Beatrice

Annual Report
Fiscal Year Ended
February 1985

Beatrice Companies, Inc.

The new Beatrice is a market-driven company, employing more than 100,000 men and women. Beatrice has a powerful presence in the world market-place, offering consumers quality food, beverage, consumer products and services in more than 100 countries. Through a variety of innovative marketing efforts, such as the new Beatrice identity, consumers around the world associate Beatrice with a commitment to quality and value. This commitment is underscored by the hard work and dedication of our employees, customers and shareholders who share a new spirit of unity in Beatrice.

An overview of this dynamic new Beatrice—with expanded strengths and capabilities—begins on page five.

FINANCIAL HIGHLIGHTS

BEATRICE COMPANIES, INC., 87TH ANNUAL REPORT YEAR ENDED FEBRUARY 1985

(In millions except per share data) Fiscal years ended February	1985	1984
Net sales and operating revenues	$12,595	$9,327
Net earnings	479	433
Earnings per share:		
Primary	5.06	4.23
Fully diluted	4.77	3.99
Working capital	611	693
Stockholders' equity	2,357	2,028
Dividends	170	175
Dividends paid per common share	1.70	1.60

Net earnings include special actions, which are described below:

Fiscal years ended February	1985			1984		
		Earnings per share			Earnings per share	
(In millions except per share data)	Earnings	Primary	Fully diluted	Earnings	Primary	Fully diluted
Earnings before special actions	$259	$2.66	$2.59	$334	$3.23	$3.08
Special actions*	220	2.40	2.18	99	1.00	.91
Net earnings	$479	$5.06	$4.77	$433	$4.23	$3.99

*Special actions relate primarily to Beatrice's Business Realignment Program which includes after-tax gains from divestiture activities (1985—$386 million and 1984—$99 million) and other after-tax charges in 1985 of $166 million for integration and restructuring of businesses. See Discussion of Operations and Financial Condition for additional information.

CONTENTS

TO THE OWNERS OF BEATRICE:

Fiscal 1985 was one of the most significant years in the company's history. We accomplished a great deal while making Beatrice a truly great marketing company for years to come.

FISCAL 1985 HIGHLIGHTS

- Successfully completed the acquisition of Esmark, Inc. for $2.7 billion.
- Realized a net gain from business realignment activity of $220 million.
- Received more than $1.4 billion in proceeds from divesting operations that were not critical to our focus on food and consumer products.
- Reduced the debt resulting from the acquisition by approximately $1.3 billion.
- Substantially increased the awareness and marketing value of the Beatrice name.
- Simplified the organization and management structure of the company, creating four strong operating segments.

Many of the steps we've taken were dramatic, but necessary for the company to succeed in today's competitive consumer marketplace. All of our actions, both short-term and long-term, are guided by four principles: to make Beatrice the premier worldwide marketer of food and consumer products; to build strong national and international brand franchises; to gain more direct access to our trade customers and the consumers of our products; and to build and develop bigger and better people throughout the organization.

This annual report will illustrate how Beatrice is responding to these principles in order to achieve real, sustainable growth.

FINANCIAL PERFORMANCE

Net sales for fiscal 1985 were $12.6 billion, net earnings rose to $479 million. Primary and fully diluted earnings per share were $5.06 and $4.77 respectively. Net earnings include $220 million of business realignment income which represents the gain from the sale of divested operations, partially offset by a charge for the anticipated costs of restructuring the company's businesses and eliminating duplications resulting from the acquisition of Esmark.

Segment earnings rose to $912 million due to the inclusion of results from acquired operations. The financial review begins on page 29.

