

US EPA ARCHIVE DOCUMENT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended November 30, 1987

BEATRICE COMPANY

(Exact name of registrant as specified in its charter)

1-9119

(Commission File No.)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3327481

(I.R.S. Employer
Identification Number)

Two North LaSalle St.
Chicago, Illinois

(Address of principal executive offices)

60602

(Zip Code)

Registrants' telephone number, including area code: (312) 782-3820

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 registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of January 4, 1988, a total of 81,700,000 shares of Beatrice Company common stock was outstanding.

PART I. FINANCIAL INFORMATION

BEATRICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)

	November 30, 1987	February 28, 1987
	(Unaudited)	
ASSETS		
Current assets:		
Cash	\$ 10	\$ 16
Short-term investments, at cost which approximates market	922	30
Receivables, less allowance for doubtful accounts of \$15 and \$14, respectively ...	452	384
Inventories	618	617
Net current assets of discontinued operations	—	409
Other current assets	148	129
Total current assets	2,150	1,585
Property, plant and equipment, less accumulated depreciation of \$174 and \$85, respectively	859	863
Intangible assets, principally goodwill and unallocated purchase cost, respectively	2,575	2,636
Net noncurrent assets of discontinued operations	—	1,492
Other noncurrent assets	275	348
	<u>\$5,859</u>	<u>\$6,924</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ —	\$ 4
Accounts payable and accrued expenses	953	1,101
Current maturities of long-term debt	30	125
Total current liabilities	983	1,230
Long-term debt	3,440	4,244
Noncurrent and deferred income taxes	467	459
Other noncurrent liabilities	673	683
Contingent liabilities	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings (deficit)	(124)	(121)
Cumulative foreign currency translation adjustment	1	10
Total stockholders' equity	296	308
	<u>\$5,859</u>	<u>\$6,924</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED INCOME STATEMENT
(Unaudited)

(In millions, except per share data)

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
Net sales	\$1,321	\$1,264	\$3,513	\$3,425
Costs and expenses:				
Cost of sales	971	897	2,556	2,451
Selling and administrative expenses	225	253	664	716
Amortization of intangible assets	17	12	51	38
Total costs and expenses	<u>1,213</u>	<u>1,162</u>	<u>3,271</u>	<u>3,205</u>
Operating earnings	108	102	242	220
Interest expense	(100)	(92)	(282)	(219)
Change in control expenses	—	—	—	(84)
Miscellaneous income (expense), net	6	(2)	(13)	6
Earnings (loss) from ongoing operations before income taxes	14	8	(53)	(77)
Income tax expense (benefit)	9	8	19	(14)
Earnings (loss) from ongoing operations	5	—	(72)	(63)
Discontinued operations:				
Earnings from operations, net of income tax benefits of \$23 and expense of \$41, \$13 and \$68, respectively	41	28	6	41
Gain on sale of non-U.S. food businesses, net of income tax expense of \$55 in 1987	422	—	422	—
Extraordinary items, net of income tax benefits of \$11 in 1987 and \$8 in the nine months 1986	(13)	—	(19)	(10)
Net earnings (loss)	<u>455</u>	<u>28</u>	<u>337</u>	<u>(32)</u>
Less:				
Preferred dividend requirements	—	—	—	52
Net loss of Predecessor	—	—	—	(36)
Net earnings (loss) applicable to common stockholders	<u>\$ 455</u>	<u>\$ 28</u>	<u>\$ 337</u>	<u>\$ (48)</u>
Weighted-average common shares outstanding	82	82	82	82
Common share equivalents	57	57	57	—
	<u>139</u>	<u>139</u>	<u>139</u>	<u>82</u>
Earnings (loss) per share:				
Ongoing operations	\$.09	\$.02	\$ (.34)	\$ (.92)
Discontinued operations	3.33	.20	3.08	.33
Extraordinary items	(.09)	—	(.14)	—
Net earnings (loss)	<u>\$ 3.33</u>	<u>\$.22</u>	<u>\$ 2.60</u>	<u>\$ (.59)</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

(In millions)

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
Cash provided (used) by operations:				
Earnings (loss) from ongoing operations	\$ 5	\$ —	\$ (72)	\$ (63)
Items not involving cash:				
Depreciation and amortization of intangibles	40	37	120	108
Interest payable in Exchange Debentures	—	47	—	63
Other items, net	6	17	12	2
Changes in working capital, excluding cash, short-term investments and current debt	(83)	(30)	(218)	(149)
Cash provided (used) by ongoing operations	(32)	71	(158)	(39)
Net cash provided (used) by discontinued operations	8	(2)	(8)	54
Net cash used by extraordinary items	(6)	—	(10)	(10)
Cash provided (used) by operations	(30)	69	(176)	5
Cash provided (used) by investment activities:				
Net expenditures for property, plant and equipment	(32)	(29)	(81)	(64)
Net proceeds from divested operations and other asset sales	846	942	1,290	1,204
E-II Notes repayment	—	—	800	—
Effect of Merger	—	—	—	437
Other items, net	23	(15)	46	(6)
Cash provided by investment activities	837	898	2,055	1,571
Cash provided (used) by financing activities, excluding the Merger:				
Change in debt	(421)	(1,023)	(917)	(1,340)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	—	—	—	1,230
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	—	—	—	(1,230)
Common stock issued upon conversion of preference stock and debentures	—	—	—	42
Preference stock and debentures retired upon conversion into common stock	—	—	—	(42)
Common stock issued for exercises of stock options and stock warrants	—	—	—	21
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	—	—	—	74
Dividends paid in Redeemable Preferred Stock	—	—	—	(52)
Other items, net	9	(98)	4	(127)
Cash used by financing activities	(412)	(1,121)	(913)	(1,424)
Cash provided (used) before cash dividends	395	(154)	966	152
Cash dividends paid or accrued	—	—	(80)	(53)
Increase (decrease) in cash and short-term investments	395	(154)	886	99
Cash and short-term investments at beginning of period	537	253	46	—
Cash and short-term investments at end of period	<u>\$932</u>	<u>\$ 99</u>	<u>\$ 932</u>	<u>\$ 99</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

In September 1987 BCI Holdings Corporation's name was changed to Beatrice Company ("BCI" or the "Company").

During the quarter, the Company and an investment banking firm were engaged in efforts to sell all of the outstanding stock of the Company. These efforts have not resulted in any offers for the Company and there is no certainty that, if offers are received, they will be acceptable to the Company's stockholders.

BCI acquired Beatrice Companies, Inc. ("Beatrice" or "Predecessor") on April 17, 1986 in a purchase transaction for approximately \$6.2 billion (the "Merger"). The allocation of purchase cost to Beatrice's net assets was completed during fiscal 1988 and, accordingly, was revised from that reflected in the accompanying February 28, 1987 condensed consolidated balance sheet. The revisions were made based upon asset appraisal reports and intangible asset allocations to discontinued operations (Note 2).

