

Form 10-Q

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

For Quarter Ended August 31, 1994 Commission File Number 0-748

MCCORMICK & COMPANY, INCORPORATED
(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

52-0408290
(I.R.S. Employer
Identification No.)

18 Loveton Circle, P. O. Box 6000, Sparks, MD
(Address of principal executive offices)

21152-6000
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes 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 August 31, 1994
Common Stock	13,261,000
Common Stock Non-Voting	67,953,000

MCCORMICK & COMPANY, INCORPORATED

INDEX

Page No.

Part I. FINANCIAL INFORMATION

Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Income	3
Condensed Consolidated Statements of Cash Flows	4

Notes to Condensed Consolidated Financial
Statements 5,6,7

Management's Discussion and Analysis of
Financial Condition and Results of
Operations 8,9

Part II. OTHER INFORMATION 10

PART I. FINANCIAL INFORMATION
 McCORMICK & COMPANY, INCORPORATED
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands)

	Aug. 31, 1994	Aug. 31, 1993	Nov. 30, 1993
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 14,137	\$ 10,881	\$ 12,838
Accounts receivable - net	200,476	180,838	175,101
Inventories			
Raw materials	116,953	103,173	105,713
Work in process	47,645	36,975	36,418
Finished goods	201,800	169,341	179,120
	366,398	309,489	321,251
Prepaid expenses	6,385	3,868	17,960
Deferred income taxes	13,003	6,382	13,003
 Total current assets	 600,399	 511,458	 540,153
Investments	51,019	43,267	45,728
Property - net	497,997	460,355	465,610
Excess cost of acquisitions - net	197,221	129,910	130,638
Prepaid allowances	155,201	139,513	126,399
Other assets	5,452	4,350	4,708
 Total assets	 \$1,507,289	 \$1,288,853	 \$1,313,236
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Notes payable	\$ 272,899	\$ 158,603	\$ 76,389
Current portion of long-term debt	10,864	8,334	8,299
Outstanding checks	11,676	14,216	25,401
Accounts payable, trade	113,874	94,561	113,884
Accrued payroll	26,715	24,724	29,781
Accrued sales allowances	24,822	23,443	31,240
Other accrued exp. and liabilities	93,196	80,877	90,980
Income taxes	7,148	4,995	16,893
 Total current liabilities	 561,194	 409,753	 392,867
Long-term debt	355,303	340,607	346,436
Deferred income taxes	30,169	41,133	39,006
Employee benefit liabilities	61,302	52,080	63,875
Other liabilities	4,083	4,414	4,231
 Total liabilities	 1,012,051	 847,987	 846,415
Shareholders' Equity			
Common Stock, no par value	49,808	52,136	53,470
Common Stock Non-Voting, no par	100,809	92,494	93,047
Retained earnings	357,235	302,955	330,327
Foreign currency trans. adj.	(12,614)	(6,719)	(10,023)
 Total shareholders' equity	 495,238	 440,866	 466,821
 Total liabilities and shareholders' equity	 \$1,507,289	 \$1,288,853	 \$1,313,236

See notes to financial statements.

(2)

McCORMICK & COMPANY, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars In Thousands Except Per Share Amounts)

Three Months Ended Nine Months Ended

	August 31		August 31	
	1994	1993	1994	1993
Net sales	\$422,141	\$394,928	\$1,186,206	\$1,095,813
Costs of goods sold	264,086	239,702	753,708	685,258
Gross profit	158,055	155,226	432,498	410,555
Selling, general and administrative expense	107,627	107,425	308,200	300,485
Profit from operations	50,428	47,801	124,298	110,070
Other income	1,304	1,467	4,346	4,743
Interest expense	9,743	7,736	26,903	22,984
Other expense	1,824	1,695	6,135	4,578
Income before income taxes	40,165	39,837	95,606	87,251
Provision for income taxes	15,030	17,041	36,480	35,283
Income from consol. operations	25,135	22,796	59,126	51,968
Income from unconsol. ops.	1,307	1,571	4,755	7,199
Income before accounting change	26,442	24,367	63,881	59,167
Cumulative effect on prior years of accounting change	-	-	-	(26,626)
Net income	\$ 26,442	\$ 24,367	\$ 63,881	\$ 32,541
Earnings per share bef. accounting change	\$0.33	\$0.30	\$0.79	\$0.72
Cumulative effect on prior years of accounting change	-	-	-	(\$0.33)
Total earnings per share	\$0.33	\$0.30	\$0.79	\$0.39
Cash dividends declared per common share	\$0.12	\$0.11	\$0.36	\$0.33

See notes to financial statements.