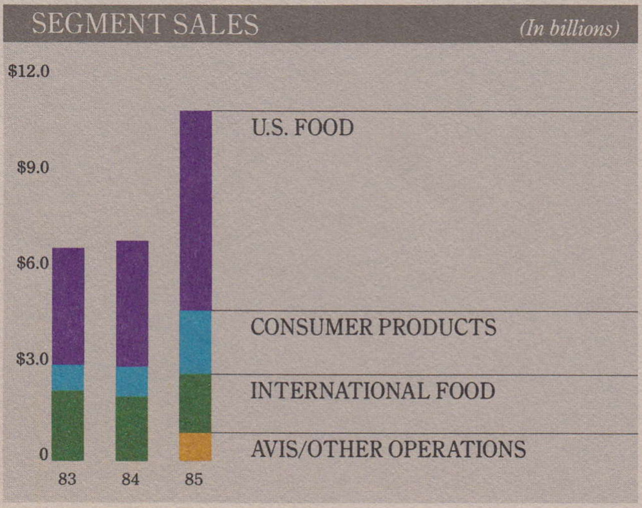
In March 1985, your board of directors approved a 6 percent increase in the dividend, raising it by 2½ cents to 45 cents, equivalent to an annualized rate of $1.80 per share.

ASSET REDEPLOYMENT

We rapidly accelerated our market-driven strategy during fiscal 1985 with the acquisition of Esmark, Inc. The acquisition was critical to our efforts in developing strong national brands, building stronger sales and distribution capabilities and improving our research and development efforts. While we could have developed these products and capabilities internally, we realized that it was more efficient to acquire these strengths. The integration of Esmark has proceeded smoothly, and we have already combined similar businesses into single, larger entities that have greater impact in their respective markets.

At the time of the Esmark acquisition, we announced that we would sell assets that were not key to our business strategy of focusing the company squarely on the food and consumer products marketplace.

I am pleased to report that as of the end of the fiscal year, we have sold various operations, often at premium prices, with proceeds totaling about $1.4 billion, well in excess of our stated goal of $1 billion by the end of fiscal 1985.



We will continue to divest operations that are not consistent with our business plans, and will use the proceeds from those sales to further reduce our debt and fund growth in our operations.

BEATRICE TODAY: A NEW STREAMLINED ORGANIZATION

With four strong operating segments: U.S. Food, Consumer Products, International Food and Avis/Other Operations, we are now better positioned to respond to and anticipate the needs of the marketplace. At the same time, this structure will allow more efficient management of the company. Each of these segments has the critical mass to truly lead the markets in which it competes.

In addition, the company that has emerged from the realignment over the past four years participates in faster growing markets in both food and consumer products and is less vulnerable to economic cycles.

For example, U.S. Food is the cornerstone of Beatrice with leading brands in a broad range of growing categories such as soft drinks, fruit juices, snacks, and convenient, value-added grocery products. We have some of the best known brands, and with our added strength in distribution and information systems, we can move any type of food product almost anywhere in the world.

In addition, we have improved the way in which our products are sold, gaining the greatest efficiencies in helping our trade customers reach the consumer. Backing these efforts is a combined research and development capability that over the past two years has led to the introduction of more than 140 new products.

The story is equally strong in Consumer Products. Through this segment, we participate in generally higher-growth, higher-margin businesses, with products that are typically marketed to today's more affluent consumer. A historically strong financial performer, our consumer products business has established an excellent record of success in recognizing and anticipating the needs of consumers.

International Food gives us a strong presence in both mature and emerging world markets that offer stability and opportunities for growth. Other operations, such as Avis, offer us an opportunity to participate in special ventures that represent either good growth potential or synergies with our other businesses.

A COMMITMENT TO MARKETING

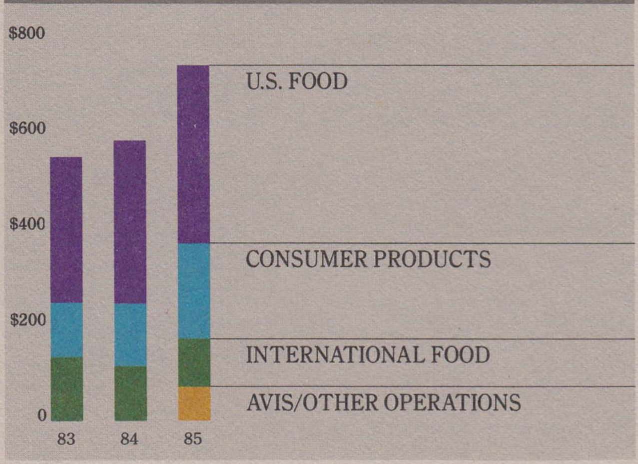
The "New Beatrice" also has vastly increased marketing clout. As the third largest advertiser in the United States, we have the marketing muscle to establish leadership positions across a broad product range.

