

MCCORMICK & CO INC  
Form 10-Q  
June 27, 2014

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 Quarter Ended May 31, 2014  
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, 21152-6000  
Sparks, MD (Zip Code)  
(Address of principal executive offices) (410) 771-7301  
Registrant's telephone number, including area code

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

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

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

Large Accelerated Filer  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

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

|                         | Shares Outstanding<br>May 31, 2014 |
|-------------------------|------------------------------------|
| Common Stock            | 12,178,330                         |
| Common Stock Non-Voting | 117,633,560                        |

TABLE OF CONTENTS

|                                       |  |           |
|---------------------------------------|--|-----------|
| <u>PART I – FINANCIAL INFORMATION</u> |  | <u>3</u>  |
| ITEM 1                                | <u>FINANCIAL STATEMENTS</u>  | <u>3</u>  |
| ITEM 2                                | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>18</u> |
| ITEM 3                                | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>28</u> |
| ITEM 4                                | <u>CONTROLS AND PROCEDURES</u>   | <u>29</u> |
| <u>PART II - OTHER INFORMATION</u>    |  | <u>30</u> |
| ITEM 1                                | <u>LEGAL PROCEEDINGS</u>   | <u>30</u> |
| ITEM 1a                               | <u>RISK FACTORS</u>  | <u>30</u> |
| ITEM 2                                | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | <u>30</u> |
| ITEM 4                                | <u>MINE SAFETY DISCLOSURES</u>   | <u>30</u> |
| ITEM 6                                | <u>EXHIBITS</u>  | <u>31</u> |

Table of Contents

## 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 May 31, |           | Six months ended May 31, |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | 2014                       | 2013      | 2014                     | 2013      |
| Net sales   | \$1,033.4                  | \$1,002.6 | \$2,026.8                | \$1,936.9 |
| Cost of goods sold                                      | 620.9                      | 608.2     | 1,222.8                  | 1,180.8   |
| Gross profit  | 412.5                      | 394.4     | 804.0                    | 756.1     |
| Selling, general and administrative expense             | 290.8                      | 278.4     | 557.7                    | 528.1     |
| Operating income  | 121.7                      | 116.0     | 246.3                    | 228.0     |
| Interest expense  | 12.5                       | 13.5      | 24.9                     | 27.4      |
| Other income, net                                       | 0.3                        | 0.8       | 0.5                      | 1.4       |
| Income from consolidated operations before income taxes | 109.5                      | 103.3     | 221.9                    | 202.0     |
| Income taxes  | 31.2                       | 30.6      | 66.2                     | 58.8      |
| Net income from consolidated operations                 | 78.3                       | 72.7      | 155.7                    | 143.2     |
| Income from unconsolidated operations                   | 6.2                        | 5.9       | 11.3                     | 11.4      |
| Net income  | \$84.5                     | \$78.6    | \$167.0                  | \$154.6   |
| Earnings per share – basic                              | \$0.65                     | \$0.60    | \$1.28                   | \$1.17    |
| Average shares outstanding – basic                      | 130.2                      | 132.1     | 130.6                    | 132.3     |
| Earnings per share – diluted                            | \$0.64                     | \$0.59    | \$1.27                   | \$1.16    |
| Average shares outstanding – diluted                    | 131.2                      | 133.6     | 131.7                    | 133.8     |
| Cash dividends paid per share                           | \$0.37                     | \$0.34    | \$0.74                   | \$0.68    |

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

McCORMICK & COMPANY, INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
 (in millions)

|   | Three months ended May 31, |         | Six months ended May 31, |         |   |
|---|----------------------------|---------|--------------------------|---------|---|
|   | 2014                       | 2013    | 2014                     | 2013    |   |
| Net income  | \$84.5                     | \$78.6  | \$167.0                  | \$154.6 |   |
| Net income attributable to non-controlling interest | 0.7                        | 0.4     | 1.7                      | 0.9     |   |
| Other comprehensive income (loss):                  |                            |         |                          |         |   |
| Unrealized components of pension plans              | 4.1                        | 9.2     | 7.9                      | 22.1    |   |
| Currency translation adjustments                    | (0.2                       | ) (29.6 | ) 4.1                    | (45.8   | ) |
| Change in derivative financial instruments          | (0.3                       | ) 3.5   | —                        | 7.7     | ) |
| Deferred taxes                                      | (1.4                       | ) (4.3  | ) (2.9                   | ) (8.3  | ) |
| Comprehensive income                                | \$87.4                     | \$57.8  | \$177.8                  | \$131.2 |   |

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

MCCORMICK & COMPANY, INCORPORATED  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (in millions)

|   | May 31,<br>2014<br>(unaudited) | May 31,<br>2013<br>(unaudited) | November 30,<br>2013 |
|---|--------------------------------|--------------------------------|----------------------|
| <b>ASSETS</b>   |                                |                                |                      |
| Current Assets  |                                |                                |                      |
| Cash and cash equivalents   | \$81.4                         | \$72.1                         | \$63.0               |
| Trade accounts receivables, net                                       | 417.1                          | 399.9                          | 495.5                |
| Inventories   |                                |                                |                      |
| Finished products   | 313.4                          | 278.9                          | 304.6                |
| Raw materials and work-in-process                                     | 373.9                          | 332.5                          | 372.3                |
|   | 687.3                          | 611.4                          | 676.9                |
| Prepaid expenses and other current assets                             | 138.9                          | 134.1                          | 134.8                |
| Total current assets  | 1,324.7                        | 1,217.5                        | 1,370.2              |
| Property, plant and equipment   | 1,448.0                        | 1,364.0                        | 1,407.7              |
| Less: accumulated depreciation  | (873.0)                        | (809.7)                        | (831.1)              |
| Property, plant and equipment, net                                    | 575.0                          | 554.3                          | 576.6                |
| Goodwill  | 1,798.6                        | 1,754.2                        | 1,798.5              |
| Intangible assets, net  | 340.4                          | 353.3                          | 333.4                |
| Investments and other assets  | 370.6                          | 329.5                          | 371.0                |
| Total assets  | \$4,409.3                      | \$4,208.8                      | \$4,449.7            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                           |                                |                                |                      |
| Current Liabilities   |                                |                                |                      |
| Short-term borrowings   | \$307.1                        | \$299.1                        | \$211.6              |
| Current portion of long-term debt                                     | 1.3                            | 252.8                          | 2.5                  |
| Trade accounts payable  | 335.8                          | 322.1                          | 387.3                |
| Other accrued liabilities   | 358.6                          | 352.2                          | 461.7                |
| Total current liabilities   | 1,002.8                        | 1,226.2                        | 1,063.1              |
| Long-term debt  | 1,016.8                        | 774.4                          | 1,019.0              |
| Other long-term liabilities   | 409.8                          | 474.5                          | 419.9                |
| Total liabilities   | 2,429.4                        | 2,475.1                        | 2,502.0              |
| Shareholders' Equity  |                                |                                |                      |
| Common stock  | 363.5                          | 346.9                          | 352.8                |
| Common stock non-voting   | 620.6                          | 600.8                          | 609.6                |
| Retained earnings   | 969.3                          | 953.2                          | 970.4                |
| Accumulated other comprehensive income (loss)                         | 8.8                            | (184.2)                        | (0.3)                |
| Non-controlling interests   | 17.7                           | 17.0                           | 15.2                 |
| Total shareholders' equity  | 1,979.9                        | 1,733.7                        | 1,947.7              |
| Total liabilities and shareholders' equity                            | \$4,409.3                      | \$4,208.8                      | \$4,449.7            |
| See notes to condensed consolidated financial statements (unaudited). |                                |                                |                      |

Table of Contents

McCORMICK & COMPANY, INCORPORATED  
 CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)  
 (in millions)

|  | Six months ended May 31, |         |
|--|--------------------------|---------|
|  | 2014                     | 2013    |
| Cash flows from operating activities   |                          |         |
| Net income   | \$167.0                  | \$154.6 |
| Adjustments to reconcile net income to net cash flow provided by operating activities: |                          |         |
| Depreciation and amortization  | 53.5                     | 51.7    |
| Stock-based compensation   | 12.1                     | 12.5    |
| Income from unconsolidated operations  | (11.3)                   | (11.4)  |
| Changes in operating assets and liabilities  | (51.6)                   | (77.3)  |
| Dividends from unconsolidated affiliates   | 12.4                     | 2.6     |
| Net cash flow provided by operating activities   | 182.1                    | 132.7   |
| Cash flows from investing activities   |                          |         |
| Acquisition of business  | —                        | (116.7) |
| Capital expenditures   | (47.4)                   | (34.6)  |
| Proceeds from sale of property, plant and equipment                                    | 0.7                      | 1.9     |
| Net cash flow used in investing activities   | (46.7)                   | (149.4) |
| Cash flows from financing activities   |                          |         |
| Short-term borrowings, net   | 94.3                     | 158.9   |
| Long-term debt repayments  | (1.2)                    | (0.9)   |
| Proceeds from exercised stock options  | 16.1                     | 29.8    |
| Common stock acquired by purchase  | (126.3)                  | (92.1)  |
| Dividends paid   | (96.7)                   | (90.1)  |
| Net cash flow (used in) provided by financing activities                               | (113.8)                  | 5.6     |
| Effect of exchange rate changes on cash and cash equivalents                           | (3.2)                    | 4.2     |
| Increase (decrease) in cash and cash equivalents                                       | 18.4                     | (6.9)   |
| Cash and cash equivalents at beginning of period                                       | 63.0                     | 79.0    |
| Cash and cash equivalents at end of period   | \$81.4                   | \$72.1  |
| See notes to condensed consolidated financial statements (unaudited).                  |                          |         |

Table of Contents

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 (U.S. GAAP) 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 presented. The results of consolidated operations for the three and six month periods ended May 31, 2014 are not necessarily indicative of the results to be expected for the full year. Historically, our net 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 typical increase in net sales, net income and cash flow from operations in the second half of the year is largely due to the consumer business cycle in the U.S., where customers typically purchase more products in the fourth quarter due to the Thanksgiving and Christmas holiday seasons.

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, 2013.

Reclassification

To conform to our current year presentation, inventories of \$14.3 million have been reclassified from Finished products to Raw materials and work-in-process in our condensed consolidated balance sheet at May 31, 2013. The effect of this reclassification is not material to the condensed consolidated financial statements.

Accounting and Disclosure Changes

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. It will be effective for our first quarter of 2018 and early adoption is not permitted. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance is intended to provide disclosure on items reclassified out of accumulated other comprehensive income (loss) either in the notes or parenthetically on the face of the income statement. We adopted this new accounting pronouncement with our first quarter of 2014 and have included the necessary disclosures in Note 10, Accumulated Other Comprehensive Income (Loss), in this filing. There was no impact on our financial statements from adoption, other than the additional disclosures.

