and restricted stock units (RSU) occurred in the second quarter, similar to the 2007 annual grant. The weighted-average grant-date fair value of an option granted in 2008 was $7.20 and in 2007 was $6.83. The fair values of option grants in the stated periods were computed using the following range of assumptions for our various stock compensation plans:

	2008	2007
Risk-free interest rates	1.4-3.6%	4.5-5.1%
Dividend yield	2.3%	2.0-2.1%
Expected volatility	18.7-24.7%	13.4-24.9%
Expected lives	6.1	1.9-5.3

As of August 31, 2008 the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was $146.6 million and the intrinsic value for all options exercisable was $142.6 million. The total intrinsic value of all options exercised was as follows (in millions):

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	Three months ended August 31, 2008	Three months ended August 31, 2007	Nine months ended August 31, 2008	Nine months ended August 31, 2007
Total intrinsic value for all options exercised	$ 28.7	$ 9.2	$ 50.9	$ 25.7

The following is a summary of all option activity for the nine months ended August 31:

(shares in millions)	2008 Number of Shares	2008 Weighted-Average Exercise Price	2007 Number of Shares	2007 Weighted-Average Exercise Price
Outstanding at beginning of period	14.2	$ 26.38	15.8	$ 25.31
Granted	.6	37.58	.8	38.20
Exercised	(2.7)	20.24	(1.7)	22.40
Forfeited			(.2)	34.93
Outstanding at end of August	12.1	28.29	14.7	26.17
Exercisable at end of August	10.7	$ 27.18	12.0	$ 24.07

The following is a summary of all of our RSU activity for the nine months ended August 31:

(shares in thousands)	2008 Number of Shares	2008 Weighted-Average Grant-Date Fair Value	2007 Number of Shares	2007 Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	373	$ 36.47	280	$ 32.88
Granted	279	37.58	257	38.28
Vested	(275)	35.81	(155)	33.03
Forfeited	(3)	37.38	(5)	34.64
Outstanding at end of August	374	$ 37.78	377	$ 36.47

7. RESTRUCTURING ACTIVITIES

In November 2005, the Board of Directors approved a restructuring plan to consolidate our global manufacturing, rationalize our distribution facilities, improve our go-to-market strategy, eliminate administrative redundancies and rationalize our joint venture partnerships. We estimate total pre-tax charges of approximately $115 million for this program. The segment breakdown of the total charges is expected to be approximately 65% related to the consumer segment and 35% related to the industrial segment. Of these charges, we expect approximately $90 million will consist of severance and other personnel costs and approximately $50 million for other exit costs. Asset write-offs are expected to be approximately $10 million, exclusive of the $34 million pre-tax

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gain on the redemption of our Signature Brands, L.L.C. joint venture (Signature) recorded in 2006. We expect the cash related portion of the charges will be approximately $95 million, of which approximately $10 million is expected to be spent in 2008, net of cash received for asset sales. The actions being taken are expected to reduce positions by approximately 1,250 by November 2008. Certain parts of the restructuring program are still underway in the fourth quarter of 2008 and it is possible that some of these initiatives might not be completed until 2009.

The following is a summary of restructuring activities (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	**2007**	**2008**	**2007**
Pre-tax restructuring charges				
Other restructuring charges	$ 2.6	$ 2.8	$ 1.7	$ 16.6
Recorded in cost of goods sold	0.9	1.4	2.5	2.7
Reduction in operating income	3.5	4.2	4.2	19.3
Income tax effect	(1.1)	(1.2)	(1.3)	(6.0)
Loss on sale of unconsolidated operations, net of tax				0.8
Reduction in net income	$ 2.4	$ 3.0	$ 2.9	$ 14.1

During the three months ended August 31, 2008, we recorded $1.0 million of severance costs, primarily associated with the reduction of administrative personnel in Europe. In addition, we recorded $1.5 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K. The remaining $1.0 million is comprised of asset write-downs in Europe. Of the 1,250 positions expected to be reduced, 1,105 positions have been eliminated as of August 31, 2008. From inception of the project in November 2005, we have incurred $100.1 million of restructuring charges, including the $8.4 million gain on disposal of our Salinas manufacturing facility in 2008 and the $33.7 million gain recorded on the redemption of our Signature investment in 2006.