Unless otherwise stated, fiscal 1987 includes the periods both before and after the Merger. The accompanying condensed consolidated income statement for the nine months ended November 30, 1986 includes the following amounts attributable to the Predecessor (in millions):

Net sales	\$525
Operating expenses	(498)
Operating earnings	27
Change of control expenses	(84)
Interest expense	(14)
Loss from ongoing operations before income tax benefit	(71)
Income tax benefit	31
Loss from ongoing operations	(40)
Discontinued operations	14
Extraordinary items	(10)
Net loss	<u>\$(36)</u>

Earnings per share are computed assuming the proceeds from the exercise of common share equivalents are applied to reduce long term debt, resulting in a reduction of interest expense, net of related income taxes, of \$8 million and \$24 million for the quarter and nine months ended November 30, 1987 and \$3 million for the quarter ended November 30, 1986. Common share equivalents are excluded from the computation of loss per share for the nine months ended November 30, 1986 as the effect is antidilutive. Also, loss per share for the nine months ended November 30, 1986 excludes amounts attributable to the Predecessor due to the significantly different capital structures existing before and after the Merger.

In the opinion of management, unaudited information reflects all adjustments necessary for a fair presentation of the interim financial information. Such adjustments consist only of normal recurring adjustments.

2. Discontinued Operations

In November 1987 BCI completed the sale of substantially all of its non-U.S. food businesses for cash proceeds of \$985 million, of which \$72 million was received in December 1987, resulting in an after-tax gain of \$422 million.

In July 1987 the bottled water operations were sold for net cash proceeds of \$444 million. These operations were under contract for sale in May 1987 and, in connection with the allocation of purchase cost (Note 1), were valued based upon the negotiated sales price. Therefore, no gain or loss was realized upon sale.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

BCI distributed its ownership in a newly formed subsidiary, E-II Holdings Inc. ("E-II"), to its stockholders and warrant holders (the "Distribution") on July 2, 1987. Concurrent with the Distribution BCI transferred 15 operating companies, comprising substantially all of its nonfood and food specialty businesses, to E-II in exchange for 41.1 million E-II common shares. Such shares were then distributed to BCI stockholders and warrant holders in the ratio of one E-II common share for every three BCI common shares held or entitled to be acquired under warrants. BCI option holders received one E-II common stock option for every three BCI common stock options held and the option price for each BCI common share under option was reduced from \$5 to \$4. The option price for E-II common shares is \$3. Intercompany indebtedness, aggregating \$800 million and evidenced by 11.25% senior promissory notes (the "E-II Notes"), remained payable to BCI after the Distribution and was repaid in July 1987. All other intercompany amounts were capitalized or contributed to E-II. The net assets distributed reflect an allocation of purchase cost (Note 1) based upon the ratio of the aggregate fair market value of the E-II businesses to the aggregate fair market value of Beatrice as determined by an independent investment banking firm as of the Merger date, after reflecting the effects of businesses sold or under contract for sale as of May 1987. See also Notes 3, 5, 6 and 7.

In fiscal 1987 BCI sold its vehicle rental and leasing business; its personal products, knitwear and specialty printing operations; and its soft drink bottling, dairy and warehousing operations. In the allocation of purchase cost (Note 1), these operations were valued at net proceeds and, therefore, no gains or losses were recognized upon the sales.

Discontinued operations are segregated in the accompanying condensed consolidated financial statements. Summary income statement data for these operations follows (in millions):

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
INCOME STATEMENT*:				
Net sales and operating revenues	\$ 673	\$ 1,863	\$ 2,735	\$ 6,071
Costs and expenses	(628)	(1,681)	(2,585)	(5,590)
Amortization of intangible assets	—	(15)	(8)	(47)
Interest allocation**	(27)	(98)	(123)	(325)
Earnings before income tax allocation	18	69	19	109
Income tax expense (benefit) allocation	(23)	41	13	68
Net earnings	<u>\$ 41</u>	<u>\$ 28</u>	<u>\$ 6</u>	<u>\$ 41</u>

*Results of operations sold are included through the date of sale.

**In the periods following the Merger, interest has been allocated based upon the actual or anticipated debt reductions resulting from the application of actual or estimated net proceeds received or to be received upon sale or the Distribution. Interest in the period prior to the Merger has been allocated based on the ratio of the estimated fair value of these operations relative to the estimated fair value of all operations as of the Merger date.

3. Transactions With E-II

In connection with the Distribution (Note 2), BCI and E-II entered into various agreements under which BCI utilizes the services of certain E-II personnel and E-II leases office space and various operating assets from BCI and utilizes the services of certain BCI personnel. In addition, in the ordinary course of business, certain subsidiaries of E-II and BCI maintain supplier relationships with each other. These transactions do not involve amounts which are material to either E-II or BCI.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Inventories

Inventories, in millions, consist of the following:

	November 30, 1987	February 28, 1987
Raw materials and supplies	\$129	\$150
Work in process	98	138
Finished goods	391	329
	<u>\$618</u>	<u>\$617</u>

5. Long-term Debt

In October 1987 BCI redeemed all \$526 million of its outstanding 15.25% Junior Subordinated Exchange Debentures Due 2002 ("Exchange Debentures") at face value utilizing proceeds from the issuance of Increasing Rate Subordinated Debentures which are due in October 2002. The Increasing Rate Subordinated Debentures may be redeemed for face value at BCI's option at any time upon 30 days notice subject to certain senior indenture restrictions. Through January 1, 1988, the annual interest rate was 11.625%. Subsequently, the annual interest rate is increased quarterly by .5% through 1988 and thereafter by .25% on each January 2, April 2, July 2 and October 2, until maturity.

During the third quarter of fiscal 1988, BCI purchased \$101 million principal amount of its 11% senior notes and an additional \$311 million principal amount of other debt securities at an aggregate premium of \$17 million resulting in an extraordinary pre-tax expense, including associated deferred financing fees, of \$24 million.

BCI also acquired \$99 million principal amount of its 11% senior notes on the open market during the second quarter of fiscal 1988 at an aggregate premium of \$4 million resulting in an extraordinary pre-tax expense, including associated deferred financing fees, of \$6 million.

In July 1987 BCI repaid its borrowings under the Revolving Credit Agreement through the application of a portion of the proceeds received from the repayment of the E-II Notes (Note 2).