Table of Contents

## 2. ACQUISITIONS

On May 31, 2013, we completed the purchase of the assets of Wuhan Asia-Pacific Condiments Co. Ltd. (WAPC), a privately held company based in China, for \$144.8 million, which included \$142.3 million of cash paid, net of closing adjustments, and the assumption of \$2.5 million of liabilities. This acquisition was financed with a combination of cash and debt. WAPC manufactures and markets DaQiao and ChuShiLe brand bouillon products, which have a leading position in the central region of China. WAPC is included in our consumer business segment from the date of acquisition. At the time of acquisition, annual sales of WAPC were approximately \$122 million. During the second quarter of 2014, we completed the final valuation of the assets of WAPC which resulted in \$30.6 million allocated to tangible net assets, \$46.1 million allocated to other intangible assets and \$68.1 million allocated to goodwill. The completion of the final valuation did not result in material changes to our consolidated income statement or our consolidated balance sheet from our preliminary purchase price allocation. WAPC added \$33.8 million and \$72.7 million to sales during the three and six months ended May 31, 2014, respectively. Proforma financial information for this acquisition has not been presented because the financial impact is not material.

## 3. SPECIAL CHARGES

In the fourth quarter 2013, we announced a reorganization in parts of the Europe, Middle East and Africa (EMEA) region to further improve EMEA's profitability and process standardization while supporting its competitiveness and long-term growth. These actions include the closure of our current sales and distribution operations in The Netherlands, where we will transition to a third-party distributor model to continue to sell the Silvo brand, as well as actions intended to streamline selling, general and administrative activities throughout EMEA, including the centralization of shared service activity across the region into Poland.

We expect to record a total of approximately \$27 million of cash and non-cash charges related to this reorganization. For 2013, we recorded \$25.0 million of special charges related to this reorganization. We expect to record approximately \$2 million of special charges related to this reorganization during 2014 and to complete the actions by 2015. We expect cash expenditures to implement these actions to be approximately \$18 million, with the bulk of the spending occurring in 2014, and to realize related annual cost savings of approximately \$10 million by 2015. Of the \$25.0 million of special charges recognized in 2013, \$15.9 million related to employee severance, \$6.4 million to asset write-downs, and \$2.7 million to other exit costs. The \$6.4 million asset write-down in 2013 related to an impairment charge for the reduction in the value of our Silvo brand name in The Netherlands.

The following table outlines the major components of accrual balances relating to the special charges as of November 30, 2013 and May 31, 2014 (in millions):

|                                 | Employee severance | Other exit costs | Total   |
|---------------------------------|--------------------|------------------|---------|
| Balance as of November 30, 2013 | \$ 15.9            | \$ 2.7           | \$ 18.6 |
| Amounts utilized                | (4.4               | ) (1.0           | ) (5.4  |
| Balance as of May 31, 2014      | \$ 11.5            | \$ 1.7           | \$ 13.2 |



Table of Contents

## 4. FINANCING ARRANGEMENTS AND FINANCIAL INSTRUMENTS

We use derivative financial instruments to enhance our ability to manage risk, including foreign currency and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments. The use of derivative financial instruments is monitored through regular communication with senior management and the use of written guidelines.

As of May 31, 2014, the maximum time frame for our foreign exchange forward contracts is 18 months. For all derivatives, the net amount of accumulated other comprehensive income expected to be reclassified in the next 12 months is \$1.0 million as a decrease to earnings.

All derivatives are recognized at fair value in the balance sheet and recorded in either current or noncurrent other assets or other accrued liabilities or other long-term liabilities depending upon nature and maturity.

The following table discloses the fair values of derivative instruments on our balance sheet (in millions):

|                            |                        |                 |            |                           |                 |            |
|----------------------------|------------------------|-----------------|------------|---------------------------|-----------------|------------|
| As of May 31, 2014         | Asset Derivatives      |                 |            | Liability Derivatives     |                 |            |
|                            | Balance Sheet Location | Notional Amount | Fair Value | Balance Sheet Location    | Notional Amount | Fair Value |
| Interest rate contracts    | Other current assets   | \$ 100.0        | \$ 9.8     |                           |                 |            |
| Foreign exchange contracts | Other current assets   | 73.8            | 0.8        | Other accrued liabilities | \$ 92.8         | \$ 1.4     |
| Total                      |                        |                 | \$ 10.6    |                           |                 | \$ 1.4     |
| As of May 31, 2013         | Asset Derivatives      |                 |            | Liability Derivatives     |                 |            |
|                            | Balance Sheet Location | Notional Amount | Fair Value | Balance Sheet Location    | Notional Amount | Fair Value |
| Interest rate contracts    | Other current assets   | \$ 200.0        | \$ 18.4    |                           |                 |            |
| Foreign exchange contracts | Other current assets   | 115.1           | 1.9        | Other accrued liabilities | \$ 64.5         | \$ 0.6     |
| Total                      |                        |                 | \$ 20.3    |                           |                 | \$ 0.6     |
| As of November 30, 2013    | Asset Derivatives      |                 |            | Liability Derivatives     |                 |            |
|                            | Balance Sheet Location | Notional Amount | Fair Value | Balance Sheet Location    | Notional Amount | Fair Value |
| Interest rate contracts    | Other current assets   | \$ 100.0        | \$ 12.2    |                           |                 |            |
| Foreign exchange contracts | Other current assets   | 79.2            | 1.1        | Other accrued liabilities | \$ 125.7        | \$ 1.6     |
| Total                      |                        |                 | \$ 13.3    |                           |                 | \$ 1.6     |

Table of Contents

The following tables disclose the impact of derivative instruments on our other comprehensive income (OCI), accumulated other comprehensive income (AOCI) and our income statement for the three and six month periods ended May 31, 2014 and 2013 (in millions):

## Fair Value Hedges -

| Derivative              | Income statement location | Expense                                 |   |                                       |                                       |
|-------------------------|---------------------------|---|---|---------------------------------------|---------------------------------------|
|                         |                           | For the three months ended May 31, 2014 | For the three months ended May 31, 2013 | For the six months ended May 31, 2014 | For the six months ended May 31, 2013 |
| Interest rate contracts | Interest expense          | \$1.3                                   | \$1.3                                   | \$2.5                                 | \$2.5                                 |

Cash Flow Hedges –  
For the three months ended May 31,

| Derivative                 | Gain or (Loss) recognized in OCI |         | Income statement location | Gain or (Loss) reclassified from AOCI |          |
|----------------------------|----------------------------------|---------|---------------------------|---------------------------------------|----------|
|                            | 2014                             | 2013    |                           | 2014                                  | 2013     |
| Interest rate contracts    | —                                | \$3.3   | Interest expense          | (0.1                                  | ) \$(0.4 |
| Foreign exchange contracts | (0.5                             | ) 0.6   | Cost of goods sold        | \$(0.1                                | ) (0.2   |
| Total                      | \$(0.5                           | ) \$3.9 |                           | \$(0.2                                | ) \$(0.6 |

Cash Flow Hedges –  
For the six months ended May 31,

| Derivative                 | Gain or (Loss) recognized in OCI |         | Income statement location | Gain or (Loss) reclassified from AOCI |          |
|----------------------------|----------------------------------|---------|---------------------------|---------------------------------------|----------|
|                            | 2014                             | 2013    |                           | 2014                                  | 2013     |
| Interest rate contracts    | \$—                              | \$4.5   | Interest expense          | \$(0.1                                | ) \$(0.7 |
| Foreign exchange contracts | (0.5                             | ) 2.1   | Cost of goods sold        | (0.5                                  | ) (0.7   |
| Total                      | \$(0.5                           | ) \$6.6 |                           | \$(0.6                                | ) \$(1.4 |

The amount of gain or loss recognized in income on the ineffective portion of derivative instruments is not material. The amounts noted in the tables above for OCI do not include any adjustments for the impact of deferred income taxes.

## 5. FAIR VALUE MEASUREMENTS

Fair value can be measured using 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). Accounting standards utilize 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.

Table of Contents

Our population of financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in millions):

|                                       | Fair Value | May 31, 2014 |         |         |
|---------------------------------------|------------|--------------|---------|---------|
|                                       |            | Level 1      | Level 2 | Level 3 |
| Assets                                |            |              |         |         |
| Cash and cash equivalents             | \$81.4     | \$81.4       | \$—     | \$—     |
| Insurance contracts                   | 96.5       | —            | 96.5    | —       |
| Bonds and other long-term investments | 12.6       | 12.6         | —       | —       |
| Interest rate derivatives             | 9.8        | —            | 9.8     | —       |
| Foreign currency derivatives          | 0.8        | —            | 0.8     | —       |
| Total                                 | \$201.1    | \$94.0       | \$107.1 | \$—     |
| Liabilities                           |            |              |         |         |
| Foreign currency derivatives          | \$1.4      | \$—          | \$1.4   | \$—     |

|                                       | Fair Value | May 31, 2013 |         |         |
|---------------------------------------|------------|--------------|---------|---------|
|                                       |            | Level 1      | Level 2 | Level 3 |
| Assets                                |            |              |         |         |
| Cash and cash equivalents             | \$72.1     | \$72.1       | \$—     | \$—     |
| Insurance contracts                   | 80.5       | —            | 80.5    | —       |
| Bonds and other long-term investments | 13.4       | 13.4         | —       | —       |
| Interest rate derivatives             | 18.4       | —            | 18.4    | —       |
| Foreign currency derivatives          | 1.9        | —            | 1.9     | —       |
| Total                                 | \$186.3    | \$85.5       | \$100.8 | \$—     |
| Liabilities                           |            |              |         |         |
| Foreign currency derivatives          | \$0.6      | \$—          | \$0.6   | —       |

|                                       | Fair Value | November 30, 2013 |         |         |
|---------------------------------------|------------|-------------------|---------|---------|
|                                       |            | Level 1           | Level 2 | Level 3 |
| Assets                                |            |                   |         |         |
| Cash and cash equivalents             | \$63.0     | \$63.0            | \$—     | \$—     |
| Insurance contracts                   | 90.1       | —                 | 90.1    | —       |
| Bonds and other long-term investments | 13.3       | 13.3              | —       | —       |
| Interest rate derivatives             | 12.2       | —                 | 12.2    | —       |
| Foreign currency derivatives          | 1.1        | —                 | 1.1     | —       |
| Total                                 | \$179.7    | \$76.3            | \$103.4 | \$—     |
| Liabilities                           |            |                   |         |         |
| Foreign currency derivatives          | \$1.6      | \$—               | \$1.6   | \$—     |

The fair values of insurance contracts are based upon the underlying values of the securities in which they are invested and are from quoted market prices from various stock and bond exchanges for similar type assets. The fair values of bonds and other long-term investments are based on quoted market prices from various stock and bond exchanges. The fair values for interest rate and foreign currency derivatives are based on values for similar instruments using models with market based inputs.