Advertising and sales promotion expenses were approximately $680 million, a dramatic increase over our historical spending levels. These investments are necessary in building and maintaining the leadership positions that are so critical to success in today's highly competitive marketplace.

Marketing efforts such as our highly-successful Olympic advertising campaign established the Beatrice name in the marketplace. In fact, during the past fiscal year, consumer awareness of the Beatrice name has more than tripled. Equally important, our research also has shown that the Beatrice name *does* stand for quality and value in the minds of most consumers.

We are transferring the equity of the Beatrice name to the retail level through a corporate identity program that is being used in new brand advertising campaigns and product packaging.

SEGMENT EARNINGS *(In millions)*



STRONG INTERNATIONAL PRESENCE

We recognize that part of becoming a premier marketing company is to extend our operations and products beyond our domestic borders. In fiscal 1986, we will celebrate 25 years of excellent real growth in our international operations that now span more than 30 countries and market products in more than 100.

One of the best examples of our worldwide commitment is in the People's Republic of China, where this past fall we dedicated Guangmei Foods Company, the first U.S./Chinese joint venture food company started from the ground up. Following this success, in March of this year we signed a historic agreement with the Chinese establishing a new joint venture company that will enable us to participate in a wide range of business ventures with the People's Republic.

MANAGEMENT

During fiscal 1985, we added a number of fine people to our management team. These include four new senior officers: Frank M. Adamany, corporate senior vice president and president, Refrigerated Food; Frank E. Grzelecki, corporate executive vice president and president, Consumer Products; David E. Lipson, corporate executive vice president and chief financial officer; and Richard S. Williamson, corporate senior vice president, corporate and international relations. Messrs. Grzelecki and Lipson, along with Anthony Luiso, corporate executive vice president and president, U.S. Food; William S. Mowry, Jr., corporate executive vice president and president, International Food were elected to the board of directors. Also during the year, John Conners, vice chairman and director, retired after 37 years of dedicated service to the company.

CORPORATE CITIZENSHIP

We continue to be actively involved in the support of the communities in which we do business. Beatrice has long seen itself as more than an employer in our plant communities. We recognize and acknowledge our responsibility to improve the quality of life for both our employees and the consumers of our products wherever they may live.

Our support falls into four primary areas: charitable organizations, particularly those that provide nutritional support; educational programs; the performing and visual arts; and amateur athletics.

THE BEATRICE MISSION

Fiscal 1985 was a period of great achievement. We took important steps in meeting the marketing objectives set nearly four years ago.

We truly have the critical mass in each of our segments to control our own destiny. We have laid a firm foundation throughout all our businesses to manage our assets in the most effective way for true, sustainable growth.

We could never have achieved all that we have during the past fiscal year without the dedication and resolve of all our employees. We have a wealth of good people across our operations. To ensure that all our people understand Beatrice's common goals, we have developed a mission statement for the company. You will find the mission statement on page 24.

The statement encompasses a great deal, but first and foremost it tells every Beatrice employee to place the consumer first in every action he or she takes. As the statement says, it is only through this course of action that our suppliers, distributors, trade partners and shareholders will prosper along with us.

We look forward to fulfilling this mission and believe that we are now better positioned to take our place as the premier worldwide marketer of food and consumer products.

In closing, I would like to thank our shareholders for their continued support of Beatrice. We believe more strongly than ever that the steps we have taken to shape Beatrice into a market-driven company have resulted in a much stronger company both now, and in the future.

Sincerely,

James L. Dutt

Chairman of the Board
Chief Executive Officer

April 22, 1985

"Over the next five years, Beatrice will emerge as the world's premier marketer of food and consumer products."