Certain provisions contained in the indentures for BCI's 11% senior notes, 12½% senior subordinated debentures, 12¾% subordinated debentures and floating rate junior subordinated debentures (collectively, the "Indentures") prohibited the Distribution (Note 2). Modifications to the Indentures' provisions were made as of June 30, 1987, to allow for the Distribution. Modifications were also made regarding the retirement, repayment and defeasance of the various issues of debt. The modified provisions allow BCI more flexibility in retiring the outstanding indebtedness under the Indentures. Various other restrictions on payments with respect to capital stock were also modified. The cost of obtaining consents to these modifications was charged to miscellaneous income (expense) in the second quarter and included payments aggregating \$25 million to the holders of the debentures.

In June 1987 BCI entered into a Revolving Credit Agreement with a group of banks which refinanced and replaced its former Bank Credit Agreement and Working Capital Credit Agreement. The new agreement provides for an initial aggregate commitment of up to \$1.2 billion which is subject to mandatory reductions in the event certain assets are sold. Borrowings bear interest, at BCI's option, at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or at a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Stockholders' Equity

In addition to the E-II shares (Note 2), BCI stockholders and warrant holders also received \$.574 for each BCI common share held or entitled to be acquired under warrants. Payments, aggregating \$9 million, to BCI option holders of \$.574 for each BCI common share entitled to be acquired under options were also accrued and paid in January 1988.

The following summarizes the changes in stockholders' equity since February 1987 (in millions):

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustment
Balance at February 28, 1987	\$ 1	\$ 418	\$ (121)	\$ 10
Net earnings	—	—	337	—
Foreign currency translation adjustment*	—	—	—	(9)
Stockholder distributions:				
E-II common shares	—	—	(260)	—
Cash	—	—	(80)	—
Balance at November 30, 1987	<u>\$ 1</u>	<u>\$ 418</u>	<u>\$ (124)</u>	<u>\$ 1</u>

*Primarily the result of the sale of substantially all of the non-U.S. food businesses (Note 2).

7. Contingent Liabilities

In connection with the Distribution (Note 2), BCI and E-II entered into indemnification agreements which provide for the settlement of claims or damages which may arise for periods prior to the Distribution. Neither BCI nor E-II management is aware of any significant impending liabilities that would give rise to claims under these agreements. Also, in the opinion of BCI management there are no claims or litigation pending which are expected to have a materially adverse effect on the consolidated financial condition of BCI.

8. Income Taxes

The effective tax rate for ongoing operations differs from the U.S. federal statutory rate primarily as a result of amortization and depreciation related to the Merger and state income taxes. For discontinued operations the principal causes for rate differences are foreign tax credits and non-U.S. income taxes as well as amortization and depreciation related to the Merger and state income taxes. The reasons for the difference in the rates on the sale of the non-U.S. food businesses relate primarily to basis differences resulting from the Merger and foreign tax credits. In addition, the quarter ended November 30, 1987 reflects the realization of U.S. federal income tax benefits resulting from taxable losses generated in prior fiscal 1988 quarters which, until the sale of the non-U.S. food businesses, was uncertain.

9. Reorganization

Subsequent to the Merger, Beatrice's Board of Directors approved a Plan of Complete Liquidation and Dissolution ("Plan") for Beatrice which was substantially completed on September 30, 1987. The Plan involved Beatrice exchanging substantially all of its net assets in return for Beatrice common stock and the cancellation of notes receivable from Beatrice held by BCI and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Subsidiaries (comprised of Beatrice U.S. Food Corp. ("Beatrice U.S. Food"), Beatrice International Food Company ("Beatrice International") and BCI Consumer Products

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Corporation (“BCI Products”)). Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consisted of investments in Beatrice common stock and intercompany notes receivable from Beatrice and payable to the First Tier Subsidiaries. Beatrice International has since been sold.

The following condensed consolidating financial statements present the following:

- Condensed consolidated income statements and balance sheets for the First Tier Subsidiaries, Norton Simon, Inc. (“NSI”) and Swift-Eckrich, Inc. (“Swift-Eckrich”);
- Condensed income statement and balance sheet for the parent company only (BCI), including the elimination of its investments in its wholly-owned subsidiaries; and
- Condensed consolidated income statement and balance sheet for BCI.

For purposes of these financial statements, the Plan is assumed to have been completed on March 1, 1986.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

(Unaudited)

(In millions)

	<u>NSI</u>	<u>Swift- Eckrich</u>	<u>Beatrice U.S. Food</u>	<u>BCI Products</u>	<u>BCI</u>	<u>Consolidated</u>
INCOME STATEMENT						
(Nine months ended November 30, 1987):						
Net sales	\$1,206	\$1,030	\$1,182	\$ 88	\$ 7	\$3,513
Operating expenses	<u>1,078</u>	<u>959</u>	<u>1,108</u>	<u>90</u>	<u>36</u>	<u>3,271</u>
Operating earnings	128	71	74	(2)	(29)	242
Intercompany interest income (expense), net . . .	(45)	(56)	(50)	(2)	153	—
Interest expense	(19)	(1)	(4)	—	(258)	(282)
Other income (expense), net	<u>1</u>	<u>1</u>	<u>5</u>	<u>(8)</u>	<u>(12)</u>	<u>(13)</u>
Earnings (loss) from ongoing operations be- fore income taxes	65	15	25	(12)	(146)	(53)
Income tax expense (benefit)	<u>43</u>	<u>19</u>	<u>14</u>	<u>(6)</u>	<u>(51)</u>	<u>19</u>
Earnings (loss) from ongoing operations . .	22	(4)	11	(6)	(95)	(72)
Discontinued operations	—	—	(9)	(1)	438	428
Extraordinary items	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(19)</u>	<u>(19)</u>
Net earnings (loss)	<u>\$ 22</u>	<u>\$ (4)</u>	<u>\$ 2</u>	<u>\$ (7)</u>	<u>\$ 324</u>	<u>\$ 337</u>
BALANCE SHEET						
(As of November 30, 1987):						
Assets:						
Cash and short-term investments	\$ 2	\$ 2	\$ 9	\$ 1	\$ 918	\$ 932
Receivables, net	151	92	104	24	81	452
Inventories	387	99	117	14	1	618
Other current assets	<u>50</u>	<u>1</u>	<u>6</u>	<u>2</u>	<u>89</u>	<u>148</u>
Total current assets	590	194	236	41	1,089	2,150
Property, plant and equipment, net	428	202	161	13	55	859
Intangible assets, principally goodwill	1,217	792	557	—	9	2,575
Other noncurrent assets	<u>17</u>	<u>1</u>	<u>56</u>	<u>71</u>	<u>130</u>	<u>275</u>
Total assets	<u>\$2,252</u>	<u>\$1,189</u>	<u>\$1,010</u>	<u>\$125</u>	<u>\$1,283</u>	<u>\$5,859</u>
Liabilities and Stockholders' Equity:						
Current maturities of long-term debt	\$ 22	\$ —	\$ 2	\$ 2	\$ 4	\$ 30
Accounts payable and accrued expenses	<u>306</u>	<u>149</u>	<u>253</u>	<u>29</u>	<u>216</u>	<u>953</u>
Total current liabilities	328	149	255	31	220	983
Long-term debt	215	5	14	3	3,203	3,440
Noncurrent and deferred income taxes	71	—	5	—	391	467
Other noncurrent liabilities	40	7	12	105	509	673
Net intercompany investments and advances . . .	1,598	1,028	724	(14)	(3,336)	—
Stockholders' equity	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>296</u>	<u>296</u>
Total liabilities and stockholders' equity . . .	<u>\$2,252</u>	<u>\$1,189</u>	<u>\$1,010</u>	<u>\$125</u>	<u>\$1,283</u>	<u>\$5,859</u>