## 6. EMPLOYEE BENEFIT AND RETIREMENT PLANS

The following table presents the components of our pension expense of the defined benefit plans for the three months ended May 31, 2014 and 2013 (in millions):



Table of Contents

|                                     | United States |         | International |        |   |
|-------------------------------------|---------------|---------|---------------|--------|---|
|                                     | 2014          | 2013    | 2014          | 2013   |   |
| Defined benefit plans               |               |         |               |        |   |
| Service cost                        | \$5.0         | \$5.8   | \$2.0         | \$2.2  |   |
| Interest costs                      | 7.8           | 7.8     | 3.4           | 3.1    |   |
| Expected return on plan assets      | (9.7          | ) (10.4 | ) (4.7        | ) (4.2 | ) |
| Amortization of prior service costs | —             | —       | 0.1           | 0.1    |   |
| Recognized net actuarial loss       | 2.9           | 7.4     | 1.2           | 1.4    |   |
| Total pension expense               | \$6.0         | \$10.6  | \$2.0         | \$2.6  |   |

The following table presents the components of our pension expense of the defined benefit plans for the six months ended May 31, 2014 and 2013 (in millions):

|                                     | United States |         | International |        |   |
|-------------------------------------|---------------|---------|---------------|--------|---|
|                                     | 2014          | 2013    | 2014          | 2013   |   |
| Defined benefit plans               |               |         |               |        |   |
| Service cost                        | \$10.0        | \$11.6  | \$3.9         | \$4.4  |   |
| Interest costs                      | 15.6          | 15.6    | 6.9           | 6.3    |   |
| Expected return on plan assets      | (19.4         | ) (20.7 | ) (9.4        | ) (8.5 | ) |
| Amortization of prior service costs | —             | —       | 0.2           | 0.2    |   |
| Recognized net actuarial loss       | 5.9           | 14.8    | 2.3           | 2.8    |   |
| Total pension expense               | \$12.1        | \$21.3  | \$3.9         | \$5.2  |   |

During the six months ended May 31, 2014 and 2013, we contributed \$11.3 million and \$37.7 million, respectively, to our pension plans. Total contributions to our pension plans in fiscal year 2013 were \$42.7 million.

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

|                                     | Three months ended May 31, |       | Six months ended May 31, |       |   |
|-------------------------------------|----------------------------|-------|--------------------------|-------|---|
|                                     | 2014                       | 2013  | 2014                     | 2013  |   |
| Other postretirement benefits       |                            |       |                          |       |   |
| Service cost                        | \$0.9                      | \$1.2 | \$1.8                    | \$2.5 |   |
| Interest costs                      | 1.0                        | 1.0   | 2.1                      | 2.0   |   |
| Amortization of prior service costs | —                          | (0.3  | ) —                      | (0.6  | ) |
| Amortization of losses              | —                          | 0.3   | —                        | 0.7   |   |
| Total other postretirement expense  | \$1.9                      | \$2.2 | \$3.9                    | \$4.6 |   |

Table of Contents

## 7. STOCK-BASED COMPENSATION

We have three types of stock-based compensation awards: restricted stock units (RSUs), stock options and company stock awarded as part of our mid-term incentive program (MTIP). The following table sets forth the stock-based compensation expense recorded in selling, general and administrative (SG&A) expense (in millions):

|                                  | Three months ended May 31, |       | Six months ended May 31, |        |
|----------------------------------|----------------------------|-------|--------------------------|--------|
|                                  | 2014                       | 2013  | 2014                     | 2013   |
| Stock-based compensation expense | \$9.5                      | \$9.7 | \$12.1                   | \$12.5 |

Our 2014 annual grant of stock options and RSUs occurred in the second quarter, similar to the 2013 annual grant. The weighted-average grant-date fair value of an option granted in 2014 was \$9.48 and in 2013 was \$9.47 as calculated under a lattice pricing model. For the 2014 grant, substantially all of the options granted vest ratably over a three-year period or upon retirement. Previously, stock options granted vested ratably over a four-year period or upon retirement. The fair values of option grants in the stated periods were computed using the following range of assumptions for our various stock compensation plans:

|                          | 2014         | 2013         |
|--------------------------|--------------|--------------|
| Risk-free interest rates | 0.1 - 2.7%   | 0.1 - 1.8%   |
| Dividend yield           | 2.1%         | 1.9%         |
| Expected volatility      | 15.6 - 20.1% | 14.5 - 20.6% |
| Expected lives           | 5.8          | 6.2          |

The following is a summary of all stock option activity for the six months ended May 31, 2014 and 2013:

| (shares in millions)               | 2014             |                                 | 2013             |                                 |
|------------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                    | Number of Shares | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of period | 4.6              | \$47.73                         | 5.1              | \$40.06                         |
| Granted                            | 1.1              | 71.10                           | 0.9              | 71.60                           |
| Exercised                          | (0.5             | ) 35.26                         | (0.9             | ) 32.70                         |
| Outstanding at end of the period   | 5.2              | \$53.54                         | 5.1              | \$47.13                         |
| Exercisable at end of the period   | 3.0              | \$44.44                         | 2.9              | \$38.59                         |

As of May 31, 2014 the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was \$97.0 million and for options currently exercisable was \$84.2 million. The total intrinsic value of all options exercised during the six months ended May 31, 2014 and 2013 was \$17.1 million and \$32.7 million, respectively.

The following is a summary of all of our RSU activity for the six months ended May 31, 2014 and 2013:

| (shares in thousands)              | 2014             |  | 2013             |  |
|------------------------------------|------------------|--|------------------|--|
|                                    | Number of Shares | Weighted-Average Grant-Date Fair Value | Number of Shares | Weighted-Average Grant-Date Fair Value |
| Outstanding at beginning of period | 161              | \$60.86                                | 192              | \$49.65                                |
| Granted                            | 177              | 71.14                                  | 89               | 71.60                                  |
| Vested                             | (93              | ) 62.57                                | (113             | ) 51.05                                |
| Forfeited                          | (4               | ) 69.02                                | (2               | ) 55.16                                |
| Outstanding at end of period       | 241              | \$67.61                                | 166              | \$60.65                                |





Table of Contents

The following is a summary of the MTIP award activity for the six months ended May 31, 2014 and 2013:

| (shares in thousands)              | 2014                   |  | 2013                   |  |
|------------------------------------|------------------------|--|------------------------|--|
|                                    | Number<br>of<br>Shares | Weighted-<br>Average<br>Grant-Date<br>Fair Value | Number<br>of<br>Shares | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
| Outstanding at beginning of period | 334                    | \$51.73  | 240                    | \$46.63  |
| Granted                            | 105                    | 69.04  | 94                     | 64.74  |
| Vested                             | (118                   | ) 44.47  | —                      | —  |
| Forfeited                          | (2                     | ) 44.47  | —                      | —  |
| Outstanding at end of period       | 319                    | \$60.15  | 334                    | \$51.73  |

Table of Contents

## 8. INCOME TAXES

During the six months ended May 31, 2014, the Company reached a settlement with respect to the French taxing authority's audits of the 2007-2013 tax years. In connection with that settlement, the Company reversed previously provided reserves for uncertain tax benefits and related interest of \$5.8 million in the first quarter of 2014. Other than additions for current year tax positions and for the previously described reversal, there were no significant changes to unrecognized tax benefits during the three and six months ended May 31, 2014.

Income taxes for the six months ended May 31, 2014 included the following additional discrete tax items: (i) international tax expense of \$2.2 million related to prior year adjustments agreed as part of the French tax settlement previously described; (ii) international tax expense of \$3.7 million related to fiscal year 2013 arising from a retroactive change in French tax law enacted in the first quarter; and (iii) international tax expense of \$0.6 million relating to an increased valuation allowance associated with prior year losses of a non-U.S. subsidiary due to a change in our assessment of the likely realization of such losses. There were no discrete tax items recognized in the quarter ended May 31, 2014.

Income taxes for the six months ended May 31, 2013 include \$1.2 million of discrete tax benefits due to the recognition of a 2012 U.S. research tax credit, which was recorded in the first quarter. A new law was enacted in 2013 that retroactively granted the credit in 2012. There were no discrete tax items recognized in the quarter ended May 31, 2013.

In 2010, the Internal Revenue Service (IRS) commenced an examination of our U.S. federal income tax return for the 2007 and 2008 tax years. During the course of the examination, we have held discussions with the IRS on certain issues and, in October 2012, we received proposed adjustments for these tax years. In November 2012, we deposited \$18.8 million with the IRS to stop any potential interest on these proposed adjustments. We disagree with certain of the proposed adjustments and, in December 2012, we filed a protest to initiate the IRS administrative appeals process. In the first two quarters of 2014, the appeals process continued, with meetings and submission of supplemental materials. We believe that we have established appropriate tax accruals under U.S. GAAP for these issues.

## 9. EARNINGS PER SHARE AND STOCK ISSUANCE

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

|                                      | Three months ended May 31, |       | Six months ended May 31, |       |
|--------------------------------------|----------------------------|-------|--------------------------|-------|
|                                      | 2014                       | 2013  | 2014                     | 2013  |
| Average shares outstanding – basic   | 130.2                      | 132.1 | 130.6                    | 132.3 |
| Effect of dilutive securities:       |                            |       |                          |       |
| Stock options/RSUs/MTIP              | 1.0                        | 1.5   | 1.1                      | 1.5   |
| Average shares outstanding – diluted | 131.2                      | 133.6 | 131.7                    | 133.8 |

The following table sets forth the stock options and RSUs for the three and six months ended May 31, 2014 and 2013 which were not considered in our earnings per share calculation since they were anti-dilutive (in millions):

|                          | Three months ended May 31, |      | Six months ended May 31, |      |
|--------------------------|----------------------------|------|--------------------------|------|
|                          | 2014                       | 2013 | 2014                     | 2013 |
| Anti-dilutive securities | 1.6                        | 0.3  | 1.3                      | 0.3  |

Table of Contents

The following table sets forth the common stock activity for the six months ended May 31, 2014 and 2013 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 May 31, |      | Six months ended May 31, |      |
|--|----------------------------|------|--------------------------|------|
|  | 2014                       | 2013 | 2014                     | 2013 |
| Shares issued under stock option, employee stock purchase plans and RSUs | 0.3                        | 0.5  | 0.6                      | 0.9  |
| Shares repurchased in connection with the stock repurchase program       | 1.0                        | 0.4  | 1.9                      | 1.4  |

As of May 31, 2014, \$234 million remained of the \$400 million share repurchase authorization that was authorized by the Board of Directors in April 2013.