During the nine months ended August 31, 2008, we recorded $4.1 million of severance costs, primarily associated with the reduction of administrative personnel in Europe and Canada. In addition, we recorded $6.2 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by a $6.1 million credit related to the disposal of assets. This credit was primarily the result of a gain on the disposal of our Salinas manufacturing facility, which was consolidated with other manufacturing facilities in 2007.

During the three months ended August 31, 2007, we recorded $1.6 million of severance costs, primarily associated with the reduction of administrative personnel in Europe and the U.S. In addition, we recorded $3.9 million of other exit costs related to the

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consolidation of production facilities in Europe and closure of our manufacturing facility in Salinas, California. Partially offsetting these costs is a $1.3 million net asset related gain. This gain is composed of a gain from the sale of our manufacturing facility in Paisley, Scotland, mostly offset by write-downs of assets which are primarily the accelerated depreciation of assets related to the closure of the manufacturing facility in Salinas, California.

During the nine months ended August 31, 2007, we recorded $6.8 million of severance costs, primarily associated with the reduction of administrative personnel in the U.S. and Europe. In addition, we recorded $11.9 million of other exit costs related to closure of manufacturing facilities in Salinas, California and Hunt Valley, Maryland and to the consolidation of production facilities in Europe. The remaining $0.6 million is comprised of asset write-downs for inventory write-offs related to the closure of the manufacturing facilities in Salinas, California and Hunt Valley, Maryland and accelerated depreciation of assets, mostly offset by the asset related gain from the sale of our manufacturing facility in Paisley, Scotland.

Also in the nine months ended August 31, 2007, we recorded net losses, after tax, of $0.8 million, in connection with unconsolidated joint venture transactions initially recorded in 2006. These losses are shown on the line entitled Loss on sale of unconsolidated operations in our income statement.

The business segment components of the restructuring charges recorded in 2008 and 2007 are as follows (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Consumer	$ 2.4	$ 4.2	$ 0.2	$ 13.8
Industrial	1.1		4.0	5.5
Total restructuring charges	$ 3.5	$ 4.2	$ 4.2	$ 19.3

Consumer: The restructuring charges in 2008 include severance costs associated with the reduction of administrative personnel in Europe and Canada, other exit and inventory write-off costs related to the consolidation of production facilities in Europe and the U.S. and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by the $8.4 million gain recorded on disposal of our Salinas manufacturing facility in 2008 (recorded as an asset related credit). The restructuring charges in 2007 include severance costs associated with the reduction of administrative personnel in the U.S. and Europe, other exit and inventory write-off costs related to the closure of the manufacturing facility in Salinas, California and accelerated depreciation of assets.

Industrial: The restructuring charges in 2008 include severance and other exit costs related to the reduction of administrative

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personnel and the consolidation of production facilities in Europe. The restructuring charges in 2007 include severance costs associated with the reduction of administrative personnel in the U.S. and Europe, other exit costs related to closure of a manufacturing facility in Hunt Valley, Maryland and consolidation of production facilities in Europe, offset by the asset related gain on the sale of our manufacturing facility in Paisley, Scotland.

During 2008 and 2007, the following cash was spent on our restructuring plan (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Total cash spent	$ 4.7	$ 3.6	$ 0.1	$ 33.6

The cash spent for the nine months ended August 31, 2008 includes the $14.4 million received from the sale of our Salinas manufacturing facility in April, 2008. From inception of the project in November 2005, $83.3 million in cash has been spent on the restructuring plan, including the $14.4 million cash received from the Salinas sale and $9.2 million cash received on redemption of our Signature investment in 2006.