BEATRICE MISSION STATEMENT

THE NEW BEATRICE

Beatrice Companies, Inc. is charting a bold course. We are a market-driven company, with total dedication to anticipating and satisfying consumer needs around the world. We are meeting the challenges of the marketplace with a commitment to excellence and quality in all that we produce, distribute and sell to consumers worldwide. Beatrice has the brands and the necessary resources to sell and distribute these products throughout the world. The following pages describe just a few of the many strengths that are the driving force of the new Beatrice. These strengths, and the many capabilities we have added to the company, will result in good growth and enhance the value of the company. Through the efforts of our employees and our businesses around the world, Beatrice will reach its goal of becoming the premier worldwide marketer of food and consumer products.


FISHER
Peanuts
Beatrice
NEW! ALL NATURAL
Wesson
LIGHT & NATURAL

"Our first priority will be total dedication to anticipating and satisfying consumer needs."

U.S. FOOD

With more than 150 brands in 90 product categories, U.S. Food is the cornerstone of Beatrice's business. As the largest segment of the company's operations, U.S. Food represents the broadest base of national food and beverage brands in the industry today. The segment is organized into three groups—Grocery, Refrigerated Food and Beverage—targeted to serve market needs across the country. With major operations in grocery products, soft drinks, bottled water, warehousing, foodservice, dairy, meats, cheese and fruit juices, our stable of strong national brands brings quality and value to today's consumer. And with new strengths in distribution and information systems, U.S. Food is a leader in helping our trade customers reach consumers anywhere in the country. U.S. Food is shaping the future of the food industry today.

< *(Overleaf) Hunt's* and *Wesson* are two of the strongest, best recognized names in the consumer food marketplace. *Hunt's Tomato Sauce* has been number one in its category for nearly 40 years. Products like *Hunt's All Natural Barbeque Sauce, Manwich* and *Hunt's Ketchup* and canned sauces offer *Hunt's* quality in convenience products. The name *Wesson* means top quality in vegetable, corn and sunflower oils. Beatrice recently introduced *Wesson All Natural* vegetable oil to the marketplace—a technological breakthrough.

Strong national brands and expanded capabilities in sales, research and development and distribution

1 and 5> With market leaders like *Swift Premium* hard salami, *Butterball* fresh and frozen turkeys and *Eckrich* smoked sausage, hot dogs and cold cuts, Beatrice is the country's largest specialty meat company. New products like *Swift's* new *Brown 'N Serve* pre-cooked roll sausage and *Eckrich's Lean Supreme* premium line of low-fat packaged meats and cold cuts offer "The Taste That's Got-Em Talking," as *Eckrich's* new advertising campaign says. With a complete line of deli and foodservice meat products, Beatrice is meeting the demand for convenience and nutrition.

2> *La Choy,* one of our strongest names in grocery products, is the leading brand in the Oriental canned foods market and has a significant presence in the frozen category. With Beatrice's expanded grocery distribution capabilities, *La Choy* will benefit from distribution economies on its full line of Chinese prepared foods for today's on-the-go lifestyle.

3> *Tropicana* strengthened its leadership position in fiscal 1985 as the number one brand in the chilled orange juice category, the fastest growing segment of the market. The *Tropicana* name means the freshest tasting orange juice you can buy.

4> U.S. Food is responding to consumer demand for convenience and quality by marketing premium food and beverage products. As one of the largest and most successful bottlers of *Coca-Cola,* Beatrice Soft Drinks enjoyed its best year ever in fiscal 1985. *Orville Redenbacher* is *the* name in gourmet popcorn. *Fisher* also competes in the growing snack category, with its new *Honey-Roasted Peanuts* and a full line of nut products.

1


LA CHOY
Beef Pepper Oriental
2


PURE PREMIUM
Tropicana
100% PURE
ORANGE JUICE
NET 64 FL. OZ. (2 QUARTS)
3


Coke
FISHER
Mixed Nuts
4


SO PLUMP AND JUICY!
DEEP BASTED
BUTTERBALL
5

"We intend to improve the consumer's life by providing products of superior quality, value and convenience."

