MCCORMICK & CO INC
Form 10-Q
March 29, 2016
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 February 29, 2016
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 incorporation or organization)	(I.R.S. Employer Identification No.)
18 Loveton Circle, P. O. Box 6000, Sparks, MD	21152-6000
(Address of principal executive offices)	(Zip Code)
Registrant’s telephone number, including area code	(410) 771-7301

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

	Shares Outstanding February 29, 2016
Common Stock	11,654,928
Common Stock Non-Voting	115,272,662

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
(in millions except per share amounts)

	Three months ended	
	February 29, 2016	February 28, 2015
Net sales	$1,030.2	$1,010.4
Cost of goods sold	625.2	620.7
Gross profit	405.0	389.7
Selling, general and administrative expense	274.3	267.6
Special charges	1.6	28.4
Operating income	129.1	93.7
Interest expense	13.9	12.9
Other (income) expense, net	(1.1)	0.2
Income from consolidated operations before income taxes	116.3	80.6
Income taxes	31.3	20.0
Net income from consolidated operations	85.0	60.6
Income from unconsolidated operations	8.4	9.9
Net income	$93.4	$70.5
Earnings per share – basic	$0.73	$0.55
Average shares outstanding – basic	127.1	128.2
Earnings per share – diluted	$0.73	$0.55
Average shares outstanding – diluted	128.3	129.3
Cash dividends paid per share	$0.43	$0.40

See notes to condensed consolidated financial statements (unaudited).

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

	Three months ended	
	February 29, 2016	February 28, 2015
Net income	$93.4	$70.5
Net income attributable to non-controlling interest	0.7	1.2
Other comprehensive income (loss):		
Unrealized components of pension plans	7.7	9.6
Currency translation adjustments	(25.2)	(137.2)
Change in derivative financial instruments	1.6	1.2
Deferred taxes	(1.7)	(2.5)
Comprehensive income	$76.5	$(57.2)

See notes to condensed consolidated financial statements (unaudited).

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

	February 29, 2016 (unaudited)	February 28, 2015 (unaudited)	November 30, 2015
ASSETS			
Current Assets			
Cash and cash equivalents	$111.8	$81.8	$112.6
Trade accounts receivables, net	371.2	384.1	455.2
Inventories, net			
Finished products	320.0	297.6	319.9
Raw materials and work-in-process	382.2	410.8	390.9
	702.2	708.4	710.8
Prepaid expenses and other current assets	121.0	130.4	127.9
Total current assets	1,306.2	1,304.7	1,406.5
Property, plant and equipment	1,533.3	1,457.2	1,531.3
Less: accumulated depreciation	(924.2)	(876.6)	(912.9)
Property, plant and equipment, net	609.1	580.6	618.4
Goodwill	1,764.0	1,651.2	1,759.3
Intangible assets, net	370.1	323.1	372.1
Investments and other assets	350.7	337.9	351.5
Total assets	$4,400.1	$4,197.5	$4,507.8
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current Liabilities			
Short-term borrowings	$389.6	$310.5	$139.5
Current portion of long-term debt	0.6	205.7	203.5
Trade accounts payable	336.7	334.6	411.9
Other accrued liabilities	365.3	370.2	485.3
Total current liabilities	1,092.2	1,221.0	1,240.2
Long-term debt	1,056.3	806.8	1,052.7
Other long-term liabilities	524.7	465.8	528.0
Total liabilities	2,673.2	2,493.6	2,820.9
Shareholders’ Equity			
Common stock	386.5	372.6	384.5
Common stock non-voting	661.1	634.2	655.1
Retained earnings	1,086.3	992.0	1,036.7
Accumulated other comprehensive loss	(423.7)	(314.9)	(406.1)
Non-controlling interests	16.7	20.0	16.7
Total shareholders’ equity	1,726.9	1,703.9	1,686.9
Total liabilities and shareholders’ equity	$4,400.1	$4,197.5	$4,507.8

See notes to condensed consolidated financial statements (unaudited).