The major components of the restructuring charges and the remaining accrual balance related to the restructuring plan are as follows (in millions):

	Severance and personnel costs	Asset related charges/ (credits)	Other exit costs	Total
Third Quarter 2008:				
Balance at May 31, 2008	$ 5.2	$	$ .3	$ 5.5
Restructuring charges	1.0	1.0	1.5	3.5
Amounts utilized	(3.1)	(1.0)	(1.6)	(5.7)
Balance at Aug 31, 2008	$ 3.1	$	$ .2	$ 3.3
Nine months ended August 31, 2008:				
Balance at Nov 30, 2007	$ 7.1	$	$ .4	$ 7.5
Restructuring charges	4.1	(6.1)	6.2	4.2
Amounts utilized	(8.1)	6.1	(6.4)	(8.4)
Balance at Aug 31, 2008	$ 3.1	$	$ .2	$ 3.3
Third Quarter 2007:				
Balance at May 31, 2007	$ 5.5	$	$ .7	$ 6.2
Restructuring charges	1.6	(1.3)	3.9	4.2
Amounts utilized	(4.1)	1.3	(3.9)	(6.7)
Balance at Aug 31, 2007	$ 3.0	$	$ .7	$ 3.7
Nine months ended August 31, 2007:				
Balance at Nov 30, 2006	$ 20.3	$	$ 3.1	$ 23.4
Restructuring charges	6.8	.6	11.9	19.3
Amounts utilized	(24.1)	(.6)	(14.3)	(39.0)

Balance at Aug 31, 2007	$ 3.0	$	$ .7	$ 3.7

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8. INCOME TAXES

On December 1, 2007, we adopted FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes. Upon adoption, we recorded the cumulative effect of this change in accounting principle of $12.8 million as a reduction to the opening balance of retained earnings.

The total amount of unrecognized tax benefits as of December 1, 2007 was $26.5 million, the recognition of which would have an effect of $24.8 million on the effective tax rate. We have historically classified unrecognized tax benefits in other accrued liabilities. As a result of the adoption of FIN 48, unrecognized tax benefits were reclassified to other long-term liabilities, unless expected to be paid within one year.

We record interest and penalties related to our federal, state, and non-U.S. income taxes in income tax expense. As of December 1, 2007, we had accrued $2.3 million of interest and penalties related to unrecognized tax benefits.

There were no significant changes to unrecognized tax benefits during the nine months ended August 31, 2008. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

We file income tax returns in the U.S. federal jurisdiction and various state and non-U.S. jurisdictions. The open years subject to tax audits varies depending on the tax jurisdiction. In major jurisdictions, with few exceptions, we are no longer subject to income tax audits by taxing authorities for years before 2003. In 2007, the Internal Revenue Service commenced an examination of our U.S. income tax return for the tax year 2005 that is anticipated to be completed early in fiscal year 2009.

Income taxes for the third quarter of 2008 and nine months ended August 31, 2008 include $1.1 million and $1.8 million, respectively, of discrete tax benefits related to U.S. tax adjustments.

Income taxes for the third quarter of 2007 include $0.6 million of discrete tax expense adjustments were principally due to the change in the UK tax rate. Income taxes for the nine months ended August 31, 2007 include $1.3 million of discrete tax benefits and were principally due to the change in the tax rate in The Netherlands and the UK.

9. FINANCIAL INSTRUMENTS

In September 2008, we issued $250 million of 5.25% notes due 2013, with net cash proceeds received of $248.0 million. Interest is payable semiannually in arrears in March and September of each year. Of these notes, $100 million were subject to an interest rate hedge as further disclosed below. The net proceeds from this offering were used to pay down commercial paper which was issued for the purchase of the Lawry s business (see Note 2).