BEATRICE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONS

BCI's ongoing operations are concentrated in one segment, U.S. Food. The businesses of U.S. Food manufacture and distribute grocery, meat, fruit juice and cheese products throughout the U.S. and certain Canadian provinces. The following discussion addresses the results of BCI's ongoing operations for the quarter and nine months ended November 30, 1987 and 1986.

Quarter Ended November 30, 1987 and 1986

Net sales in the third quarter increased 5% over the prior year's quarter. Volume gains were realized primarily in grocery and fruit juice products. Minor volume gains were also experienced in cheese products. These volume gains and higher prices for oil-based products were partially offset by lower pricing on whole turkey products and higher promotional allowances on grocery products.

Operating earnings increased 6% over the prior year's quarter primarily due to the sales gains in grocery and cheese products, lower corporate administrative expense and lower promotional expenses. The increase in operating earnings was partially offset by higher raw material costs for fruit juice products. The finalization of the allocation of purchase cost resulting from the Merger caused amortization of intangible assets to increase approximately \$5 million.

Earnings from ongoing operations of \$5 million were realized in the third quarter versus a breakeven in the prior year's quarter.

The sale of substantially all of the non-U.S. food businesses was completed in the third quarter resulting in a net gain of \$422 million.

Nine Months Ended November 30, 1987 and 1986

Net sales for the nine months increased 3% over the prior year. Volume gains were realized primarily in fruit juice products due to new product introductions and other marketing efforts. Volume gains were also experienced in cheese, grocery and processed meat products. Offsetting these gains were decreased prices on whole turkey products and the absence of sales from certain lines of grocery and meat products which have been disposed.

Operating earnings increased 10% over the prior year due primarily to the increase in net sales, increased margins, lower promotional expenses and decreased corporate administrative costs. Volume increases in fruit juice product sales were offset by higher raw material costs. Increased sales of grocery and cheese products, combined with lower corporate administrative expenses and promotional expenses, more than offset lower margins on whole turkey products. Operating earnings were also impacted by increased intangible asset amortization of approximately \$13 million due to the finalization of the allocation of purchase cost resulting from the Merger.

A loss of \$72 million from ongoing operations was realized versus a loss of \$63 million in the prior year. Interest expense increased primarily due to debt, which financed the August 1986 redemption of the Redeemable Preferred Stock, which was outstanding for nine months in the current period versus four months in the prior period and Merger-related debt which was outstanding for only a portion of the comparable prior period. Miscellaneous income (expense) includes payments aggregating \$25 million made in connection with

BEATRICE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—(Concluded)

obtaining modifications to certain of BCI's indenture agreements offset in part by reduced expenses associated with miscellaneous corporate assets. Change of control expenses of \$84 million in the fiscal 1987 period were incurred by Beatrice in connection with the Merger.

The sale of substantially all of the non-U.S. food businesses was completed in the current year resulting in a net gain of \$422 million.

In the current year extraordinary pre-tax charges aggregating \$30 million result from the acquisition of \$511 million principal amount of previously outstanding debt securities while the prior year includes pre-tax extraordinary charges aggregating \$18 million related to debt redemptions and repayments made by Beatrice immediately prior to the Merger.

FINANCIAL CONDITION

To date in fiscal 1988 BCI has successfully completed the disposals of all but its U.S. Food core businesses. These disposals included the distribution of E-II with substantially all of BCI's nonfood and food specialty businesses in July; the sale of the bottled water operations, also in July; and, most recently, in November, the sale of substantially all of its non-U.S. food businesses. These disposals resulted in cash receipts aggregating \$2.2 billion, \$800 million of which was received from E-II in payment of certain intercompany indebtedness.

Since February 1987 BCI has reduced long-term debt through the application of excess cash balances by \$899 million at November 30, 1987. Subsequently, an additional \$1 million principal amount of senior long-term debt was acquired pursuant to a tender offer which expired on January 6, 1988. These reductions, coupled with the October 1987 refinancing of the Exchange Debentures with Increasing Rate Subordinated Debentures, are expected to reduce BCI's interest expense in the future. BCI currently intends to continue to utilize excess cash balances to purchase certain debt issues in the open market from time to time at prices and under circumstances that are deemed attractive.

Net capital expenditures in the first nine months of fiscal 1988 aggregated \$81 million and stockholders, warrant holders and option holders have received cash distributions aggregating \$80 million. Existing credit facilities and operating cash flows are expected to be sufficient to meet working capital and other capital requirements.

BEATRICE COMPANY

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K.

None

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.

BEATRICE COMPANY

By /s/ WILLIAM P. CARMICHAEL

William P. Carmichael
*Vice President and
Chief Financial Officer*

By /s/ MICHAEL FUNG

Michael Fung
Vice President and Controller

January 13, 1988

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended August 31, 1988

BEATRICE COMPANY

(Exact name of registrant as specified in its charter)

1-9119

(Commission File No.)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3327481

(I.R.S. Employer
Identification Number)

**Two North LaSalle St.
Chicago, Illinois**

(Address of principal executive offices)

60602

(Zip Code)

Registrant's telephone number, including area code: (312) 782-3820

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 registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of September 30, 1988, a total of 81,700,000 shares of Beatrice Company common stock was outstanding.