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

|   | May 31, 2014 | May 31, 2013 | November 30, 2013 |
|---|--------------|--------------|-------------------|
| Foreign currency translation adjustment                       | \$169.8      | \$120.6      | \$165.7           |
| Unrealized gain (loss) on foreign currency exchange contracts | (0.3)        | ) 0.3        | (0.3)             |
| Fair value of open interest rate swaps                        | —            | 4.3          | —                 |
| Unamortized value of settled interest rate swaps              | 1.9          | (4.9)        | ) 2.0             |
| Pension and other postretirement costs                        | (162.6)      | ) (304.5)    | ) (167.7)         |
| Accumulated other comprehensive income (loss)                 | \$8.8        | \$ (184.2)   | ) \$ (0.3)        |

The following table sets forth the amounts reclassified from accumulated other comprehensive income (loss) and into consolidated net income for the three and six months ended May 31, 2014 and 2013 (in millions):

| Accumulated Other Comprehensive Income (Loss) Components | Three months ended May 31, |           | Six months ended May 31, |           | Affected Line Items in the Condensed Consolidated Income Statement |
|--|----------------------------|-----------|--------------------------|-----------|--|
|  | 2014                       | 2013      | 2014                     | 2013      |  |
| Losses on cash flow hedges:                              |                            |           |                          |           |  |
| Interest rate derivatives                                | (0.1)                      | ) \$(0.4) | ) \$(0.1)                | ) \$(0.7) | ) Interest expense   |
| Foreign exchange contracts                               | \$(0.1)                    | ) (0.2)   | ) (0.5)                  | ) (0.7)   | ) Cost of goods sold   |
| Total before tax expense                                 | (0.2)                      | ) (0.6)   | ) (0.6)                  | ) (1.4)   | )  |
| Tax effect   | 0.1                        | 0.2       | 0.2                      | 0.4       | Income taxes   |
| Net, after tax   | \$(0.1)                    | ) \$(0.4) | ) \$(0.4)                | ) \$(1.0) | )  |

Amortization of pension and postretirement benefit adjustments:

|  |       |          |         |          |                                       |
|--|-------|----------|---------|----------|---------------------------------------|
| Amortization of prior service costs (1)  | \$0.1 | \$ (0.2) | ) \$0.2 | \$ (0.4) | ) SG&A expense/<br>Cost of goods sold |
| Amortization of net actuarial losses (1) | 4.1   | 9.1      | 8.2     | 18.3     | SG&A expense/<br>Cost of goods sold   |
| Total before tax expense                 | 4.2   | 8.9      | 8.4     | 17.9     |                                       |
| Tax effect                               | (1.4) | ) (3.0)  | ) (2.9) | ) (6.1)  | ) Income taxes                        |
| Net, after tax                           | \$2.8 | \$5.9    | \$5.5   | \$11.8   |                                       |

(1) This accumulated other comprehensive income (loss) component is included in the computation of total pension expense and total other postretirement expense (refer to note 6 for additional details).

Table of Contents

## 11. BUSINESS SEGMENTS

We operate in two business segments: consumer and industrial. The consumer and industrial segments manufacture, market and distribute spices, herbs, seasoning mixes, condiments and other flavorful products 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”, “Schwartz”, “Club House”, “Kamis”, “Kohinoor” and “DaQiao”. Our industrial segment sells to food manufacturers and the foodservice 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. With their primary attribute being flavor, we regard the products within each of our segments to be fairly homogenous. It is impracticable to segregate and identify sales and profits for individual product lines. We measure segment performance based on operating income. 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<br>(in millions) | Total     |
|---------------------------------------|-----------|-----------------------------|-----------|
| Three months ended May 31, 2014       |           |                             |           |
| Net sales                             | \$615.0   | \$418.4                     | \$1,033.4 |
| Operating income                      | 85.8      | 35.9                        | 121.7     |
| Income from unconsolidated operations | 6.0       | 0.2                         | 6.2       |
| Three months ended May 31, 2013       |           |                             |           |
| Net sales                             | \$591.0   | \$411.6                     | \$1,002.6 |
| Operating income                      | 87.6      | 28.4                        | 116.0     |
| Income from unconsolidated operations | 5.3       | 0.6                         | 5.9       |
|                                       | Consumer  | Industrial<br>(in millions) | Total     |
| Six months ended May 31, 2014         |           |                             |           |
| Net sales                             | \$1,230.3 | \$796.5                     | \$2,026.8 |
| Operating income                      | 180.2     | 66.1                        | 246.3     |
| Income from unconsolidated operations | 10.9      | 0.4                         | 11.3      |
| Six months ended May 31, 2013         |           |                             |           |
| Net sales                             | \$1,160.7 | \$776.2                     | \$1,936.9 |
| Operating income                      | 175.3     | 52.7                        | 228.0     |
| Income from unconsolidated operations | 9.9       | 1.5                         | 11.4      |

Table of Contents

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

OVERVIEW

Our Business

We are a global leader in flavor, with the manufacturing, marketing and distribution of spices, seasoning mixes, condiments and other flavorful products to the entire food industry. Customers range from retail outlets and food manufacturers to food service businesses. Our major sales, distribution and production facilities are located in North America, Europe and China. Additional facilities are based in Australia, Mexico, India, Singapore, Central America, Thailand and South Africa. Annually, approximately 40% of our sales have been outside of the United States. We operate in two business segments, consumer and industrial. Consistent with market conditions in each segment, our consumer business has a higher overall profit margin than our industrial business. Historically, the consumer business contributes approximately 60% of sales and 80% of operating income and the industrial business contributes approximately 40% of sales and 20% of operating income. 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. We offer consumers a range of products from premium to value-priced.

Our Growth Model and Outlook

Our growth model is straightforward – we are increasing sales and profits by investing in the business and funding these investments, in part, with cost savings from our Comprehensive Continuous Improvement (CCI) program. This simple model has been the driver of our success and is our plan for growth in the future.

Increasing Sales and Profits – Our long-term goals are to grow sales 4% to 6%, increase operating income 7% to 9% and increase earnings per share 9% to 11%. Long-term, we expect to achieve our sales growth with one-third from category growth, share gains and new distribution, one-third from product innovation and one-third from acquisitions. For our consumer business, we are driving sales with a robust pipeline of innovation and a significant increase in our brand marketing. We expect to increase industrial business sales and profit through new product development and support for the international expansion of our customers.

In 2014, sales are projected to grow 3% to 5% in local currency, driven by higher volumes, pricing and the incremental impact of the WAPC acquisition in the first half of the year (see note 2 of the financial statements for additional information). Operating income was \$550.5 million in fiscal year 2013. Excluding special charges of \$25.0 million related to reorganization activities in the EMEA region and a \$15.3 million loss on a voluntary pension settlement, both of which were recorded in the fourth quarter of 2013, adjusted operating income in 2013 was \$590.8 million. Due in large part to higher sales, improved gross profit margin and CCI cost savings, operating income is projected to increase 6% to 8% in 2014 when compared to adjusted operating income in 2013. Diluted earnings per share are projected to be between \$3.22 and \$3.29 in 2014. This compares to diluted earnings per share of \$2.91 in 2013. Excluding the earnings per share impact of the aforementioned special charges and loss on voluntary pension settlement, adjusted diluted earnings per share in 2013 was \$3.13. The projected increase in diluted earnings per share in 2014, when compared to adjusted diluted earnings per share in 2013 is 3% to 5%. This growth rate includes the unfavorable impact of an increase in the 2014 tax rate when compared to the 2013 tax rate.

In addition to increased sales and profit, our business generates strong cash flow. We generated \$465 million and \$455 million in cash flow from operations in fiscal years 2013 and 2012, respectively. Long-term, we expect higher cash flow and more efficient asset utilization as we anticipate growth in net income and further reductions in our working capital. We are increasing shareholder return with consistent dividend payments. We have paid dividends every year since 1925 and increased the dividend in each of the past 28 years.

Investing in the Business – We are investing for growth through innovation, brand marketing support and acquisitions. In 2013, 9% of sales came from new products launched in the past three years. For our consumer business, innovation continues to be one of the best ways to distinguish our brands from our competition, including private label. We are introducing products for every type of cooking occasion, from gourmet, premium items to convenient and value priced flavors. In 2014, these include seasoning blends for grilling burgers, Flavour Shot blends of oil and spices, gluten-free recipe mixes, skillet sauces and value-priced grinders. For industrial customers, we are developing seasonings for snacks and other food products, as well as flavors for new menu items. In 2014, we have a solid

pipeline of new flavor solutions aligned with our customers' new product launch plans. With more than 20 technical innovation centers and product development facilities around the world, we are supporting the growth of our brands and those of our industrial customers with products that appeal to local consumers. In addition, much of our innovation is designed to meet the increasing consumer demand for healthy eating.

Table of Contents

We founded the McCormick Science Institute in 2007, to fund the advancement of scientific knowledge of the potential health benefits of culinary spices and herbs. This institute is also committed to educating consumers, nutritionists and dietitians about these potential health benefits.

From 2008 through 2013, we increased our investment in brand marketing by 64%. An increase of at least 12% is planned in 2014. We measure the return on this investment and have identified digital marketing as one of the highest categories. Through digital marketing, we are connecting with consumers in a personalized way to deliver recipes, provide cooking advice and discover new products. From 2011 to 2013, we doubled our spending on digital marketing and have a further increase planned in 2014.

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, such as China and India. In 2013, we completed our acquisition of the assets of WAPC in China. Sales in emerging markets accounted for 15% of total company net sales in fiscal year 2013, up from 10% of net sales in 2011. In our developed markets, we are seeking consumer brands that have a defensible market position and meet a growing consumer trend for flavor.

Cost Savings from CCI – CCI is our ongoing initiative to improve productivity and reduce costs throughout the company. With CCI, each business unit develops cost reduction opportunities and sets specific goals. Our projects fall into the areas of cost optimization, cost avoidance and productivity that includes streamlining processes. However, the only amounts we report are actual cost reductions where costs have decreased from the prior year. CCI cost savings totaled \$63 million in fiscal year 2013, of which \$48 million lowered cost of goods sold. In 2014, CCI-related cost savings are expected to reach at least \$45 million, with a large portion impacting our cost of goods sold. Material cost inflation is expected to be in the low single-digit range in 2014, compared to approximately 3% in 2013. We anticipate the 2014 impact of material cost inflation will be offset largely by the cost savings from our CCI program.