We entered into three separate forward treasury lock agreements totaling $100 million in July and August of 2008. These forward treasury lock agreements were executed to manage the interest rate risk associated with the forecasted issuance of $250 million of fixed rate medium-term notes issued in September 2008. We cash settled these treasury lock agreements for a loss of $1.5 million simultaneous with the issuance of the notes and effectively fixed the interest rate on the $250 million notes at a weighted average fixed rate of 5.54%. The loss on these agreements has been deferred in other comprehensive income and will be amortized over the five-year life of the medium-term notes as a component of interest expense.

In connection with the issuance of the $250 million of fixed rate debt used to finance the Lawry s acquisition, we rebalanced our debt portfolio to achieve a desired mix of floating and fixed interest rates by terminating $75 million of existing forward starting interest rate swaps with a payment of $5.0 million.

In July 2008, we entered into a $500 million 364 day revolving credit agreement with various banks for general business purposes. Our current pricing under this new credit agreement, on a fully drawn basis, is LIBOR plus 0.25%. The amount of credit facilities at August 31, 2008 was $1 billion, which supports our commercial paper borrowing program. In September 2008, when we received the net proceeds of $248.0 million from the five year note issuance, our availability under the new credit facility was reduced by $250 million and our total credit facilities supporting the commercial paper program was $750 million.

In December 2007, we issued $250 million of 5.75% notes due 2017. Net interest is payable semiannually in arrears in January and July of each year. These notes were also subject to an interest rate hedge as further disclosed below. The net proceeds from this offering were used to repay $150 million of debt that matured in the first quarter of 2008 with the remainder used to repay short-term debt.

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In August 2007, we entered into $150 million of forward treasury lock agreements to manage the interest rate risk associated with the forecasted issuance of $250 million of fixed rate notes issued in December 2007. We cash settled these treasury lock agreements for a loss of $10.5 million simultaneous with the issuance of the notes and effectively fixed the interest rate on the $250 million notes at a weighted average fixed rate of 6.25%. The loss on these agreements has been deferred in other comprehensive income and will be amortized over the ten-year life of the notes as a component of interest expense.

10. FAIR VALUE MEASUREMENTS

In the first quarter of 2008, we adopted SFAS No. 157, Fair Value Measurements for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This standard does not apply measurements related to share-based payments, nor does it apply to measurements related to inventory.

SFAS No. 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

Our population of financial assets and liabilities subject to fair value measurements and the necessary disclosures are as follows (in millions):

	Fair Value as of 8/31/08	Fair Value Measurements at 8/31/08 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 30.3	$ 30.3	$	$
Long-term investments	49.3	49.3		
Interest rate derivatives	6.8		6.8	
Foreign currency derivatives	1.9		1.9	
Total	$ 88.3	$ 79.6	$ 8.7	$
Liabilities				
Long-term debt	$ 927.7	$	$ 927.7	$

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The fair values of long-term investments are based on quoted market prices from various stock and bond exchanges. The long-term debt fair values are based on quotes for like instruments with similar credit ratings and terms. The fair values for interest rate and foreign currency derivatives are based on quoted market prices from various banks for similar instruments.

11. BUSINESS SEGMENTS

We operate in two business segments: consumer and industrial. The consumer and industrial segments manufacture, market and distribute spices, herbs, seasoning blends and other flavors throughout the world. Our consumer segment sells to retail outlets, including grocery, mass merchandise, warehouse clubs, discount and drug stores under the McCormick brand and a variety of brands around the world, including Lawry s , Zatarain s , Simply Asia , Thai Kitchen , Ducros , Vahine , Silvo , Schwartz , Club House and Billy Bee . Our industria food manufacturers and the food service industry both directly and indirectly through distributors.

In each of our segments, we produce and sell many individual products which are similar in composition and nature. It is impractical to segregate and identify revenue and profits for each of these individual product lines.