CONSUMER PRODUCTS

Consumer Products consists of two groups—Consumer Durables and Personal Products—with major operations in home products, water treatment, luggage, intimate apparel, activewear, health and beauty aids, cosmetics and fragrances. Our full line of innovative products for home and personal use are at the forefront of emerging consumer trends and provide the value that today's consumer wants and deserves. Rapid growth with good returns is the hallmark of the Consumer Products segment. Across a broad range of markets, many of the segment's products hold leadership positions in their categories and are recognized around the world for their fashion, quality and value. With a broad diversity of product lines, Consumer Products provides an important balance to Beatrice for strong, sustainable growth in the consumer products marketplace.

< *(Overleaf) Samsonite,* the number one brand worldwide in luggage, is geared to the fast-paced life of consumers around the world. For example, *Samsonite's* durable *Kicks* soft-side luggage offers the strength and versatility for a business trip or a long-awaited vacation.

Presence in every distribution channel from soft goods to department stores to mass merchandisers.

1 > *Playtex* is one of the world's most widely recognized names in intimate apparel, with products such as *Cross Your Heart, 18-Hour, Support Can Be Beautiful* and *Thank Goodness It Fits. Playtex* expanded its presence in the upscale fashion end of its market with the recent introduction of its new bra under the *WOW* (With-out-Wire) brand name.
2 and 4 > *Stiffel* lamps, *Samsonite* furniture, and *Del Mar* and *LouverDrape* window coverings are great examples of Beatrice's premium quality products that enhance today's home environment. *Samsonite* furniture offers one of the broadest lines of contemporary and traditional products for use in all types of casual settings. *Del Mar* and *LouverDrape,* which both experienced rapid growth in fiscal 1985, are market leaders in window coverings with a complete selection of high-fashion window coverings for both home and commercial settings. The *Stiffel* name on lamps is an assurance of quality that will last throughout the years. *Stiffel* is expanding its number one position in premium quality lamps with a new line of crystal and pharmacy lamps.
3 and 5 > *Almay, Max Factor, Jhirmack* and *Halston/Orlane* products are designed for today's lifestyle. *Almay* is *the* name in the rapidly growing hypo-allergenic cosmetic market, while *Max Factor* cosmetics mean quality, value and glamour for today's fashion-conscious woman. *Jhirmack* hair care products combine professional quality performance with convenience and value. *Halston/Orlane* fragrance and skin care products appeal to the contemporary woman and man who demand, and recognize, premium quality.
6 > *Culligan's Aqua-Clear* is the best-selling drinking water system. The number one name worldwide in water systems, *Culligan* is addressing increasing concerns about water quality with state-of-the-art water system products designed for residential, commercial, industrial and municipal uses.

1


2

3


Stiffel

4

5


NEW!
ALMAY
Super Dry Spray
ALMAY
Enriched Formula Ultralight Moisture Lotion
ALMAY
Protective Formula Nail Enamel


Culligan

6

"Our presence will be felt in a strong and positive way everywhere that our products are sold."

INTERNATIONAL FOOD

The international marketplace represents the greatest opportunity for Beatrice's future growth, and International Food has the marketing strengths to take advantage of this opportunity. The segment continues to develop strong brands that respond to local tastes around the world and actively seeks to strengthen its presence in emerging markets with good growth potential. International Food has operations in more than 30 countries in six broad categories of products and services: dairy, processed meats, snacks and confectionery/baked goods, beverages and fruit juices, food distribution, and grocery products. Over the past 25 years, we have developed one of the broadest international presences of any food company. We believe that International Food will become an increasingly important part of Beatrice.