## RESULTS OF OPERATIONS - COMPANY

| (in millions)       | Three months ended May 31, |           | Six months ended May 31, |           |   |
|---------------------|----------------------------|-----------|--------------------------|-----------|---|
|                     | 2014                       | 2013      | 2014                     | 2013      |   |
| Net sales           | \$1,033.4                  | \$1,002.6 | \$2,026.8                | \$1,936.9 |   |
| Percent increase    | 3.1                        | % 1.9     | % 4.6                    | % 2.4     | % |
| Gross profit        | \$412.5                    | \$394.4   | \$804.0                  | \$756.1   |   |
| Gross profit margin | 39.9                       | % 39.3    | % 39.7                   | % 39.0    | % |

Sales for the second quarter of 2014 increased by 3.1% over the prior year level and reflected a 3.4% increase from our WAPC acquisition in 2013 partially offset by a 0.3% unfavorable impact from foreign currency exchange rates. Excluding the acquisition and foreign currency impact, our sales were even with the prior year as pricing actions, which added 2.3% to net sales in the second quarter of 2014, were offset by lower volume and product mix, driven by our consumer business.

Sales for the six months ended May 31, 2014, increased by 4.6% over the 2013 level and reflected a 3.8% increase from our WAPC acquisition in 2013 partially offset by a 0.7% unfavorable impact from foreign currency exchange rates. Excluding the acquisition and foreign currency impact, our sales rose by 1.5% over the 2013 first half, as pricing actions contributed 2.0% to our sales but were partially offset by lower volume and product mix.

Gross profit for the second quarter of 2014 increased by \$18.1 million, or 4.6%, over the comparable period in 2013, while our gross profit margin improved by 60 basis points over the year ago quarter to 39.9%. This margin improvement was primarily due to our CCI cost savings and increased sales of higher margin products in our



industrial business.

Gross profit for the six months ended May 31, 2014 increased by \$47.9 million, or 6.3%, over the comparable period in 2013, while our gross profit margin improved by 70 basis points over the first six months of 2013 to 39.7%. This margin improvement was primarily due to our CCI cost savings and increased sales of higher margin products in our industrial business.

19

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Table of Contents

| (in millions)                                    | Three months ended May 31, |         | Six months ended May 31, |         |   |
|--|----------------------------|---------|--------------------------|---------|---|
|  | 2014                       | 2013    | 2014                     | 2013    |   |
| Selling, general & administrative expense (SG&A) | \$290.8                    | \$278.4 | \$557.7                  | \$528.1 |   |
| Percent of net sales                             | 28.1                       | % 27.7  | % 27.5                   | % 27.2  | % |

SG&A as a percentage of net sales increased by 40 basis points for the second quarter of 2014 as compared to the corresponding period in 2013. Driving the increase in SG&A as a percentage of sales in the second quarter of 2014 over the 2013 level were increased brand marketing support, which was \$4.0 million higher in 2014, and higher incentive and selling expenses, partially offset by lower pension expense and the absence of \$3.7 million of transaction costs that were incurred in the second quarter of 2013 in connection with our WAPC acquisition. SG&A as a percentage of net sales increased by 30 basis points for the six months ended May 31, 2014, as compared to the corresponding period in 2013. Driving the increase in SG&A as a percentage of sales in the first half of 2014 over the 2013 level were increased brand marketing support, which was \$11.1 million higher in 2014, and higher incentive and selling expenses, partially offset by lower pension expense and the absence of \$3.7 million of transaction costs that were incurred in the second quarter of 2013 in connection with our WAPC acquisition.

| (in millions)     | Three months ended May 31, |        | Six months ended May 31, |        |
|-------------------|----------------------------|--------|--------------------------|--------|
|                   | 2014                       | 2013   | 2014                     | 2013   |
| Interest expense  | \$12.5                     | \$13.5 | \$24.9                   | \$27.4 |
| Other income, net | 0.3                        | 0.8    | 0.5                      | 1.4    |

Interest expense was lower in the three and six months ended May 31, 2014 compared to the same periods of the prior year primarily due to the refinancing of long term debt in the second half of 2013. In August 2013, we issued \$250 million of 3.50% Notes (at an effective interest rate of 3.30%), the net cash proceeds of which, plus cash on hand, were used to pay off \$250 million of 5.25% Notes (at an effective interest rate of 5.54%) that matured in September 2013.

| (in millions)   | Three months ended May 31, |         | Six months ended May 31, |         |   |
|---|----------------------------|---------|--------------------------|---------|---|
|   | 2014                       | 2013    | 2014                     | 2013    |   |
| Income from consolidated operations before income taxes | \$109.5                    | \$103.3 | \$221.9                  | \$202.0 |   |
| Income taxes  | 31.2                       | 30.6    | 66.2                     | 58.8    |   |
| Effective tax rate                                      | 28.5                       | % 29.6  | % 29.8                   | % 29.1  | % |

Income taxes for the six months ended May 31, 2014, included a net of \$0.7 million of discrete tax expense items. The components of those discrete tax items, more fully described in note 8, included the following: (i) a tax benefit of \$5.8 million associated with the reversal of reserves provided in prior years for uncertain tax benefits and related interest associated with the Company's settlement of audits by the French taxing authority for the 2007-2013 tax years that occurred in the first six months of 2014; (ii) tax expense of \$2.2 million related to prior year audit adjustments agreed as part of the French tax settlement; (iii) tax expense of \$3.7 million related to fiscal year 2013 arising from a retroactive change in French tax law enacted in the first quarter of 2014; and (iv) tax expense of \$0.6 million associated with an increased valuation allowance associated with prior losses of a non-U.S. subsidiary due to a change in our assessment of the likely realization of those losses. There were no discrete tax items recognized in the quarter ended May 31, 2014.

Income taxes for the six months ended May 31, 2013 include \$1.2 million of discrete tax benefits due to the recognition of a 2012 U.S. research tax credit, which was recorded in the first quarter. A new law was enacted in 2013 that retroactively granted the credit in 2012. There were no discrete tax items recognized in the quarter ended May 31, 2013.

In 2010, the Internal Revenue Service (IRS) commenced an examination of our U.S. federal income tax return for the 2007 and 2008 tax years. During the course of the examination, we have held discussions with the IRS on certain issues and, in October 2012, we received proposed adjustments for these tax years. In November 2012, we deposited

\$18.8 million with the IRS to stop any potential interest on these proposed adjustments. We disagree with certain of the proposed adjustments and, in December 2012, we filed a protest to initiate the IRS administrative appeals process. In the six months ended May 31, 2014, the appeals process continued, with meetings and submissions of supplemental materials. We believe that we have established appropriate tax accruals under U.S. GAAP for these issues.

Table of Contents

The provision for income taxes is based on the current estimate of the annual effective tax rate adjusted to reflect the tax impact of items discrete to the quarter. The Company records tax expense or benefit that does not relate to ordinary income in the current fiscal year discretely in the period in which it occurs pursuant to the requirements of U.S. GAAP. Examples of such types of discrete items include, but are not limited to, changes in estimates of the outcome of tax matters related to prior years, provision-to-return adjustments, and the settlement of tax audits. Our effective tax rate, including the effect of the discrete tax items described above, for the six months ended May 31, 2014, was 29.8%, which represents a reduction from the corresponding rate of 31.1% recognized for the first quarter of 2014. The reduction in the effective tax rate for the six months ended May 31, 2014, from that of the first quarter in 2014 resulted primarily from a change in our expected mix of business across tax jurisdictions. Our effective tax rate of 28.5% for the three months ended May 31, 2014, benefited from the cumulative catch up adjustment necessary to reflect the reduction of our estimated annual effective tax rate for the six months ended May 31, 2014 from that estimated for the first three months of 2014.

| (in millions)                         | Three months ended May 31, |       | Six months ended May 31, |        |
|---------------------------------------|----------------------------|-------|--------------------------|--------|
|                                       | 2014                       | 2013  | 2014                     | 2013   |
| Income from unconsolidated operations | \$6.2                      | \$5.9 | \$11.3                   | \$11.4 |

Income from unconsolidated operations for the three and six months ended May 31, 2014 approximated the prior year levels.

The following table outlines the major components of the change in diluted earnings per share from 2013 to 2014:

|   | Three months ended May<br>31, | Six months ended May<br>31, |
|---|-------------------------------|-----------------------------|
| 2013 Earnings per share – diluted           | \$0.59                        | \$1.16                      |
| Higher operating income                     | 0.03                          | 0.09                        |
| Impact of interest expense and other income | —                             | 0.01                        |
| Impact of effective tax rate                | 0.01                          | (0.01)                      |
| Impact of lower shares outstanding          | 0.01                          | 0.02                        |
| 2014 Earnings per share – diluted           | \$0.64                        | \$1.27                      |

Table of Contents

## RESULTS OF OPERATIONS - SEGMENTS

## CONSUMER BUSINESS

|                         | Three months ended May 31, |         | Six months ended May 31, |           |   |
|-------------------------|----------------------------|---------|--------------------------|-----------|---|
|                         | 2014                       | 2013    | 2014                     | 2013      |   |
| (in millions)           |                            |         |                          |           |   |
| Net sales               | \$615.0                    | \$591.0 | \$1,230.3                | \$1,160.7 |   |
| Percent increase        | 4.1                        | % 3.9   | % 6.0                    | % 5.2     | % |
| Operating income        | 85.8                       | 87.6    | 180.2                    | 175.3     |   |
| Operating income margin | 14.0                       | % 14.8  | % 14.6                   | % 15.1    | % |

Our global consumer business grew sales by 4.1% in the second quarter of 2014 as compared to the second quarter of 2013. That growth rate included a 0.2% favorable impact from foreign currency rates and a 5.7% increase from the WAPC acquisition. Excluding the WAPC acquisition and foreign currency impact, global consumer sales declined by 1.8% in the second quarter of 2014, due to lower volume and product mix of 4.5%, partially offset by increased pricing of 2.7%.

In the Americas, consumer sales declined 4.8% in the second quarter of 2014 as compared to the second quarter of 2013. That decline included a 0.9% decrease from unfavorable foreign exchange rates, a 1.9% increase in pricing and a 5.8% decline attributable to lower volume and product mix. In this region, we are addressing some competitive in-roads which began to impact our U.S. business in 2013. During this quarter, we had continued pressure from some smaller brands in the marketplace. However, the pressure was largely focused on certain product groups within our spices and seasonings category and, while our category share was down, the percentage decline was less than in late 2013. Along with early indications of progress with our actions to improve results, the category growth remains healthy for spices and seasonings and recipe mixes based on the latest consumption data.