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

	Three months ended	
	February 29, 2016	February 28, 2015
Operating activities		
Net income	$93.4	$70.5
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	26.4	24.9
Stock-based compensation	3.0	3.7
Income from unconsolidated operations	(8.4)	(9.9)
Changes in operating assets and liabilities	(44.4)	3.0
Dividends from unconsolidated affiliates	7.9	3.7
Net cash flow provided by operating activities	77.9	95.9
Investing activities		
Capital expenditures	(22.4)	(15.5)
Proceeds from sale of property, plant and equipment	0.2	—
Net cash flow used in investing activities	(22.2)	(15.5)
Financing activities		
Short-term borrowings, net	250.8	40.9
Long-term debt repayments	(201.7)	(0.2)
Proceeds from exercised stock options	7.8	11.3
Common stock acquired by purchase	(47.8)	(64.9)
Dividends paid	(54.6)	(51.3)
Net cash flow used in financing activities	(45.5)	(64.2)
Effect of exchange rate changes on cash and cash equivalents	(11.0)	(11.7)
(Decrease) increase in cash and cash equivalents	(0.8)	4.5
Cash and cash equivalents at beginning of period	112.6	77.3
Cash and cash equivalents at end of period	$111.8	$81.8

See notes to condensed consolidated financial statements (unaudited).

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McCORMICK & COMPANY, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States generally accepted accounting principles (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 month period ended February 29, 2016 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, 2015.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 Leases (Topic 842). This guidance revises existing practice related to accounting for leases under Accounting Standards Codification Topic 840 Leases (ASC 840) for both lessees and lessors. The new guidance in ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). While the new standard maintains similar accounting for lessors as under ASC 840, the new standard reflects updates to, among other things, align with certain changes to the lessee model. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2020. Early adoption is permitted for all entities. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

In May 2014, the 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. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2019. Early adoption is permitted for all entities, but not before the original effective date for public business entities (i.e., annual reporting periods beginning after December 15, 2016 or our fiscal year ending November 30, 2018). We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

For other recently issued accounting pronouncements that we have not yet adopted, see note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2015.

2. ACQUISITIONS

Acquisitions are part of our strategy to increase sales and profits.

On March 9, 2015, we acquired 100% of the shares of Brand Aromatics, a privately held company located in the U.S. Brand Aromatics is a supplier of natural savory flavors, marinades, and broth and stock concentrates to the packaged food industry. Its addition expands the breadth of value-added products in our industrial segment. The purchase price for Brand Aromatics was $62.4 million, net of post-closing adjustments and was financed with a combination of cash and short-term borrowings. At the time of acquisition, annual sales of Brand Aromatics were approximately $30 million. As of November 30, 2015, we completed the final valuation of the Brand Aromatics acquisition, which resulted in $5.2 million allocated to tangible net assets, $4.2 million allocated to a brand name indefinite lived intangible asset, $18.7 million allocated to definite lived intangible assets with a weighted average life of 11.9 years, and $34.3 million allocated to goodwill. Goodwill related to the Brand Aromatics acquisition, which will be deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging the customer intimacy and value-added flavor solutions we provide to our industrial customers to Brand Aromatics' relationships with industrial customers of their stocks, marinades and other savory flavors, as well as from expected synergies from the combined operations and assembled workforces, and the future development initiatives of the assembled workforces. 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. Brand Aromatics has been included in our industrial segment since its acquisition.

On May 29, 2015, we completed the purchase of 100% of the shares of Drogheria & Alimentari (D&A), a privately held company based in Italy, and a leader of the spice and seasoning category in Italy that supplies both branded and private label products to consumers. The purchase price for D&A consisted of a cash payment of $49.0 million, net of cash acquired of $2.8 million, at the time of acquisition, subject to certain closing adjustments, and was financed with a combination of cash and short-term borrowings. In addition, the purchase agreement calls for a potential earn out payment in 2018 of up to €35 million, based upon the performance of the acquired business in 2017. This potential earn out payment had an acquisition-date fair value of $27.7 million (or approximately €25 million), based on estimates of projected performance in 2017, payable in fiscal 2018, and discounted using a probability-weighted approach. At the time of the acquisition, annual sales of D&A were approximately €50 million. As of the acquisition date, a preliminary valuation of the acquired net assets of D&A resulted in $6.3 million allocated to tangible net assets, $12.6 million allocated to indefinite lived brand assets, $11.7 million allocated to definite lived intangible assets with a weighted-average life of 9.7 years and $46.1 million allocated to goodwill. Goodwill related to the D&A acquisition, which is not deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging our brand building expertise, our customer insights in demand from consumers for unique and authentic ethnic flavors and our supply chain capabilities, as well as expected synergies from the combined operations and assembled workforce. The preliminary valuation, based on a comparison of acquisitions of similar consumer businesses, provided average percentages of purchase prices assigned to goodwill and other intangible assets which we used to initially value the D&A acquisition. We expect to finalize the determination of the fair value of the acquired net assets of D&A by the end of the second quarter 2016. D&A has been included in our consumer segment since its acquisition.