(3)
McCORMICK & COMPANY, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars In Thousands)

	Nine Months Ended	
	August 31, 1994	August 31, 1993
Cash flows from operating activities		
Net income	\$ 63,881	\$ 32,541
Depreciation and amortization	44,518	37,346
Provision for deferred income taxes	3,614	3,642
Gain (loss) on sale of assets	245	(23)
Share of income from unconsolidated operations	(4,755)	(7,199)
Dividend received from unconsolidated subsidiary	3,345	7,257
Cumulative effect of accounting change	-	26,626
Changes in operating assets and liabilities net of effects from businesses acquired and disposed	(132,571)	(132,646)
Net cash used in operating activities	(21,723)	(32,456)
Cash flows from investing activities		
Acquisitions of businesses	(82,413)	(73,737)
Purchases of property, plant and equipment	(64,950)	(56,918)
Proceeds from sale of assets	195	272

Proceeds (payments) from forward exchange contract	(520)	9,584
Other investments	(4,595)	(1,608)
Net cash used in investing activities	(152,283)	(122,407)
Cash flows from financing activities		
Notes payable	122,055	197,568
Long-term debt		
Borrowings	102,425	398
Repayments	(14,899)	(7,389)
Common stocks		
Issued	5,034	23,576
Acquired by purchase	(8,658)	(23,287)
Dividends Paid	(29,248)	(26,657)
Net cash provided by financing activities	176,709	164,209
Effect of exchange rate changes on cash and cash equivalents	(1,404)	(271)
Increase/(Decrease) in cash and cash equivalents	1,299	9,075
Cash and cash equivalents at beginning of period	12,838	1,806
Cash and cash equivalents at end of period	\$ 14,137	\$ 10,881

See notes to financial statements.

(4)

MCCORMICK & COMPANY, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands Except per Share Amounts)

- In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of August 31, 1994, August 31, 1993 and November 30, 1993, and the results of operations for the three and nine month periods ended August 31, 1994 and August 31, 1993, and the cash flows for the nine month periods ended August 31, 1994 and August 31, 1993. Certain reclassifications have been made to the 1993 financial statements to conform with the 1994 presentation.
- The results of consolidated operations for the three and nine month periods ended August 31, 1994 are not necessarily indicative of the results to be expected for the full year. Historically, the Company's consolidated sales and profits are lower in the first two quarters of the fiscal year, and increase in the third and fourth quarters.
- Earnings per common share for the three and nine month periods ended August 31, 1994 were computed by dividing net income by the weighted average number of common shares outstanding (81,292,000 - three months and 81,244,000 - nine months). Earnings per common share for the three and nine month periods ended August 31, 1993 were computed by dividing net income by the weighted average number of common shares outstanding (81,012,000 - three months, 80,744,000 - nine months), plus dilutive common equivalent shares applicable to outstanding stock option and purchase plans (768,000 shares - three months, 1,030,000 shares - nine months). Common stock equivalents were not added to fiscal year 1994 weighted average common shares outstanding because they resulted in an insignificant dilution of earnings per share.
- Interest paid during the nine month periods ended August 31, 1994 and August 31, 1993 was \$29,862 and \$26,300 respectively. Income taxes paid during the same periods were \$54,100 and \$44,500 respectively.
- Changes in foreign currency exchange rates required adjustments to both the Excess Cost of Acquisition account and the Foreign Currency Translation Adjustments account at

August 31, 1994 and are primarily responsible for the changes in the translation adjustment account for the periods presented. These exchange rate changes plus amounts recorded as a result of business acquisitions largely account for the change in the Excess Cost of Acquisition account for the periods presented.

(5)

6. During the third quarter of 1994 the Company renewed certain prepaid allowance contracts. Payments associated with these contracts are reflected in the Prepaid Allowance account at August 31, 1994.
7. During the first nine months of 1994, the Company acquired the following: Grupo Pesa, a Mexican seasoning company, the spice business of Tuko Oy of Finland, the retail seasoning brand of Hy's Fine Foods, Ltd. of Canada, the dessert business of Traders Pty., Ltd. of Australia, Butty, a Swiss herb and spice business, Minipack, a packaging business in the United Kingdom, and Noel Holdings, Ltd., a leading supplier of specialty foods based in the United Kingdom. The assets and liabilities acquired in these transactions have been recorded using the purchase method of accounting at their estimated fair values at the date of acquisition. The aggregate purchase price of these acquisitions was \$82,413. While these acquisitions are expected to contribute positively to the Company's future sales and earnings, they are not material in relation to the Company's consolidated financial statements, and therefore pro forma financial information has not been presented.
8. In November 1993, the Company adopted SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions" effective as of December 1, 1992. This accounting standard requires the expected cost of postretirement benefits be accrued during the years that employees render services. Prior to 1993, the Company recognized these expenses based on claims paid.

The Company recognized a transition obligation which was based on the aggregate amount that would have been recorded in prior years had the new standard been in effect for those years, as a one-time charge to 1993 income of \$26,600 or \$.33 per share, net of approximately \$17,200 of income tax benefit. The incremental change to 1993 net income by applying SFAS 106 rather than the previous accounting method was \$2,200 net of income tax benefit, or \$.03 per share.

Results for the first three quarters of 1993 have been restated to reflect this change.

9. In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This standard requires that employers accrue a liability for their obligation to provide postemployment benefits as employees earn the right to receive them, provided that payment of the benefits is probable and the amount of the benefits can be reasonably estimated. The Company expects to adopt the standard in the 4th quarter of 1994. The effect of this accounting change on the Company's financial statements will not be material.