In the EMEA region, consumer sales increased 7.2% in the second quarter of 2014 as compared to the prior year level, including a favorable impact of 5.5% from foreign exchange rates, 4.3% increase due to pricing actions, partially offset by a 2.6% decrease from lower volumes and product mix. Volume and product mix declined this quarter due in part to pricing actions and the difficult retail environment in markets like the U.K. We continue to invest in brand marketing and product innovation to drive sales of our brands and expect to see improved performance with these initiatives and as consumers adjust to higher pricing.

In the Asia/Pacific region, consumer sales increased 69.9% in the second quarter of 2014, compared to the second quarter of 2013, with a 69.9% increase attributable to the WAPC acquisition and a 6.2% decrease from unfavorable foreign exchange rates. Excluding the acquisition and unfavorable foreign currency impact, consumer sales in the Asia/Pacific region rose 6.2%, driven by higher pricing that contributed 5.4% to the increase and by a 0.8% increase in volume and product mix. In this region, the growth in our base business was led by China, which grew sales by 23%, mainly from new products and expanded distribution. For the Kohinoor brand in India, sales rose slightly in local currency with significantly higher pricing offset by lower volume and product mix in the second quarter of 2014.

For the six months ended May 31, 2014, our global consumer business grew sales by 6.0% over the 2013 level. That increase reflected a 6.3% increase from the WAPC acquisition, partially offset by a 0.3% decrease from unfavorable foreign exchange rates. Excluding the WAPC acquisition and foreign currency impact, global consumer sales for the first six months of 2014 were even with the prior year, with lower volume and product mix reducing sales by 2.4%, offset by pricing actions which added 2.4%.

Second quarter of 2014 operating income for our consumer business decreased \$1.8 million, or 2.1%, compared to the second quarter of 2013. This decrease was primarily due to a \$3.3 million increase in brand marketing support and less favorable product mix, partially offset by higher pricing, CCI cost savings, and \$3.7 million in WAPC acquisition costs recorded in 2013.

For the six months ended May 31, 2014, consumer business operating income increased by \$4.9 million, or 2.8% compared to the same period of 2013. The growth in operating income was the result of higher sales, cost savings from CCI and acquisition costs noted above, partially offset by brand marketing support . Brand marketing support for the six months ended May 31, 2014 was \$9.3 million above the same period in 2013.

Table of Contents

## INDUSTRIAL BUSINESS

|                             | Three months ended May 31, |         | Six months ended May 31, |         |    |
|-----------------------------|----------------------------|---------|--------------------------|---------|----|
|                             | 2014                       | 2013    | 2014                     | 2013    |    |
| (in millions)               |                            |         |                          |         |    |
| Net sales                   | \$418.4                    | \$411.6 | \$796.5                  | \$776.2 |    |
| Percent increase/(decrease) | 1.6                        | % (0.9  | )% 2.6                   | % (1.5  | )% |
| Operating income            | 35.9                       | 28.4    | 66.1                     | 52.7    |    |
| Operating income margin     | 8.6                        | % 6.9   | % 8.3                    | % 6.8   | %  |

During the quarter ended May 31, 2014, our global industrial business grew sales by 1.6% from the second quarter of 2013, which included an unfavorable foreign exchange rate impact of 0.9%. Excluding the impact of foreign currency, global industrial sales increased 2.5% in the second quarter of 2014, with pricing actions that added 1.7% to sales and higher volume and product mix that increased sales by 0.8%.

In the Americas, industrial sales decreased 2.4% during the second quarter of 2014 from the prior year level, which included an unfavorable impact of 1.3% from foreign currency rates. Excluding the impact of foreign currency, lower volume and product mix decreased industrial sales by 2.2%, partially offset by pricing actions which added 1.1% to sales. In this region, demand from quick service restaurants remained weak. We continue to work with our customers to draw restaurant traffic by developing flavors for new menu items. For the second quarter of 2014, branded foodservice sales rose and sales to food manufacturers were relatively even with the year-ago period.

In the EMEA region, our industrial business increased sales in the second quarter of 2014 over the prior year level by 14.2%, which included a favorable foreign currency impact of 2.5%. In local currency, industrial sales increased 11.7% in the second quarter of 2014, with higher volume and product mix contributing 5.3% and pricing actions adding 6.4%. This increase for the second quarter follows a similar growth rate in the first quarter of 2014, reflecting continued success with product innovation and distribution gains, largely with quick service restaurants, and higher pricing in response to material cost increases.

In the Asia/Pacific region, industrial sales increased 6.0% in the second quarter of 2014 compared to the second quarter of 2013, which included an unfavorable foreign exchange rate impact of 4.4%. Excluding the impact of foreign currency, sales increased 10.4%. Favorable volume and product mix increased sales by 12.6%, while lower pricing reduced sales by 2.2%. Volume and product mix in China continues to improve as this market recovers from the sharp year-ago decline from consumer concerns about poultry consumption.

For the six months ended May 31, 2014, total industrial business sales increased 2.6%, which included 1.4% from unfavorable foreign exchange rates. Excluding the impact from foreign currency, the sales increase was 4.0%, driven by favorable volumes and product mix of 2.6% and higher pricing actions of 1.4%.

For the second quarter of 2014, operating income for the industrial business increased by \$7.5 million, or 26.4%, compared to the second quarter of 2013, and operating income margin increased to 8.6% for second quarter of 2014 compared to 6.9% for the same period last year. Higher sales, together with CCI cost savings and increased margins within the product portfolio, drove this performance. This increase compares to a decline of 13.1% in industrial business operating income in the second quarter of 2013 compared to the second quarter of 2012 that related to lower sales, an unfavorable mix of business and a year-on-year increase in retirement benefit expense.

For the six months ended May 31, 2014, industrial business operating income increased by \$13.4 million, or 25.4%, and operating income margin was 150 basis points higher than the first half of 2013. The increase in operating income was due to the same factors noted for the second quarter above.

MARKET RISK SENSITIVITY

Foreign Exchange Risk

23

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Table of Contents

We utilize foreign currency exchange contracts to enhance our ability to manage foreign currency exchange risk. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instrument and all derivatives are designated as hedges.

The following table sets forth the notional values and unrealized gain or (loss) of the portfolio of our forward foreign currency contracts (in millions):

|                        | May 31, 2014 | May 31, 2013 | November 30, 2013 |
|------------------------|--------------|--------------|-------------------|
| Notional value         | \$ 166.6     | \$ 179.6     | \$ 204.9          |
| Unrealized (loss) gain | (0.6         | ) 1.3        | (0.5              |

The quarterly fluctuation in notional value is a result of our decisions on foreign currency exposure coverage, based on our foreign currency exposures.

**Interest Rate Risk**

We manage our interest rate exposure by entering into both fixed and variable rate debt arrangements. In addition, we use interest rate swaps to minimize worldwide financing costs and to achieve a desired mix of fixed and variable rate debt. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instrument and all derivatives are designated as hedges. As of May 31, 2014, we had a total of \$100 million notional value of interest rate swap contracts outstanding. The fair value of our interest rate swaps was a \$9.8 million accumulated gain as of May 31, 2014, compared to a \$12.2 million accumulated gain as of November 30, 2013. The change in fair values is due to changes in interest rates and the remaining duration of our interest rate derivatives.

**Commodity Risk**

We purchase certain raw materials which are subject to price volatility caused by weather, market conditions, growing and harvesting conditions, governmental actions and other factors beyond our control. Our most significant raw materials are pepper, dairy products, rice, capsicums (red peppers and paprika), onion, garlic and soybean oil. While future movements of raw material costs are uncertain, we respond to this volatility in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery and customer price adjustments. We generally have not used derivatives to manage the volatility related to this risk. To the extent that we have used derivatives for this purpose, it has not been material to our business.

**Credit Risk**

The customers of our consumer business are predominantly food retailers and food wholesalers. Consolidations in these industries have created larger customers, some of which are highly leveraged. In addition, competition has increased with the growth in alternative channels including mass merchandisers, dollar stores, warehouse clubs and discount chains. This has caused some customers to be less profitable and increased our exposure to credit risk. We continue to closely monitor the credit worthiness of our customers and counterparties. We believe that our allowance for doubtful accounts properly recognizes trade receivables at net realizable value. We consider nonperformance credit risk for other financial instruments to be insignificant.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

As of May 31, 2014, there have been no material changes in our contractual obligations and commercial commitments outside the ordinary course of business since November 30, 2013.

**NON-GAAP FINANCIAL MEASURES**

The table below includes a financial measure of adjusted operating income and adjusted diluted earnings per share excluding the impact of special charges and a loss on voluntary pension settlement in fiscal year 2013. This is a non-GAAP financial measure which is prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles. We believe this non-GAAP information is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of our ongoing operations and analyze our business performance and trends. Management believes the non-GAAP measure provides a more consistent basis for

assessing the Company's performance than the closest GAAP equivalent.

24

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Table of Contents

This non-GAAP measure may be considered in addition to results prepared in accordance with GAAP, but it should not be considered a substitute for, or superior to, GAAP results. We intend to continue to provide this non-GAAP financial measure as part of our future earnings discussions and, therefore, the inclusion of this non-GAAP financial measure will provide consistency in our financial reporting. A reconciliation of this non-GAAP measure to GAAP financial results is provided below for the year ended November 30, 2013 (in millions):

|  |         |
|--|---------|
|  | 2013    |
| Operating income   | \$550.5 |
| Impact of special charges and loss on voluntary pension settlement | 40.3    |
| Adjusted operating income  | \$590.8 |
| Earnings per share - diluted                                       | \$2.91  |
| Impact of special charges and loss on voluntary pension settlement | 0.22    |
| Earnings per share - diluted                                       | \$3.13  |

In addition to the above non-GAAP measure, we use total debt to earnings before interest, tax, depreciation and amortization (EBITDA) as a measure of leverage. EBITDA and the ratio of total debt to adjusted EBITDA are both non-GAAP financial measures. This ratio measures our ability to repay outstanding debt obligations. Our target for total debt to EBITDA, excluding the temporary impact from acquisition activity, is 1.5 to 1.7. We believe that total debt to EBITDA is a meaningful metric to investors in evaluating our financial leverage and may be different than the method used by other companies to calculate total debt to EBITDA.