We measure segment performance based on operating income excluding restructuring charges from our restructuring programs as these programs are managed separately from the business segment. Although the segments are managed separately due to their distinct distribution channels and marketing strategies, manufacturing and warehousing are often integrated to maximize cost efficiencies. We do not segregate jointly utilized assets by individual segment for internal reporting, evaluating performance or allocating capital. Because of manufacturing integration for certain products within the segments, products are not sold from one segment to another but rather inventory is transferred at cost. Intersegment sales are not material.

	Consumer	**Industrial**	**Total**
		(in millions)	
Three months ended August 31, 2008			
Net sales	$ 443.0	$ 338.6	$ 781.6
Restructuring charges	2.4	1.1	3.5
Operating income excluding restructuring charges	75.1	21.3	96.4
Income from unconsolidated operations	3.2	2.1	5.3
Three months ended August 31, 2007			
Net sales	$ 387.4	$ 328.8	$ 716.2
Restructuring charges	4.2		4.2
Operating income excluding restructuring charges	70.5	22.6	93.1
Income from unconsolidated operations	3.7	.8	4.5

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	Consumer	Industrial (in millions)	Total
Nine months ended August 31, 2008			
Net sales	$ 1,270.9	$ 998.8	$ 2,269.7
Restructuring charges	.2	4.0	4.2
Operating income excluding restructuring charges	197.8	57.2	255.0
Income from unconsolidated operations	10.5	4.5	15.0
Nine months ended August 31, 2007			
Net sales	$ 1,134.7	$ 921.4	$ 2,056.1
Restructuring charges	13.8	5.5	19.3
Operating income excluding restructuring charges	183.8	57.6	241.4
Income from unconsolidated operations	12.8	2.7	15.5

The following table is a reconciliation of operating income excluding restructuring charges to operating income (in millions):

	Three months ended Aug 31, 2008	Three months ended Aug 31, 2007
Operating income excluding restructuring charges	$ 96.4	$ 93.1
Less: Restructuring charges	3.5	4.2
Operating income	$ 92.9	$ 88.9

	Nine months ended Aug 31, 2008	Nine months ended Aug 31, 2007
Operating income excluding restructuring charges	$ 255.0	$ 241.4
Less: Restructuring charges	4.2	19.3
Operating income	$ 250.8	$ 222.1

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW

Our Business

We are a global leader in the manufacture, marketing and distribution of spices, herbs, seasonings and other flavors to the entire food industry. Customers range from retail outlets and food service providers to food manufacturers. Our major sales, distribution and production facilities are located in North America and Europe. Additional facilities are based in Mexico, Central America, Australia, China, Singapore, Thailand and South Africa.

We operate in two business segments, consumer and industrial. Profit margins in our consumer business are higher than the profit margins in our industrial business, which is consistent with the experience of other manufacturers operating in the same business segments. On average, approximately 80% of our product costs are from materials and packaging and approximately 20% are from labor and overhead. Across both segments, we have the customer base and product breadth to participate in all types of eating occasions, whether it is cooking at home, dining out, purchasing a quick service meal or enjoying a snack.

Our Strategy

Our strategy is to improve margins, invest in our business and increase sales and profits. We believe this strategy is as effective now as when we developed it in 1998.

Improving Margins - Our goal is to improve profit margins with cost savings from our restructuring program and supply chain initiatives, the elimination of lower margin business, acquisitions of high-margin brands and the introduction of higher-margin, more value-added products. The restructuring program that is underway is designed to improve our global supply chain. This plan, which was announced in 2005 and will extend through 2008 and possibly into 2009, is intended to reduce our complexity and create an organization more focused on growth opportunities.

While our long-term goal is to improve profit margins, we do not expect to achieve this goal in 2008. This is primarily due to the effects of higher commodity costs that we began to experience in the second half of 2007 and which are continuing into 2008. While we have been able to offset the dollar impact of these higher costs through our pricing actions, we do not expect to improve profit margin in 2008.