On August 20, 2015, we completed the purchase of 100% of the shares of One World Foods, Inc., owner of the Stubb's brand of barbeque products (Stubb's), a privately held company located in Austin, Texas. Stubb's is the leading premium barbeque sauce brand in the U.S. In addition to sauces, Stubb's products include marinades, rubs and skillet sauces. Its addition will expand the breadth of value-added products in our consumer segment. At the time of acquisition, annual sales of Stubb's were approximately $30 million. The purchase price for Stubb's was $99.4 million, subject to certain closing adjustments, and was financed with a combination of cash and short-term borrowings. As of

the acquisition date, a preliminary valuation of the acquired net assets of Stubb's resulted in $5.4 million allocated to tangible assets acquired (less $12.4 million allocated to liabilities assumed), $13.3 million allocated to indefinite lived brand asset, $12.5 million allocated to definite lived intangible assets with a weighted-average life of 14.3 years and $80.6 million allocated to goodwill. Goodwill related to the Stubb's acquisition, which is not deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging our brand building expertise, our customer insights in demand from customers for unique and authentic barbeque and grilling flavors, and our supply chain capabilities, as well as expected synergies from the combined operations and assembled workforce. The preliminary valuation, based on a comparison of acquisitions of similar consumer businesses, provided average percentages of purchase prices assigned to goodwill and other identifiable intangible assets, which we used to initially value the Stubb's acquisition. We expect to finalize the determination of the fair value of the acquired net assets of Stubb's by the end of the second quarter 2016. Stubb's has been included in our consumer segment since its acquisition.

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Brand Aromatics, D&A and Stubb's added $7.2 million, $14.6 million and $5.3 million, respectively, to our sales in the three months ended February 29, 2016. Due to financing, acquisition and integration costs, the aggregate operating income contribution of Brand Aromatics, D&A and Stubb's was not significant to our overall results for the three months ended February 29, 2016. Proforma financial information for our 2015 acquisitions has not been presented because the financial impact is not material.

3. SPECIAL CHARGES

We continue to evaluate changes to our organization structure to enable us to reduce fixed costs, simplify or improve processes, and improve our competitiveness.

In our consolidated income statement, we include a separate line item captioned “special charges” in arriving at our consolidated operating income. Special charges consist of expenses associated with certain actions undertaken by the Company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee, comprised of our senior management, including our President and Chief Executive Officer. Upon presentation of any such proposed action (generally including details with respect to estimated costs, which typically consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee’s advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an on-going basis through completion.

During the three months ended February 29, 2016, we recorded $1.6 million of special charges, consisting of $1.1 million related to other exit costs associated with actions undertaken to enhance organization efficiency and streamline processes in our Europe, Middle East and Africa (EMEA) region, $0.3 million for other exit costs related to the discontinuance of Kohinoor's non-profitable bulk-packaged and broken basmati rice product lines, and $0.2 million for employee severance and related costs associated with our North America effectiveness initiative, all of which were initiated in 2015 and are described more fully below. Substantially all of the $1.6 million of 2016 special charges were paid in cash during the three months ended February 29, 2016. During the three months ended February 28, 2015, we recorded $28.4 million of special charges, consisting of $24.5 million related to employee severance and related costs associated with our North American effectiveness initiative and $3.9 million consisting of severance and related costs associated with our EMEA reorganization initiated in 2015.

Of the $1.6 million of special charges recorded in our consolidated financial statements in the first quarter of 2016, $1.3 million related to our consumer segment and $0.3 million related to our industrial segment. Of the $28.4 million of special charges recorded in our consolidated financial statements for the first quarter of 2015, $19.2 million related to our consumer segment and $9.2 million related to our industrial segment. All balances associated with our special charges are included in other accrued liabilities in our consolidated balance sheet.