We define adjusted EBITDA as net income plus expenses for interest, income taxes, depreciation and amortization, special charges and loss on voluntary pension settlement. Information with respect to special charges and the loss on voluntary pension settlement, both of which were recognized in the fourth quarter of 2013, is contained in notes 3 and 9 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended November 30, 2013. The following table reconciles our adjusted EBITDA to our net income for the trailing twelve month periods ended May 31, 2014, May 31, 2013 and November 30, 2013 (\$ in millions):

|  | May 31, 2014 | May 31, 2013 | Nov 30, 2013 |
|--|--------------|--------------|--------------|
| Net income   | \$401.4      | \$407.5      | \$389.0      |
| Special charges and the loss on voluntary pension settlement | 40.3         | —            | 40.3         |
| Depreciation and amortization                                | 107.8        | 103.9        | 106.0        |
| Interest expense   | 50.8         | 54.5         | 53.3         |
| Income tax expense   | 141.0        | 137.8        | 133.6        |
| Adjusted EBITDA  | \$741.3      | \$703.7      | \$722.2      |
| Total debt   | \$1,325.2    | \$1,326.3    | \$1,233.1    |
| Total debt/Adjusted EBITDA                                   | 1.79         | 1.88         | 1.71         |

Table of Contents

## LIQUIDITY AND FINANCIAL CONDITION

|   | Six months ended May 31, |          |
|---|--------------------------|----------|
|   | 2014                     | 2013     |
|   | (in millions)            |          |
| Net cash provided by operating activities           | \$182.1                  | \$132.7  |
| Net cash used in investing activities               | (46.7                    | ) (149.4 |
| Net cash (used in) provided by financing activities | (113.8                   | ) 5.6    |

In the statement of cash flows, the changes in operating assets and liabilities are presented excluding the translation effects of changes in foreign currency exchange rates, as these do not reflect actual cash flows. Accordingly, the amounts in the statement of cash flows do not agree with changes in the operating assets and liabilities that are presented in the balance sheet.

Due to the cyclical nature of a portion of our business, we generate much of our cash flow in the fourth quarter of the fiscal year.

Operating Cash Flow – Net cash provided by operating activities ("cash flow from operations") is typically lower in the first and second quarters and then builds in the third and fourth quarters of our fiscal year. For the six months ended May 31, 2014, cash flow from operations was \$49.4 million higher than the same period of 2013. Most of this increase was due to lower pension contributions and higher collections of trade accounts receivable in the first six months of 2014 as compared to the same period last year. During the six months ended May 31, 2014, we contributed \$11.3 million to our pension plans, or \$26.4 million less than the \$37.7 million contributed in the corresponding period in 2013. The funding for our U.S. pension plan is currently within company guidelines and a contribution was not made during the first half of 2014.

Investing Cash Flow – The decrease in net cash used in investing activities was mainly due a decrease in the acquisition of businesses. In the second quarter of 2013, we made an initial payment of \$116.7 million towards the total purchase price of the assets of WAPC (see note 2 for additional information). We spent \$47.4 million on capital expenditures in the first six months of 2014, compared to \$34.6 million for the same period last year. Capital expenditures for fiscal year 2014 are expected to be \$120 million to \$130 million.

Financing Cash Flow – The \$119.4 million decrease in net cash (used in) provided by financing activities in the first six months of 2014, when compared to the prior year level, is primarily due to an decrease in net short-term borrowings and an increase in share repurchase activity. In the first half of 2014, we increased short-term borrowings by \$94.3 million compared to an increase in short-term borrowings of \$158.9 million for the same period last year.

The following table outlines the activity in our share repurchase program for the six months ended May 31 (in millions):

|  | 2014    | 2013   |
|--|---------|--------|
| Number of shares of common stock repurchased | 1.9     | 1.4    |
| Dollar amount                                | \$126.3 | \$92.1 |

As of May 31, 2014, \$234 million remained of the \$400 million share repurchase authorization that was authorized by the Board of Directors in April 2013.

During the six months ended May 31, 2014, we received proceeds of \$16.1 million from exercised options compared to \$29.8 million received in the first six months of last year. We increased dividends paid to \$96.7 million for the first six months of 2014 compared to \$90.1 million in the same period last year. Dividends paid in the first quarter of 2014 were declared on November 26, 2013.

The following table presents the ratios of our total debt to our adjusted EBITDA for the trailing twelve month periods ended May 31, 2014, May 31, 2013 and November 30, 2013:

|  | May 31, 2014 | May 31, 2013 | November 30, 2013 |
|--|--------------|--------------|-------------------|
|--|--------------|--------------|-------------------|

|                            |      |      |      |
|----------------------------|------|------|------|
| Total debt/Adjusted EBITDA | 1.79 | 1.88 | 1.71 |
|----------------------------|------|------|------|

26

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Table of Contents

Our ratio of total debt to adjusted EBITDA of 1.79 as of May 31, 2014 is lower than the ratio of 1.88 as of May 31, 2013, reflecting an increase in adjusted EBITDA principally as a result of special charges and the loss on voluntary pension settlement.

Most of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The permanent repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences; however, those balances are generally available without legal restrictions to fund ordinary business operations, capital projects and any possible future acquisitions. At May 31, 2014, we temporarily used \$109.5 million of cash from our foreign subsidiaries to pay down short-term debt in the U.S. At May 31, 2013, we temporarily used \$110.6 million of cash from our foreign subsidiaries to pay down short-term debt in the U.S. During a quarter, our short-term borrowings vary, but are lower at the end of a quarter. The average short-term borrowings outstanding for the six months ended May 31, 2014 and May 31, 2013 were \$376.6 million and \$388.3 million, respectively. Total average debt outstanding for the six months ended May 31, 2014 and May 31, 2013 was \$1,381.6 million and \$1,393.3 million, respectively.

The reported values of our assets and liabilities are significantly affected by fluctuations in foreign exchange rates between periods. At May 31, 2014, the exchange rates for the Euro, the British pound sterling and the Polish zloty were higher than at May 31, 2013. At May 31, 2014, the exchange rate for the Euro, the British pound sterling and the Polish zloty were slightly higher than at November 30, 2013.

**Credit and Capital Markets**

Cash flows from operating activities are our primary source of liquidity for funding growth, dividends, capital expenditures and share repurchases. We also rely on our revolving credit facilities, or borrowings backed by these facilities, to fund seasonal working capital needs and other general corporate requirements. We generally use these facilities to support our issuance of commercial paper. If the commercial paper market is not available or viable we could borrow directly under our revolving credit facilities. The facilities are made available by syndicates of banks, with various commitments per bank. If any of the banks in these syndicates are unable to perform on their commitments, our liquidity could be impacted, which would reduce our ability to grow through funding of seasonal working capital.

We engage in regular communication with all of the banks participating in our revolving credit facilities. During these communications none of the banks have indicated that they may be unable to perform on their commitments. In addition, we periodically review our banking and financing relationships, considering the stability of the institutions, pricing we receive on services, and other aspects of the relationships. Based on these communications and our monitoring activities, we believe the likelihood of one of our banks not performing on its commitment is remote.

We hold investments in equity and debt securities in both our qualified defined benefit pension plans and a rabbi trust for our nonqualified defined benefit pension plan. We estimate total contributions to our pension plans in 2014 of approximately \$17 million, which compares to \$42.7 million of contributions in 2013. Future increases or decreases in pension liabilities and required cash contributions are highly dependent on changes in interest rates and the actual return on plan assets.

We believe that internally generated funds and the existing sources of liquidity under our credit facilities are sufficient to meet current liquidity needs and fund ongoing operations.

## Table of Contents

### ACQUISITIONS

Acquisitions are part of our strategy to increase sales and profits. We have a particular interest in emerging markets.

On May 31, 2013, we purchased the assets of Wuhan Asia-Pacific Condiments Co. Ltd. (WAPC), a privately held company based in China, for \$144.8 million, which included \$142.3 million of cash paid, net of closing adjustments, and the assumption of \$2.5 million of liabilities. This acquisition was financed with a combination of cash and debt. WAPC manufactures and markets DaQiao and ChuShiLe brand bouillon products, which have a leading position in the central region of China and is included in our consumer business segment from the date of purchase.

See note 2 of the financial statements for further details on this acquisition.

### ACCOUNTING AND DISCLOSURE CHANGES

New accounting pronouncements are issued periodically that affect our current and future operations. See Note 1 of the financial statements for further details of these impacts.

### FORWARD-LOOKING INFORMATION

Certain statements contained in this report, including statements concerning expected performance such as those relating to net sales, earnings, cost savings, acquisitions and brand marketing support, are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements may be identified by the use of words such as “may,” “will,” “expect,” “should,” “anticipate,” “intend,” “believe” and “plan.” These statements may relate to: the expected results of operations of businesses acquired by us, the expected impact of raw materials costs and our pricing actions on our results of operations and gross margins, the expected productivity and working capital improvements, expectations regarding growth potential in various geographies and markets, expected trends in net sales and earnings performance and other financial measures, the expectations of pension and postretirement plan contributions and anticipated charges associated with such plans, the holding period and market risks associated with financial instruments, the impact of foreign exchange fluctuations, the adequacy of internally generated funds and existing sources of liquidity, such as the availability of bank financing, our ability to issue additional debt or equity securities, and our expectations regarding purchasing shares of our common stock under the existing authorizations. These and other forward-looking statements are based on our current views and assumptions and involve risks and uncertainties that could significantly affect expected results. Results may be materially affected by factors such as: damage to our reputation or brand name; loss of brand relevance; increased private label use; product quality, labeling, or safety concerns; negative publicity about our products; business interruptions due to natural disasters or unexpected events; actions by, and the financial condition of, competitors and customers; our ability to achieve expected and/or needed cost savings or margin improvements; the successful acquisition and integration of new businesses; issues affecting our supply chain and raw materials, including fluctuations in the cost and availability of raw and packaging materials; government regulation, and changes in legal and regulatory requirements and enforcement practices; global economic and financial conditions generally, including the availability of financing, and interest and inflation rates; the investment return on retirement plan assets, and the costs associated with pension obligations; foreign currency fluctuations; the stability of credit and capital markets; risks associated with our information technology systems, the threat of data breaches and cyber attacks; volatility in our effective tax rate; climate change; infringement of our intellectual property rights, and those of customers; litigation, legal and administrative proceedings; and other risks described in our filings with the Securities and Exchange Commission.

Actual results could differ materially from those projected in the forward-looking statements. We undertake no obligation to update or revise publicly, any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see “Market Risk Sensitivity” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations above and Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended November 30, 2013. Except as described in Management’s Discussion and Analysis of Financial Condition and Results of Operations above, there have been no significant changes in our financial instrument portfolio or market risk exposures since our November 30, 2013 fiscal year end.