Investing in the Business - We are investing in our consumer business by revitalizing our McCormick brand spices and seasonings in the United States. We started introducing new labels and new flip-top caps in 2006 and are continuing to roll out new store shelving displays that make shopping easier for the consumer and restocking easier for retailers. These projects are expected to be completed in 2008. A similar effort is underway that is designed to drive growth of our Schwartz brand in the U.K. and the Ducros brand in France. In the second half of 2008, we are relaunching our

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entire line of Vahine dessert items in France with significantly upgraded packaging.

We have increased our marketing support to drive growth of our brands. From 2002 to 2007 we doubled our advertising expense. With investments in advertising, sampling, interactive media and other programs, we plan a double digit increase in total marketing support for 2008.

Through acquisitions we are adding leading brands to extend our reach into new geographic regions where we currently have little or no distribution. We have a particular interest in emerging markets that offer high growth potential. In our developed markets, we are seeking brands that have a niche position and meet a growing consumer trend.

We have made significant progress in transforming our U.S. industrial business. We have simplified the business and are focusing our resources on large customers who have the greatest potential to add profitable sales. Over the years we have grown industrial sales by maintaining a commitment to service and quality while working with our strategic partners to expand markets and develop new products.

Across all of our businesses, we are focused on monitoring and leading the latest trends through innovation. Convenience, freshness, wellness and ethnic flavors drive consumer demand and are a part of our new product development and acquisition strategy.

Increasing Sales and Profits - With good visibility into our business prospects and operating environment, growth objectives are used as internal goals and to provide a financial outlook for our shareholders. Our current objective in 2008 is to grow sales 9 to 10%. Our guidance for 2008 earnings per share is between $2.04 to $2.08. Sales growth is benefitting from increased volume and product mix, including the addition of Lawry s and Bill Bee Honey Products. Also adding to sales in 2008 is higher pricing taken to offset higher input costs, as well as favorable foreign exchange rates. Our long-term financial objectives continue to be to grow sales 4 to 6% and earnings per share 9 to 11%.

RESULTS OF OPERATIONS - COMPANY

	Three months ended August 31,		**Nine months ended August 31,**	
(in millions)	**2008**	**2007**	**2008**	**2007**
Net sales	$ 781.6	$ 716.2	$ 2,269.7	$ 2,056.1
Percent growth	9.1%		10.4%	
Gross profit	$ 308.4	$ 284.3	$ 892.1	$ 820.5
Gross profit margin	39.5%	39.7%	39.3%	39.9%

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The sales increase of 9.1% for the third quarter includes 2.9% for the favorable impact of foreign currency. With a weak dollar through the first three quarters, exchange rates have had a positive effect on sales, but stronger dollar exchange rates could have a negative sales impact in the fourth quarter.

In addition to the foreign exchange rate benefit, we were able to realize a 4.4% increase in sales due to pricing in the third quarter. Volume and product mix were up 1.8%, with a strong contribution from the consumer business partially offset by lower volume and mix in the industrial business. Incremental sales from acquisitions added 2.9% to the quarter. These included Lawry s, Billy Bee in Canada and Thai Kitchen Europe, less the reduction in sales from the disposition of Season-All. For the nine months ended August 31, 2008, the sales increase of 10.4% versus the same period last year includes 3.5% from the favorable impact of foreign currency. The remaining 6.9% increase was due to pricing actions, along with favorable volume and product mix, including a 1.7% increase from acquisitions.

Gross profit increased 8.5% and 8.7% for the third quarter and first nine months of the year over the comparable periods from last year, respectively, while the gross profit margin remains under pressure from higher and more volatile commodity and energy costs. Through a combination of pricing actions, cost savings and favorable product mix, we have an effective offset to these dollar cost increases. However, on a gross profit margin basis these changes had a net unfavorable impact of 20 basis points for the quarter and 60 basis points for the first nine months of the year. Restructuring charges in both 2008 and 2007 had a negligible impact on our gross profit margin.

	Three months ended August 31,	Nine months ended