Beatrice
Beatrice
Beatrice
Beatrice
Beatrice
Beatrice
Cottage Cheese
Creamed Cottage Cheese
Beatrice
FLORIDA
Orange Juice
2 LITRES
Beatrice
PASTEURIZED
Partly Skimmed
2% Milk
Lait Partiellement écrémé
Popsicle

< *(Overleaf)* Creativity in marketing a line of premium, value-added dairy products in Canada has made *Beatrice* the premier name for quality in milk, yogurt, ice cream and cheese products. The steady performance of our Canadian dairy operations has enabled *Beatrice Canada* to expand its presence in other areas of the grocery store, including cookies and soft drinks.

Unique market niches that offer growth opportunities around the world.

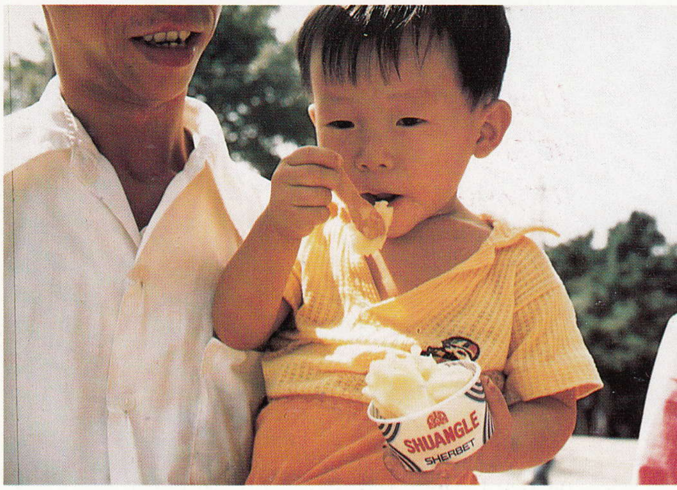
1 > *Beatrice Latin America* expanded its presence in major urban supermarkets with the recent introduction of its innovative *Monstrinho Creck,* or "monster chomp," cookies. Beatrice's strong performance in snacks and confectionery/baked goods products is enabling the company to broaden its base in Latin America into other grocery product categories, including processed meats.
2 > *Red Tulip* is a traditional choice for Australians in the confectionery market. *Beatrice Australia* is building on this strong presence in the marketplace with innovative new products that deliver top quality and value. Besides confectionery, Beatrice has operations in fruit juice, processed meats, frozen entrees and imported gourmet specialties.
3 and 5 > *Beatrice Europe,* under the trade name *FranPrix,* operates the largest network of franchised supermarkets in the Paris metropolitan area. Food distribution forms a steady base from which *Beatrice Europe* markets other quality food products, such as *Stute* jams and fruit juices from Germany.
4 > Beatrice's international business began in the Far East 25 years ago, with its dairy operations in Singapore and Malaysia. *Beatrice Far East* continues to recognize new market opportunities in the region, particularly in Hong Kong, and the Peoples Republic of China. *Guangmei Foods,* our first joint venture in China, celebrated its opening during October 1984. This plant, built from the ground up, is just the start of a greater involvement by Beatrice in the development of this huge market.