(6)

10. SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires disclosure of the estimated fair value of certain financial instruments. Cash, receivables, short-term borrowings, accounts payable, and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments. Investments, principally in unconsolidated affiliates, are not readily marketable and therefore it is not practicable to estimate their fair value. The estimated fair value of long-term debt at August 31, 1994, using discounted cash flow analysis based on the Company's current incremental borrowing rate for debt of similar remaining maturities was \$368,463. This amount excludes \$10,864 current portion of long-term debt which is considered to be at fair value.
11. Through its medium-term note program, at August 31, 1994, the

Company had issued \$105,000 of notes. Included with these issues \$95,000 have maturities of 12 years and coupon rates ranging from 5.78% to 7.77%. The remaining \$10 million have a final maturity of 30 years with a put option in year ten, and a coupon rate of 7.63%. The Company also had available credit facilities with domestic and foreign banks in the aggregate of \$340,000. There were no borrowings outstanding against these facilities. At August 31, 1994, the Company's commercial paper issuance amounted to \$277,540, of which \$45,000 has been classified as long-term debt reflecting the Company's ability and intention to refinance this amount on a long-term basis through its medium-term note program.

(7)

MCCORMICK & COMPANY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Consolidated net sales for the three and nine months ended August 31, 1994 increased 7% and 8% respectively over the corresponding periods last year. In terms of sales volume alone, the increases were 7% for both the quarter and the first nine months. Third quarter sales improved for most of the Company's businesses. Sales from newly acquired businesses contributed approximately 2% to the third quarter increase.

Earnings per share increased 10% for both the third quarter and first nine months of fiscal 1994. Earnings per share for the quarter were \$.33 versus \$.30 in 1993. Earnings for the first nine months of 1994 increased to \$.79, compared to the prior year's earnings of \$.72 before the cumulative effect of accounting change. Operating profit improvement slowed in the third quarter largely due to margin pressure in our industrial units. Selling, general and administrative expenses for the quarter were held level with 1993 and helped moderate the effect of lower gross margins. The Company's overall operating profit margin for the third quarter was 11.9% as compared to 12.1% last year. The operating profit margin for the first nine months is slightly ahead of last year. Rising interest rates coupled with a higher debt level drove interest expense for the quarter up \$2 million over last year's third quarter. This increase was offset by a comparatively lower provision for income taxes this year. Last year the tax provision was increased in the third quarter to adjust for the retroactive federal income tax rate increase. Slightly below last year, income from unconsolidated operations for the quarter continue to be affected by lower earnings from our Mexican retail joint venture which is experiencing increased competition in the markets it serves.

Return on equity, calculated by dividing twelve months to date net income by average shareholder's equity during that period, was 21.9% at August 31, 1994. This meets the Company's objective of exceeding a 20% return on equity.

Financial Condition

The Company's capital structure (excluding \$57.6 million non-recourse debt) was 54% debt to total capital at August 31, 1994, up from 44.3% at year end and 50.4% at August 31, 1993. During the third quarter the Company increased borrowings by approximately \$109 million. This cash was primarily used for acquisitions of businesses, capital spending, shareholder dividends

(8)

and seasonal working capital needs. Typically the Company reduces borrowing in the fourth quarter which historically produces the highest percentage of sales volume, profits and cash flows from operations. The Company's current ratio declined to 1.1 at the end

of the third quarter as compared to 1.4 at year end 1993, and 1.2 at August 31 last year. During the third quarter the Company issued \$30 million of notes under its medium-term note program. Included with these issues, \$20 million have a term of 12 years with coupon rates ranging from 7.67% to 7.77%. The remaining \$10 million have a final maturity of 30 years with a put option in year ten, and a coupon rate of 7.63%. The Company continues to maintain \$290 million of committed credit facilities that provide additional liquidity. These facilities were not in use at the end of the third quarter.

Other Events

On October 11, 1994 the Company announced a plan of restructuring which will result in a charge to 4th quarter 1994 earnings of approximately \$66 million before tax (\$44 million after tax). This plan includes the closing of two domestic manufacturing facilities, the realignment of the Company's manufacturing operations in the United Kingdom, the sale of the Company's frozen food subsidiary, and the consolidation of a number of staff activities. These actions will result in the reduction of 600 positions or 7% of the Company's worldwide work force. This restructuring is viewed by management as an investment in the future to keep the Company in a leadership position in the markets in which we compete, to assure our status as a low cost producer and ultimately to enhance shareholder value.

(9)

PART II - OTHER INFORMATION

Item 6 Exhibits and Reports on Form 8-K

- (a) No response required.
- (b) Reports on Form 8-K. On October 12, 1994, the Company filed a report on Form 8-K, dated October 11, 1994, in response to Item 5 Other Events of Form 8-K, which incorporated by reference a Press Release dated October 11, 1994 announcing a major restructuring program.

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

Date: October 12, 1994

By:

Robert G. Davey
Vice President &
Chief Financial Officer

Date: October 12, 1994

By:

J. Allan Anderson
Vice President & Controller

(10)

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