PART I. FINANCIAL INFORMATION

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BEATRICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)

	August 31, 1988 (Unaudited)	February 29, 1988
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,462	\$ 970
Receivables, less allowance for doubtful accounts of \$16 and \$19, respectively...	310	291
Inventories	562	496
Net current assets of discontinued operations	—	72
Other current assets	154	155
Total current assets	2,488	1,984
Property, plant and equipment, less accumulated depreciation of \$224 and \$163, respectively	826	818
Intangible assets, principally goodwill	1,929	2,092
Net noncurrent assets of discontinued operations	—	553
Other noncurrent assets	248	264
	<u>\$5,491</u>	<u>\$5,711</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 65	\$ 21
Accounts payable and accrued expenses	787	879
Total current liabilities	852	900
Long-term debt	2,909	3,372
Noncurrent and deferred income taxes	397	370
Other noncurrent liabilities	559	580
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings	352	68
Cumulative foreign currency translation adjustment	3	2
Total stockholders' equity	774	489
	<u>\$5,491</u>	<u>\$5,711</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

(In millions, except per share data)

	Periods ended August 31,			
	Quarter		Six Months	
	1988	1987	1988	1987
Net sales	\$1,022	\$ 932	\$1,990	\$1,824
Costs and expenses:				
Cost of sales	758	698	1,466	1,347
Selling and administrative expenses	192	172	387	358
Amortization of intangible assets	13	14	27	28
Total costs and expenses	<u>963</u>	<u>884</u>	<u>1,880</u>	<u>1,733</u>
Operating earnings	59	48	110	91
Interest income	34	9	66	13
Interest expense	(107)	(89)	(211)	(162)
Miscellaneous income (expense), net	19	(28)	12	(33)
Earnings (loss) from continuing operations before income taxes ..	5	(60)	(23)	(91)
Income tax expense	2	2	3	8
Earnings (loss) from continuing operations	3	(62)	(26)	(99)
Discontinued operations:				
Earnings (loss) from operations, net of income tax expense of nil, \$28, nil and \$38, respectively	—	4	(1)	(13)
Gain on sale of Tropicana, net of income tax expense of \$203	—	—	333	—
Extraordinary items, net of income tax benefit of \$8, nil, \$8 and nil, respectively	(22)	(6)	(22)	(6)
Net earnings (loss)	<u>\$ (19)</u>	<u>\$ (64)</u>	<u>\$ 284</u>	<u>\$ (118)</u>
Weighted-average common shares outstanding	82	82	82	82
Common share equivalents	57	—	57	—
	<u>139</u>	<u>82</u>	<u>139</u>	<u>82</u>
Earnings (loss) per share:				
Continuing operations	\$.06	\$ (.76)	\$ (.11)	\$ (1.21)
Discontinued operations	—	.05	2.39	(.16)
Extraordinary items	(.16)	(.07)	(.16)	(.07)
Net earnings (loss)	<u>\$ (.10)</u>	<u>\$ (.78)</u>	<u>\$ 2.12</u>	<u>\$ (1.44)</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)
(In millions)

	Periods ended August 31,			
	Quarter		Six Months	
	1988	1987	1988	1987
Cash provided (used) by operations:				
Earnings (loss) from continuing operations	\$ 3	\$ (62)	\$ (26)	\$ (99)
Items not involving cash:				
Depreciation and amortization of intangibles	34	34	71	68
Other items, net	3	3	10	6
Changes in working capital, excluding current debt	(109)	(41)	(176)	(124)
Cash used by continuing operations	(69)	(66)	(121)	(149)
Net cash provided (used) by discontinued operations	—	28	(21)	4
Net cash used by extraordinary items	(15)	(4)	(15)	(4)
Cash used by operations	(84)	(42)	(157)	(149)
Cash provided (used) by investment activities:				
Net expenditures for property, plant and equipment	(37)	(24)	(56)	(39)
Net proceeds from divested operations	—	444	1,121	444
Repayment to Beatrice of the E-II notes	—	800	—	800
Other items, net	1	(21)	3	20
Cash provided (used) by investment activities	(36)	1,199	1,068	1,225
Cash provided (used) by financing activities:				
Change in debt	(429)	(582)	(430)	(495)
Other items, net	(5)	(14)	11	(9)
Cash used by financing activities	(434)	(596)	(419)	(504)
Cash provided (used) before cash distribution	(554)	561	492	572
Cash distribution paid or accrued	—	(80)	—	(80)
Increase (decrease) in cash and cash equivalents	(554)	481	492	492
Cash and cash equivalents at beginning of period	2,016	56	970	45
Cash and cash equivalents at end of period	<u>\$1,462</u>	<u>\$ 537</u>	<u>\$1,462</u>	<u>\$ 537</u>

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

Beatrice Company ("Beatrice"), formerly BCI Holdings Corporation, acquired Beatrice Companies, Inc. ("Old Beatrice") on April 17, 1986 in a purchase transaction for approximately \$6.2 billion (the "Merger"). Subsequent to the Merger, Beatrice has sold significant portions of its operating businesses, the results of which have been segregated in the condensed consolidated financial statements as discontinued operations (Note 2).

In the opinion of management, unaudited information reflects all adjustments necessary for a fair presentation of the interim financial information. Such adjustments consist only of normal recurring adjustments.

2. Discontinued Operations

On April 8, 1988 Beatrice completed its previously announced sale of Tropicana Products, Inc. ("Tropicana") for cash proceeds of \$1.2 billion.

In fiscal 1988, Beatrice sold its bottled water operations and Beatrice International Food Company ("Beatrice International"). Beatrice also distributed its ownership in E-II Holdings Inc. ("E-II"), comprising substantially all of Beatrice's then existing nonfood and food specialties businesses, to its stockholders and warrant holders during fiscal 1988 (the "Distribution"). Also, in connection with the Distribution, Beatrice distributed \$80 million to its stock, option and warrant holders.

Summary income statement data for the above described discontinued operations follows (in millions):

	Periods ended August 31,			
	Quarter		Six Months	
	1988	1987	1988	1987
INCOME STATEMENT*:				
Net sales	\$ —	\$1,125	\$ 68	\$2,430
Costs and expenses	—	(1,042)	(61)	(2,275)
Amortization of intangible assets	—	(6)	(1)	(14)
Interest allocation**	—	(45)	(7)	(116)
Earnings (loss) before income tax allocation	—	32	(1)	25
Income tax expense allocation	—	28	—	38
Net earnings (loss)	\$ —	\$ 4	\$ (1)	\$ (13)

*Results of operations sold are included through the date of sale.