In January 2015, we offered a voluntary retirement plan, which included enhanced separation benefits but did not include supplementary pension benefits, to certain U.S. employees aged 55 years or older with at least ten years of service to the Company. Upon our receipt of notification from participants that they accepted this plan, which closed early in 2015, we accrued special charges of $24.5 million, consisting primarily of employee severance and related costs that were largely paid in 2015 as substantially all of the affected employees left the company in 2015. The voluntary retirement plan is part of our North American effectiveness initiative.

Our North American effectiveness initiative generated cost savings of approximately $15 million in 2015 and is expected to generate annual cost savings with a full year impact of approximately $27 million beginning in 2016. The

following table outlines the major components of accrual balances and activity relating to the special charges associated with our North American effectiveness initiative for the three months ended February 29, 2016 and February 28, 2015 (in millions):

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	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2015	$2.3	$—	$2.3
Special charges	0.2	—	0.2
Cash paid	(1.7)	—	(1.7)
Balance as of February 29, 2016	$0.8	$—	$0.8
Balance as of November 30, 2014	$—	$—	$—
Special charges	23.9	0.6	24.5
Cash paid	(0.4)	—	(0.4)
Balance as of February 28, 2015	$23.5	$0.6	$24.1

In the first quarter of 2015, we recorded a special charge of $3.9 million to undertake actions, principally consisting of severance and related costs, to change our organization structure to further reduce selling, general and administrative expenses throughout EMEA. For the remaining three quarters of 2015, additional projects were identified in the EMEA region to further enhance organization efficiency and streamline processes in this region to support its competitiveness and long-term growth. These initiatives center on actions intended to reduce fixed costs and improve business processes, as well as continue to drive simplification across the business and supply chain. These actions include the transfer of certain additional activities to the recently established McCormick Shared Services Center in Lodz, Poland. In total, we recorded $24.4 million of special charges for fiscal year 2015 associated with our EMEA reorganization plans undertaken during that year. In addition to the $1.1 million of special charges recorded in the first quarter of 2016, we expect to record additional special charges in 2016, ranging from approximately $2.1 million to $4.4 million, for future actions approved under these EMEA reorganization and streamlining initiatives began in 2015, which will be settled in cash and reflected in special charges upon recognition in 2016. Related annual cost savings are projected to be approximately $3 million in 2016 and $19 million by the end of 2017.

The following table outlines the major components of accrual balances and activity relating to the special charges associated with the EMEA reorganization plans undertaken in 2015 for the three months ended February 29, 2016 and February 28, 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30 , 2015	$16.2	$0.6	$16.8
Special charges	—	1.1	1.1
Cash paid	(1.2)	(1.1)	(2.3)
Impact of foreign exchange	0.1	—	0.1
Balance as of February 29, 2016	$15.1	$0.6	$15.7
Balance as of November 30, 2014	$—	$—	$—
Special charges	3.5	0.4	3.9
Cash paid	(0.5)	—	(0.5)
Balance as of February 28, 2015	$3.0	$0.4	$3.4

In the second half of 2015, we recorded special charges related to initiatives to improve the profitability of our Kohinoor consumer business in India. This action principally related to the discontinuance of Kohinoor's non-profitable bulk-package and broken basmati rice product lines and other ancillary activities to enable the business to focus on both its existing consumer-packaged basmati product lines and the launch of consumer-packaged seasonings under the Kohinoor brand name. In addition to the special charges recognized in the second half of 2015, which are more fully described in Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2015, future actions approved with respect to Kohinoor's plan to improve its profitability consisted of costs associated with exiting certain contractual arrangements and other costs directly

related to the plan, of which $0.3 million were recognized in the three months ended February 29, 2016. The estimated cost of future actions, which will be reflected in special charges upon recognition (expected later in 2016), range from approximately $1.1 million to $3.1 million.

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In late 2013, we announced a reorganization in parts of EMEA region to further improve EMEA's profitability and process standardization while supporting its competitiveness and long-term growth. These actions included the closure of our sales and distribution operations in The Netherlands, with the transition to a third-party distributor model to continue to sell the Silvo brand, as well as actions intended to reduce selling, general and administrative activities throughout EMEA, including the centralization of shared service activity across the region into Poland. In fiscal years 2013 and 2014, we recorded a total of $27.1 million of cash and non-cash charges related to this reorganization.

