management's discussion and analysis

British pound sterling, Canadian dollar and Australian dollar were substantially higher versus the U.S. dollar than in 2003. Exchange rate fluctuations resulted in an increase in accounts receivable of $21 million, inventory of $14 million, goodwill of $51 million and other comprehensive income of approximately $93 million since November 30, 2003.

The Company has available credit facilities with domestic and foreign banks for various purposes. The amount of unused credit facilities at November 30, 2004 was $466.1 million. Management believes that internally generated funds and the Company's existing sources of liquidity under its credit facilities are sufficient to meet current liquidity needs and longer-term financing requirements. If the Company were to undertake an acquisition that requires funds in excess of its existing sources of liquidity, it would look to sources of funding from additional credit facilities or equity issuances.

Acquisitions

On November 1, 2004, the Company purchased C.M. van Sillevoldt B.V. (Silvo), the market leader in the Dutch spices and herbs consumer market, for €58 million in cash (equivalent to $74.5 million) funded with cash from operations and current credit facilities. Silvo sells spices, herbs and seasonings under the Silvo brand in the Netherlands and the India brand as well as private label store brands in Belgium. The brand has a strong heritage and high recognition among consumers in the Netherlands. The acquisition is consistent with the Company's strategy to acquire established brands to complement the Company's leadership position in the development and marketing of flavors for food. The business is achieving growth through innovative products and packaging with a focus on convenience, quality, and ethnic flavors. The acquisition was accounted for under the purchase method, and the results of operations have been included in the Company's consolidated results from the date of acquisition. The excess of the purchase price over the estimated fair value of the tangible net assets purchased was $59.4 million and is classified as goodwill in the consumer segment. The allocation of the purchase price is based on preliminary estimates, subject to revision, after asset values have been finalized. Revisions to the allocation, which may be significant, will be reported as changes to various assets and liabilities. The Company does not anticipate significant amounts to be allocated to amortizable intangible assets and, therefore, the amount of intangible asset amortization is not expected to be material to the results of operations in future periods.

In the second quarter of 2004, the Company completed the purchase price allocation for the Zatarain's acquisition. The excess of the purchase price over the estimated fair value of the net assets purchased was $176.2 million, which includes $3.4 million of fees directly related to the acquisition. An analysis of the various types of intangible assets resulted in a determination that the excess purchase price should be classified as the value of the acquired brand name and goodwill. No other intangible assets were identified as a result of this analysis. The Company has concluded that a substantial portion of the value of the excess purchase price resides in consumer trust and recognition of the Zatarain's brand name as authentic New Orleans-style cuisine. As a result, the Company has assigned $106.4 million of the excess purchase price to this unamortizable brand based on an analysis of the premium value that is derived from consumer loyalty and trust in the brands' quality. Zatarain's brand name has been used since 1889, and the Company intends to use and support the brand name indefinitely. The Company will review this intangible asset for impairment annually using the discounted cash flow method. The remaining $69.8 million of intangible assets were allocated to goodwill in the consumer segment.

Beyond 2000

Late in 1999, the Company initiated the B2K program as a global program of business process improvement. B2K is designed to re-engineer transactional processes, strengthen the product development process, extend collaborative processes with trading partners, optimize the supply chain and generally enhance the Company's capabilities to increase sales and profit. An integral part of B2K is the design and implementation of an enterprise wide state-of-the-art technology and information system platform.

In 2002, the Company implemented the initial phase of its B2K program and began using the new state-of-the-art technology and processes in a significant portion of U.S. operations, including its largest consumer operating unit. The rollout of B2K to the U.S. industrial operations was completed in 2004. The Company plans to rollout B2K to its international operations by 2006. The Company will continue to integrate and optimize all of its businesses through broader access to information and increased collaboration with its trading partners. Through B2K, employee time devoted to transaction execution will be reduced and more time will be devoted to the growth and effectiveness of the business.

Overall levels of capital spending and expense have increased from historical levels to support the B2K effort. To date, $120 million of costs associated with B2K have been capitalized and $33 million has been expensed.