**Interest has been allocated based upon the actual or anticipated debt reductions resulting from the application of actual or estimated net proceeds received or to be received upon sale or the Distribution. To the extent that proceeds received or to be received from sales of discontinued operations have not been and are not expected to be used to reduce debt, interest has been allocated based upon the ratio of net assets of the discontinued operations to Beatrice's consolidated capitalization.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Inventories

Inventories, in millions, consist of the following:

	August 31, 1988	February 29, 1988
Raw materials and supplies	\$128	\$137
Work in process	72	63
Finished goods	<u>362</u>	<u>296</u>
	<u>\$562</u>	<u>\$496</u>

4. Long-term Debt

On June 1, 1988, Beatrice announced a tender offer to purchase any or all of its outstanding 11% Ten Year Senior Notes ("Senior Notes") at \$1,030 plus accrued interest to the purchase date of June 30, 1988 for each \$1,000 principal amount of notes. The tender offer expired at 5:00 p.m. New York time, on June 29, 1988. As of that date, \$118 million principal amount of these notes had been tendered for a total cost to Beatrice of \$124 million, including premiums and accrued interest. As a result of the tender offer, Beatrice became entitled to purchase up to \$698 million principal amount of its 12½% senior subordinated debentures, 12¾% subordinated debentures and floating rate junior subordinated debentures (collectively, the "Subordinated Indebtedness") during the 90-day period ending September 28, 1988. During such 90-day period, Beatrice purchased \$322 million principal amount of such Subordinated Indebtedness including the redemption of floating rate junior subordinated debentures on September 27, 1988 pursuant to a \$40 million redemption notice given on August 25, 1988. Any decision to purchase additional Senior Notes or Subordinated Indebtedness in the future will depend on, among other things, the prices at which such indebtedness is available for purchase, the amount of cash available to Beatrice, alternative investments available to Beatrice, Beatrice's debt covenants and future developments, if any, relating to the possible restructuring alternatives available to Beatrice.

The terms of the Senior Notes and Subordinated Indebtedness restrict the payment of dividends on common stock. As of August 31, 1988, approximately \$48 million of retained earnings was available for dividends on common stock.

In June 1987, Beatrice entered into a revolving credit agreement (the "Revolving Credit Agreement") with a group of banks which refinanced and replaced its former Bank Credit Agreement and Working Capital Facility which, at the time of refinancing, had provided revolving lines of credit aggregating \$1.2 billion. The new agreement provides for an initial aggregate commitment of \$1.2 billion which is subject to mandatory reductions in the event certain assets are sold. The sale of Tropicana (Note 2) resulted in a \$300 million mandatory reduction. At Beatrice's option, borrowings under the Revolving Credit Agreement bear interest at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required. As of August 31, 1988 there were no borrowings outstanding under this agreement, however, approximately \$223 million of standby letters of credit were issued under this agreement, thus temporarily reducing availability for borrowings by a like amount.

5. Contingent Liabilities

Beatrice and its subsidiaries are engaged in various litigation proceedings, including the income tax matter described in Note 6, which occur in the ordinary course of business. In the opinion of management, there are no claims or litigation pending as of the quarter ended August 31, 1988 to which Beatrice is a party which are expected to have a materially adverse effect on its consolidated financial condition.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Income Taxes

In the fiscal year ended February 29, 1988, the consolidated statement of earnings reflected credits of \$256 million due to a reduction of estimated liabilities for income taxes and related interest, resulting from a favorable U.S. Tax Court decision on February 2, 1988. A deposit of \$119 million made in July 1986 by Esmark, Inc. ("Esmark"), an entity acquired by Beatrice in June 1984, to the Internal Revenue Service ("IRS"), which is expected to be refunded to Beatrice upon ultimate disposition of the case, is included in other current assets as of August 31, 1988. The decision related to a transaction in 1980 between Mobil-TransOcean Company ("Mobil") and Esmark, wherein Esmark transferred the outstanding shares of Vickers Energy Corporation ("Vickers"), a wholly-owned subsidiary whose sole asset at the time was its investment in TransOcean Oil, Inc., to Mobil in exchange for Esmark common stock and cash. Mobil had previously acquired the Esmark shares in a cash tender offer. Esmark believed that the exchange of its shares for Vickers shares constituted a nontaxable redemption and, therefore, Esmark was not required to recognize a taxable gain on the exchange. In March 1983, the IRS issued a revenue ruling which indicated that it might challenge Esmark's position. In June 1984, the IRS assessed a deficiency in connection with the exchange of approximately \$115 million, exclusive of interest. Esmark and, subsequently, Beatrice believed the position taken by the IRS had no merit and vigorously contested the case. The favorable U.S. Tax Court decision on February 2, 1988 upheld that position and found Esmark to be free of any tax liability on the exchange. The IRS has the right to appeal the decision through October 19, 1988. Although the IRS has not appealed the tax court decision to date, the ultimate liabilities, if any, which may result from such an appeal cannot be predicted with certainty. However, in the opinion of Beatrice's management, which is supported by special legal counsel, the probability of the IRS prevailing in such an appeal is not likely.

The effective tax rate for continuing operations differs from the U.S. federal statutory rate primarily as a result of amortization and depreciation related to the Merger and state income taxes. In connection with the allocation of purchase cost resulting from the Merger, tax benefits in excess of those expected to be realized were not recognized as assets. In the quarter ended May 31, 1988, Beatrice realized \$168 million of such previously unrecognized tax benefits attributable to differences between the tax bases of certain assets and liabilities as of the Merger and the amounts allocated to those assets and liabilities under purchase accounting. Certain of these tax benefits, amounting to \$143 million, relate to a fiscal 1987 transaction (occurring during the purchase cost allocation period) and have been used to reduce goodwill. The remaining tax benefits, amounting to \$25 million, relate to fiscal 1989 transactions and have been used to reduce the income tax expense applicable to the gain on the sale of Tropicana.

7. Extraordinary Items

In connection with the purchases of Senior Notes and other Subordinated Indebtedness during fiscal 1989 (Note 4), Beatrice incurred pre-tax extraordinary charges of \$22 million for premiums paid, \$7 million for the write-off of unamortized deferred financing fees and a \$1 million loss on the early retirement of other debt.

Beatrice also acquired Senior Notes during the second quarter of fiscal 1988 at an aggregate premium of \$4 million and wrote-off associated deferred financing fees of \$2 million.

8. Earnings Per Share

Earnings per share are computed assuming the proceeds from the exercise of common share equivalents are applied to reduce long-term debt, resulting in a reduction of interest expense, net of related income taxes, of \$5 million and \$10 million for the quarter and six months ended August 31, 1988. The net loss per share

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

for the quarter ended August 31, 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having earnings from continuing operations. The net loss per share excluding the effects of these common share equivalents would have been \$.23. The loss per share from continuing operations for the six month period ended August 31, 1988 is also required to reflect the effects of these common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been \$.32. Common share equivalents are excluded from the computation of loss per share for the quarter and six month period ended August 31, 1987 as the effect is antidilutive.

9. Subsequent Events

On September 15, 1988, Playtex Holdings, Inc. ("Playtex") announced that it had agreed to be sold for \$9.60 in cash and \$1.00 of a new 14% pay-in-kind preferred stock for each common share and that it would redeem its existing preferred stock. Beatrice's investment in Playtex currently consists of 10 million common shares as well as 3 million shares of preferred stock with an aggregate redemption value of \$75 million. This transaction is subject to the execution of a definitive agreement and completion of financing arrangements.