28

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Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. No change occurred in our "internal control over financial reporting" (as defined in Rule 13a-15(f)) during our last fiscal quarter which was identified in connection with the evaluation required by Rule 13a-15(a) as materially affecting, or reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings in which we or our subsidiaries is a party or in which any of our or their property is the subject.

## ITEM 1.A RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended November 30, 2013.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our purchases of Common Stock (CS) and Common Stock Non-Voting (CSNV) during the second quarter of 2014:

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                          | Total Number of Shares Purchased | Average Price Paid per share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |         |
|---------------------------------|----------------------------------|------------------------------|--|--|---------|
| March 1, 2014 to March 31, 2014 | CS – 22,527                      | \$71.19                      | 22,527   | \$269  | million |
|                                 | CSNV – 486,895                   | \$67.25                      | 486,895  |  |         |
| April 1, 2014 to April 30, 2014 | CS – 0                           | \$—                          | —  | \$251  | million |
|                                 | CSNV – 247,000                   | \$70.98                      | 247,000  |  |         |
| May 1, 2014 to May 31, 2014     | CS – 0                           | \$—                          | —  | \$234  | million |
|                                 | CSNV – 247,000                   | \$71.10                      | 247,000  |  |         |
| Total                           | CS – 22,527                      | \$71.19                      | 22,527   | \$234  | million |
|                                 | CSNV – 980,895                   | \$69.16                      | 980,895  |  |         |

As of May 31, 2014, \$234 million remained of a \$400 million share repurchase authorization approved by the Board of Directors in April 2013. There is no expiration date for this repurchase program. The timing and amount of any shares repurchased is determined by our management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time.

In certain circumstances, we issue shares of CS in exchange for shares of CSNV, or issue shares of CSNV in exchange for shares of CS, in either case pursuant to the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. Typically, these exchanges are made in connection with the administration of our employee benefit plans, executive compensation programs and dividend reinvestment/direct purchase plans. The number of shares issued in an exchange is generally equal to the number of shares received in the exchange, although the number may differ slightly to the extent necessary to comply with the requirements of the Employee Retirement Income Security Act of 1974. During the second quarter of 2014, we issued 198,901 shares of CSNV in exchange for shares of CS and issued 4,778 shares of CS in exchange for shares of CSNV.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.



Table of Contents

## ITEM 6. EXHIBITS

The following exhibits are attached or incorporated herein by reference:

| Exhibit Number | Description   |
|----------------|---|
| (3) (i)        | Articles of Incorporation and By-Laws   |
|                | Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration No. 33-39582 as filed with the Securities and Exchange Commission on March 25, 1991.  |
|                | Restatement of Charter of McCormick & Company, Incorporated dated April 16, 1990  |
|                | Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration Statement No. 33-59842 as filed with the Securities and Exchange Commission on March 19, 1993.  |
|                | Articles of Amendment to Charter of McCormick & Company, Incorporated dated April 1, 1992   |
|                | Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration Statement No. 333-104084 as filed with the Securities and Exchange Commission on March 28, 2003.  |
|                | Articles of Amendment to Charter of McCormick & Company, Incorporated dated March 27, 2003  |
| (ii)           | By-Laws   |
|                | Incorporated by reference from Exhibit 3(ii) of McCormick's Form 10-Q for the quarter ended May 31, 2012, File No. 1-14920, as filed with the Securities and Exchange Commission on July 2, 2012.   |
|                | By-Laws of McCormick & Company, Incorporated Amended and Restated on June 26, 2012  |
| (4)            | Instruments defining the rights of security holders, including indentures   |
| (i)            | See Exhibit 3 (Restatement of Charter and By-Laws)  |
|                | Summary of Certain Exchange Rights, incorporated by reference from Exhibit 4.1 of McCormick's Form 10-Q for the quarter ended August 31, 2001, File No. 0-748, as filed with the Securities and Exchange Commission on October 12, 2001.  |
| (ii)           | Indenture dated December 5, 2000 between McCormick and SunTrust Bank, incorporated by reference from Exhibit 4(iii) of McCormick's Form 10-Q for the quarter ended August 31, 2003, File No. 1-14920, as filed with the Securities and Exchange Commission on October 14, 2003. |
| (iii)          | Indenture dated December 7, 2007 between McCormick and The Bank of New York, incorporated by reference from Exhibit 4.1 of McCormick's Form 8-K dated December 4, 2007, File No. 0-748, as filed with the Securities and Exchange Commission on December 10, 2007.              |
| (iv)           | Indenture dated July 8, 2011 between McCormick and U.S. Bank National Association, incorporated by reference from Exhibit 4.1 of McCormick's Form 8-K dated July 5, 2011, File No. 1-14920, as filed with the Securities and Exchange Commission on July 8, 2011.               |
| (v)            | Form of 5.20% Notes due 2015, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated December 1, 2005, File No. 0-748, as filed with the Securities and Exchange Commission on December 6, 2005.  |
| (vi)           | Form of 5.75% Notes due 2017, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated December 4, 2007, File No. 0-748, as filed with the Securities and Exchange Commission on December 10, 2007.   |
| (vii)          | Form of 3.90% Notes due 2021, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated July 5, 2011, File No. 1-14920, as filed with the Securities and Exchange Commission on July 8, 2011.  |
| (viii)         | Form of 3.50% Notes due 2023, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated August 14, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on August 19, 2013.  |
| (ix)           |   |

Table of Contents

(10)Material Contracts

McCormick's supplemental pension plan for certain senior and executive officers, amended and restated with an effective date of January 1, 2005, adopted by the Compensation Committee of the Board of Directors on (i) November 28, 2008, which agreement is incorporated by reference from Exhibit 10(i) of McCormick's 10-K for the fiscal year ended November 30, 2009, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2010.\*

The 2001 Stock Option Plan, in which officers and certain other management employees participate, is set forth on (ii) pages 33 through 36 of McCormick's definitive Proxy Statement dated February 15, 2001, File No. 1-14920, as filed with the Securities and Exchange Commission on February 14, 2001, and incorporated by reference herein.\*

2004 Long-Term Incentive Plan, in which officers and certain other management employees participate, is set (iii) forth in Exhibit A of McCormick's definitive Proxy Statement dated February 17, 2004, File No. 1-14920, as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.\*

2004 Directors' Non-Qualified Stock Option Plan, provided to members of McCormick's Board of Directors who (iv) are not also employees of McCormick, is set forth in Exhibit B of McCormick's definitive Proxy Statement dated February 17, 2004, File No. 1-14920, as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.\*

Directors' Share Ownership Program, provided to members of McCormick's Board of Directors who are not also (v) employees of McCormick, is set forth on page 28 of McCormick's definitive Proxy Statement dated February 17, 2004, File No. 1-14920, as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.\*

Deferred Compensation Plan, as restated on January 1, 2000, and amended on August 29, 2000, September 5, (vi) 2000 and May 16, 2003, in which directors, officers and certain other management employees participate, a copy of which Plan document and amendments was attached as Exhibit 10(viii) of McCormick's Form 10-Q for the quarter ended August 31, 2003, File No. 1-14920, as filed with the Securities and Exchange Commission on October 14, 2003, and incorporated by reference herein.\*

2005 Deferred Compensation Plan, amended and restated with an effective date of January 1, 2005, in which (vii) directors, officers and certain other management employees participate, which agreement is incorporated by reference from Exhibit 4.1 of McCormick's Form S-8, Registration No. 333-155775, as filed with the Securities and Exchange Commission on November 28, 2008.\*

The 2007 Omnibus Incentive Plan, in which directors, officers and certain other management employees (viii) participate, is set forth in Exhibit A of McCormick's definitive Proxy Statement dated February 20, 2008, File No. 1-14920, as filed with the Securities and Exchange Commission on February 20, 2008, and incorporated by reference herein, as amended by Amendment No. 1 thereto, which Amendment is incorporated by reference from Exhibit 10(xi) of McCormick's 10-K for the fiscal year ended November 30, 2008, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2009.\*

The 2013 Omnibus Incentive Plan, in which directors, officers and certain other management employees (ix) participate, is incorporated by reference from Exhibit 4.1 of McCormick's Form S-8, Registration No. 333-187703, as filed with the Securities and Exchange Commission on April 3, 2013.\*

Form of Mid-Term Incentive Program Agreement, incorporated by reference from Exhibit 10(x) of McCormick's (x) Form 10-Q for the quarter ended May 31, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on June 28, 2013.

Table of Contents

Form of Restricted Stock Units Agreement, incorporated by reference from Exhibit 10(xi) of McCormick's Form (xi) 10-Q for the quarter ended May 31, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on June 28, 2013.

Form of Restricted Stock Units Agreement for Directors, incorporated by reference from Exhibit 10(xii) of (xii) McCormick's Form 10-Q for the quarter ended May 31, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on June 28, 2013.

Form of Non-Qualified Stock Option Agreement, incorporated by reference from Exhibit 10(xiii) of (xiii) McCormick's Form 10-Q for the quarter ended May 31, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on June 28, 2013.

Form of Non-Qualified Stock Option Agreement for Directors, incorporated by reference from Exhibit 10(xiv) (xiv) of McCormick's Form 10-Q for the quarter ended May 31, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on June 28, 2013.

Form of Indemnification Agreement, incorporated by reference from Exhibit 10(xv) of McCormick's Form 10-Q (xv) for the quarter ended February 28, 2014, File No. 1-14920, as filed with the Securities and Exchange Commission on March 26, 2014.

(31) Rule 13a-14(a)/15d-14(a) Certifications Filed herewith

(32) Section 1350 Certifications Filed herewith

(101) The following financial information from the Quarterly Report on Form 10-Q of McCormick for the quarter ended May 31, 2014, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet; (ii) Condensed Consolidated Income Statement; (iii) Condensed Consolidated Statement of Comprehensive Income; (iv) Condensed Consolidated Cash Flow Statement; and (v) Notes to the Condensed Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement.

McCormick hereby undertakes to furnish to the Securities and Exchange Commission, upon its request, copies of additional instruments of McCormick with respect to long-term debt that involve an amount of securities that do not exceed 10 percent of the total assets of McCormick and its subsidiaries on a consolidated basis, pursuant to Regulation S-K, Item 601(b)(4)(iii)(A).

Table of Contents

SIGNATURES

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

MCCORMICK & COMPANY, INCORPORATED

June 27, 2014

By: /s/ Gordon M. Stetz, Jr.  
Gordon M. Stetz, Jr.  
Executive Vice President & Chief Financial Officer

June 27, 2014

By: /s/ Christina M. McMullen  
Christina M. McMullen  
Vice President & Controller