The following table outlines the major components of accrual balances and activity relating to the special charges associated with the EMEA reorganization plan undertaken in 2013 and 2014 for the three months ended February 29, 2016 and February 28, 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2015	$2.3	$—	$2.3
Cash paid	(1.0)	—	(1.0)
Impact of foreign exchange	0.1	—	0.1
Balance as of February 29, 2016	$1.4	—	$1.4
Balance as of November 30, 2014	$9.3	$0.7	$10.0
Cash paid	(1.1)	(0.3)	(1.4)
Impact of foreign exchange	(0.8)	(0.1)	(0.9)
Balance as of February 28, 2015	$7.4	$0.3	$7.7

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4. GOODWILL

The changes in the carrying amount of goodwill by segment for the three months ended February 29, 2016 and February 28, 2015 were as follows (in millions):

	2016		2015	
	Consumer	Industrial	Consumer	Industrial
Beginning of year	$1,587.7	$171.6	$1,581.1	$141.1
Foreign currency fluctuations	7.6	(2.9)	(69.5)	(1.5)
Balance as of end of February	$1,595.3	$168.7	$1,511.6	$139.6

5. 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 February 29, 2016, the maximum time frame for our foreign exchange forward contracts is nine months.

For all derivatives, the net amount of accumulated other comprehensive income expected to be reclassified in the next 12 months is $3.6 million as an increase 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 February 29, 2016	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	$4.5		—	—
Foreign exchange contracts	Other current assets	150.5	4.4	Other accrued liabilities	$119.8	$1.8
Total			$8.9			$1.8

As of February 28, 2015	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	$4.9			
Foreign exchange contracts	Other current assets	92.3	8.4	Other accrued liabilities	$178.4	$3.4
Total			$13.3			$3.4

As of November 30, 2015	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	$2.5	Other accrued liabilities	$100.0	$0.6
Foreign exchange contracts	Other current	179.5	3.4	Other accrued	85.0	0.7

	assets	liabilities
Total	$5.9	$1.3

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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 month periods ended February 29, 2016 and February 28, 2015 (in millions):

Fair Value Hedges

Derivative	Income statement location	Income (expense)	
		2016	2015
Interest rate contracts	Interest expense	$0.6	$1.2

Cash Flow Hedges –

Derivative	Gain or (Loss) recognized in OCI		Income statement location	Gain or (Loss) reclassified from AOCI	
	2016	2015		2016	2015
Interest rate contracts	$—	$—	Interest expense	$(0.1)	$—
Foreign exchange contracts	2.1	3.0	Cost of goods sold	1.3	1.1
Total	$2.1	$3.0		$1.2	$1.1

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.

6. 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.

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

	February 29, 2016			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$111.8	$111.8	$—	$—
Insurance contracts	97.7	—	97.7	—
Bonds and other long-term investments	9.2	9.2	—	—
Interest rate derivatives	4.5	—	4.5	—
Foreign currency derivatives	4.4	—	4.4	—
Total	$227.6	$121.0	$106.6	$—
Liabilities				
Foreign currency derivatives	$1.8	$—	$1.8	$—
Contingent consideration related to acquisition	28.4	—	—	28.4
Total	$30.2	$—	$1.8	$28.4

	February 28, 2015			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$81.8	$81.8	$—	$—
Insurance contracts	106.8	—	106.8	—
Bonds and other long-term investments	7.8	7.8	—	—
Interest rate derivatives	4.9	—	4.9	—
Foreign currency derivatives	8.4	—	8.4	—
Total	$209.7	$89.6	$120.1	$—
Liabilities				
Foreign currency derivatives	$3.4	$—	$3.4	$—

	November 30, 2015			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$112.6	$112.6	$—	$—
Insurance contracts	104.1	—	104.1	—
Bonds and other long-term investments	8.5	8.5	—	—
Interest rate derivatives	2.5	—	2.5	—
Foreign currency derivatives	3.4	—	3.4	—
Total	$231.1	$121.1	$110.0	$—
Liabilities				
Foreign currency derivatives	$0.7	$—	$0.7	$—
Interest rate derivatives	0.6	—	0.6	—
Contingent consideration related to acquisition				