10. Reorganization

Subsequent to the Merger, Old Beatrice's Board of Directors approved a Plan of Complete Liquidation and Dissolution ("Plan") for Old Beatrice which was substantially completed on September 30, 1987. The Plan involved Old Beatrice exchanging substantially all of its net assets in return for Old Beatrice common stock and the cancellation of notes receivable from Old Beatrice held by Beatrice and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Subsidiaries (comprised of Beatrice U.S. Food Corp. ("Beatrice U.S. Food"), BCI Consumer Products Corporation and Beatrice International). Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consisted of investments in Old Beatrice common stock and intercompany notes receivable from Old Beatrice and payable to the First Tier Subsidiaries.

The following condensed consolidating financial statements present the following:

- Condensed consolidated balance sheets and statements of earnings for Norton Simon, Inc. ("NSI"), Swift-Eckrich, Inc. ("Swift-Eckrich") and Beatrice U.S. Food;
- Condensed consolidated balance sheet and statement of earnings for the parent company (Beatrice), and all other direct and indirect subsidiaries, including the elimination of its investments in its wholly-owned subsidiaries; and
- Condensed consolidated balance sheet and statement of earnings for Beatrice.

For purposes of these financial statements, the Plan is assumed to have been completed on March 1, 1986.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

(Unaudited)

(In millions)

	NSI	Swift- Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
As of August 31, 1988:					
Assets:					
Cash and cash equivalents	\$ 14	\$ 3	\$ 8	\$1,437	\$1,462
Receivables, net	122	92	64	32	310
Inventories	363	121	51	27	562
Other current assets	44	2	7	101	154
Total current assets	543	218	130	1,597	2,488
Net property, plant and equipment	446	199	77	104	826
Intangible assets, principally goodwill	1,102	713	93	21	1,929
Other noncurrent assets	18	2	106	122	248
	<u>\$2,109</u>	<u>\$1,132</u>	<u>\$ 406</u>	<u>\$1,844</u>	<u>\$5,491</u>
Liabilities and Stockholders' Equity:					
Current maturities of long-term debt	\$ 12	\$ —	\$ 2	\$ 51	\$ 65
Accounts payable and accrued expenses	276	109	70	332	787
Total current liabilities	288	109	72	383	852
Long-term debt	213	5	13	2,678	2,909
Noncurrent and deferred income taxes	61	—	—	336	397
Other noncurrent liabilities	46	9	6	498	559
Net intercompany investments and advances	1,501	1,009	315	(2,825)	—
Stockholders' equity	—	—	—	774	774
	<u>\$2,109</u>	<u>\$1,132</u>	<u>\$ 406</u>	<u>\$1,844</u>	<u>\$5,491</u>
As of February 29, 1988:					
Assets:					
Cash and cash equivalents	\$ 8	\$ 2	\$ 8	\$ 952	\$ 970
Receivables, net	142	56	60	33	291
Inventories	318	111	47	20	496
Net current assets of discontinued operations	—	—	72	—	72
Other current assets	53	1	6	95	155
Total current assets	521	170	193	1,100	1,984
Net property, plant and equipment	439	205	67	107	818
Intangible assets, principally goodwill	1,200	776	102	14	2,092
Net noncurrent assets of discontinued operations	—	—	553	—	553
Other noncurrent assets	16	1	113	134	264
	<u>\$2,176</u>	<u>\$1,152</u>	<u>\$1,028</u>	<u>\$1,355</u>	<u>\$5,711</u>
Liabilities and Stockholders' Equity:					
Current maturities of long-term debt	\$ 12	\$ —	\$ 2	\$ 7	\$ 21
Accounts payable and accrued expenses	281	128	82	388	879
Total current liabilities	293	128	84	395	900
Long-term debt	219	5	13	3,135	3,372
Noncurrent and deferred income taxes	71	—	—	299	370
Other noncurrent liabilities	42	5	6	527	580
Net intercompany investments and advances	1,551	1,014	925	(3,490)	—
Stockholders' equity	—	—	—	489	489
	<u>\$2,176</u>	<u>\$1,152</u>	<u>\$1,028</u>	<u>\$1,355</u>	<u>\$5,711</u>

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

(Unaudited)

(In millions)

	<u>NSI</u>	<u>Swift- Eckrich</u>	<u>Beatrice U.S. Food</u>	<u>Beatrice</u>	<u>Consolidated</u>
Six months ended August 31, 1988:					
Net sales	\$ 834	\$ 655	\$ 400	\$ 101	\$1,990
Operating expenses	<u>760</u>	<u>615</u>	<u>386</u>	<u>119</u>	<u>1,880</u>
Operating earnings (loss)	74	40	14	(18)	110
Intercompany income (expense), net	(19)	(46)	23	42	—
Interest income	1	—	4	61	66
Interest expense	(13)	—	(1)	(197)	(211)
Miscellaneous income (expense), net	<u>—</u>	<u>—</u>	<u>1</u>	<u>11</u>	<u>12</u>
Earnings (loss) from continuing operations before income taxes	43	(6)	41	(101)	(23)
Income tax expense (benefit)	<u>25</u>	<u>3</u>	<u>19</u>	<u>(44)</u>	<u>3</u>
Earnings (loss) from continuing operations	18	(9)	22	(57)	(26)
Discontinued operations	—	—	333	(1)	332
Extraordinary items	<u>—</u>	<u>—</u>	<u>—</u>	<u>(22)</u>	<u>(22)</u>
Net earnings (loss)	<u>\$ 18</u>	<u>\$ (9)</u>	<u>\$ 355</u>	<u>\$ (80)</u>	<u>\$ 284</u>
Six months ended August 31, 1987:					
Net sales	\$ 720	\$ 639	\$ 409	\$ 56	\$1,824
Operating expenses	<u>655</u>	<u>598</u>	<u>405</u>	<u>75</u>	<u>1,733</u>
Operating earnings (loss)	65	41	4	(19)	91
Intercompany income (expense), net	(30)	(36)	3	63	—
Interest income	—	—	—	13	13
Interest expense	(13)	—	(1)	(148)	(162)
Miscellaneous income (expense), net	<u>—</u>	<u>—</u>	<u>1</u>	<u>(34)</u>	<u>(33)</u>
Earnings (loss) from continuing operations before income taxes	22	5	7	(125)	(91)
Income tax expense (benefit)	<u>19</u>	<u>10</u>	<u>3</u>	<u>(24)</u>	<u>8</u>
Earnings (loss) from continuing operations	3	(5)	4	(101)	(99)
Discontinued operations	—	—	(9)	(4)	(13)
Extraordinary items	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6)</u>	<u>(6)</u>
Net earnings (loss)	<u>\$ 3</u>	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ (111)</u>	<u>\$ (118)</u>

BEATRICE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONS

Beatrice's continuing operations conduct business primarily in the processed food industry through the production and distribution of branded food products. These operations manufacture and distribute grocery, meat and cheese products throughout the U.S. and certain Canadian provinces. The following discussion addresses the results of continuing operations for the quarters and six-month periods ended August 31, 1988 and 1987.

Quarters Ended August 31, 1988 and 1987

Net sales for the quarter increased \$90 million, or 10%, over the prior year's quarter. Volume gains were experienced in grocery, primarily in microwave popcorn, ketchup and puddings. Meat products also experienced volume gains, primarily in deli meats, while cheese product volume was equal to last year.

Operating earnings increased \$11 million, or 23%, over the prior year's quarter due primarily to the increase in net sales, favorable raw material costs in deli meats and peanut butter and lower corporate administrative expenses. Partially offsetting these favorable variances were higher raw material costs for milk, cheese, sugar and vegetable oil and higher grocery product packaging, advertising, selling and transportation costs.

Earnings of \$3 million from continuing operations were realized versus a loss of \$62 million in the prior year's quarter. The improvement was primarily the result of a \$25 million increase in interest income, favorable foreign currency translations, the increase in operating earnings and the absence of \$25 million of expenses incurred in fiscal 1988 in connection with obtaining consents to modify certain debt agreements ("Consent Expenses") offset in part by an \$18 million increase in interest expense. The increase in interest income was a result of the investment of net proceeds from the sale of discontinued operations. The increase in interest expense was due to a reduction in the amount of interest allocated to discontinued operations, partially offset by lower interest expense as a result of debt reductions of approximately \$1.5 billion since May 1987.

In the current quarter an extraordinary charge of \$22 million, net of \$8 million tax benefit, resulted from the acquisition of Senior Notes and other Subordinated Indebtedness (Note 4).

A net loss of \$19 million was realized versus a loss of \$64 million in the prior year's quarter. The improvement was a result of significantly reduced losses from continuing operations, which were partially offset by the absence of \$4 million of earnings from discontinued operations and the increase in extraordinary charges in the current quarter incurred as a result of debt repurchases.

Six Months Ended August 31, 1988 and 1987

Net sales for the six months increased \$166 million or 9% over the prior year. Volume gains were experienced in most grocery and meat product categories, however, cheese volume was equal to last year.

Operating earnings increased \$19 million or 21% over last year due primarily to a continued increase in sales and lower administrative costs. Higher milk, sugar, cheese and vegetable oil costs combined with higher advertising, selling and transportation costs partially offset these favorable variances.

A loss of \$26 million from continuing operations was realized versus a loss of \$99 million in the prior year. This improvement was primarily the result of an increase in interest income of \$53 million, favorable

BEATRICE COMPANY

operating earnings, favorable foreign currency translations and the absence of the \$25 million of Consent Expenses. These favorable variances were partially offset by an increase in interest expense of \$49 million resulting from a decreased allocation of interest to discontinued operations offset by lower interest expense as a result of reduced debt.

Net earnings of \$284 million were realized versus a loss of \$118 million in the prior year. The favorable variance was a result of reduced losses from both continuing and discontinued operations, a gain on the sale of Tropicana of \$333 million; partially offset by the increase in extraordinary charges.

FINANCIAL CONDITION

The financial condition of Beatrice was significantly strengthened in fiscal 1989 as a result of the successful completion of the sale of Tropicana in the first quarter. This disposal resulted in net cash proceeds of approximately \$1.1 billion after taxes currently payable.

Beatrice further strengthened its financial condition by repurchasing \$440 million principal amount of Senior Notes and other Subordinated Indebtedness between June 30, 1988 and September 27, 1988 for a total cost, including premiums and accrued interest, of \$478 million.

Beatrice may utilize excess cash balances to purchase certain debt issues in the open market from time to time. Any decision to purchase such indebtedness will depend on, among other things, the prices at which the debt issues are available for purchase, the amount of cash available to Beatrice, alternative investments available to Beatrice, Beatrice's debt covenants and future developments, if any, relating to the possible restructuring of Beatrice.

Net capital expenditures in the first six months of fiscal 1989 aggregated \$56 million.

Although Beatrice's financial condition remains highly leveraged, management believes that, through existing cash balances, cash flow from operations and existing credit lines, Beatrice will continue to be able to adequately fund operating capital requirements as well as service debt requirements.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
11.	Statement re computation of earnings per share. Historical Computation of Earnings (Loss) Per Share.

(b) Reports on Form 8-K.

None

BEATRICE COMPANY

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.

BEATRICE COMPANY

By /s/ WILLIAM P. CARMICHAEL

William P. Carmichael
*Senior Vice President and
Chief Financial Officer*

By /s/ MICHAEL L. GOLDBERG

Michael L. Goldberg
Vice President and Controller

October 14, 1988

US EPA ARCHIVE DOCUMENT

EXHIBIT INDEX

Exhibit
Number

Description of Document

Sequential
Page No.

11. Statement re computation of earnings per share. Historical Computation of Earnings (Loss) Per Share.

**HISTORICAL
COMPUTATION OF EARNINGS (LOSS) PER SHARE
(Unaudited)**

(In millions, except per share data)

	Periods ended August 31,			
	Quarter		Six Months	
	1988	1987	1988	1987
Earnings (loss) from continuing operations	\$ 3	\$ (62)	\$ (26)	\$ (99)
Reduction of interest expense resulting from application of proceeds from exercise of common share equivalents	5	—	10	—
Earnings (loss) from continuing operations applicable to common shares and common share equivalents	8	(62)	(16)	(99)
Earnings (loss) from discontinued operations	—	4	332	(13)
Extraordinary items	(22)	(6)	(22)	(6)
Net earnings (loss) applicable to common shares and common share equivalents	<u>\$ (14)</u>	<u>\$ (64)</u>	<u>\$ 294</u>	<u>\$ (118)</u>
Average common shares outstanding during the period	82	82	82	82
Common share equivalents	57	—	57	—
Total average common shares and common share equivalents	<u>139</u>	<u>82</u>	<u>139</u>	<u>82</u>
Earnings (loss) per share:				
Continuing operations (A)	\$.06	\$ (.76)	\$ (.11)	\$ (1.21)
Discontinued operations	—	.05	2.39	(.16)
Extraordinary items	(.16)	(.07)	(.16)	(.07)
Net earnings (loss) (B)	<u>\$ (.10)</u>	<u>\$ (.78)</u>	<u>\$ 2.12</u>	<u>\$ (1.44)</u>

(A) The loss per share from continuing operations for the six months ended August 31, 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been \$.32.

(B) The net loss per share for the quarter ended August 31, 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having earnings from continuing operations. The net loss per share excluding the effects of these common share equivalents would have been \$.23.