1

2


FRANPRIX
SUPER MARCHÉ
FRANPRIX
FRANPRIX

3


SHUANGLE
SHERBET

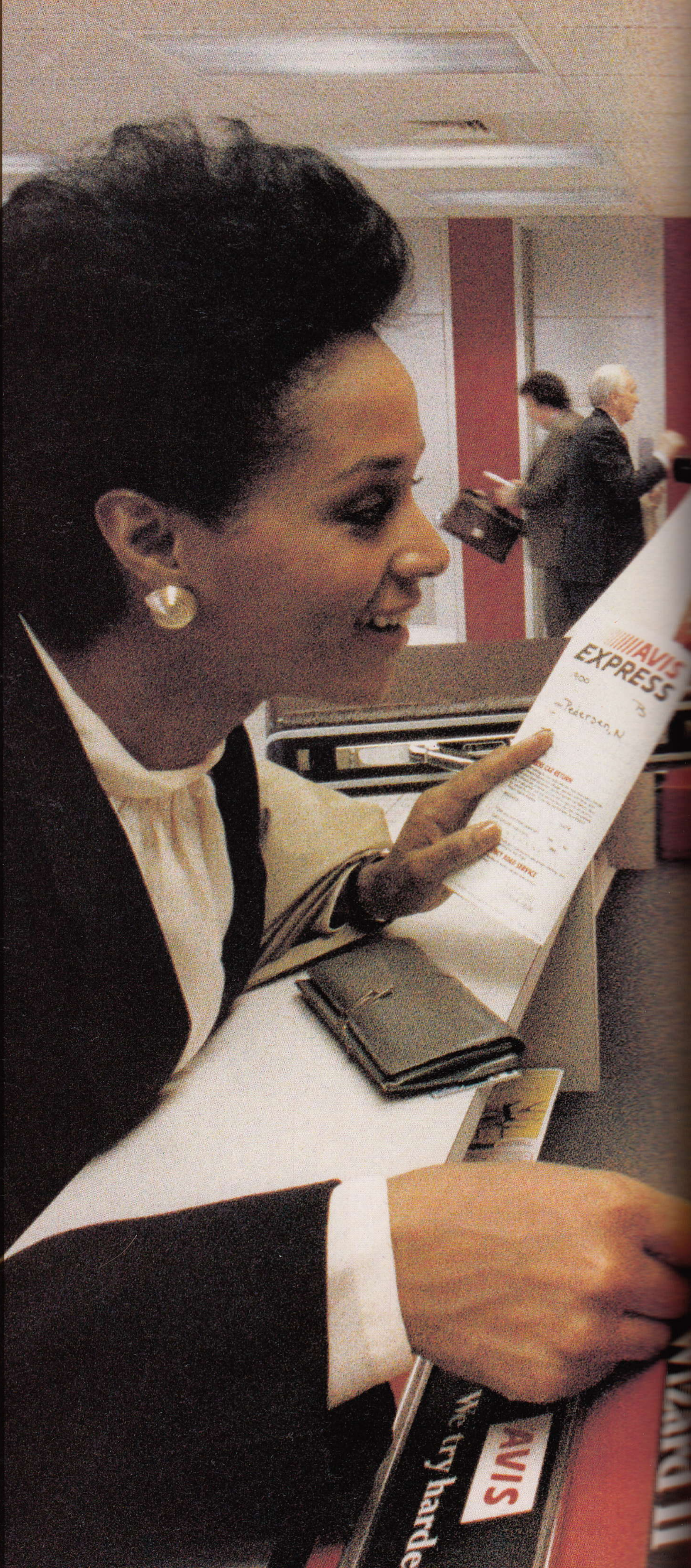
4


STUTE
ORANGEN-SAFT
1 LITER
STUTE
Ananas-Grapefruit Nektar
500 ml
STUTE
Maracuja
Passionsfrucht-Nektar
500 ml
STUTE
Gemüsesaft
STUTE
FINE CUT ORANGE
STUTE

"In meeting this challenge we will constantly break new ground, foster new ideas, develop new technologies and establish new rules in the world marketplace."

AVIS/OTHER OPERATIONS

Avis is an example of Beatrice's ability to identify and capitalize on marketing opportunities worldwide. Consumers can travel almost anywhere in the world and count on *Avis*, one of the most recognized names in car rentals worldwide. *Avis* operates in more than 100 countries, from 3,500 locations, including 1,200 airports, serving busy travelers wherever they are. *Avis'* commitment to speedy, reliable service and state-of-the-art communications capabilities has made it the leading car rental company worldwide and the second largest in the United States.




AVIS
AVIS EXPRESS
We try harder.

BEATRICE PRODUCTS AND SERVICES

U.S. FOOD

GROCERY

Hunt's — Tomato paste, tomato sauce, ketchup and other tomato products, *Manwich* sloppy Joe sauce and *All Natural* barbecue sauce.

Wesson — All natural vegetable, corn and sunflower oils.

Peter Pan — Peanut butter products.

Martha White — Flour, corn meal, convenience baking mixes and dinner mixes.

Rosarita — Canned and frozen Mexican foods: dinners and entrees, sauces, tortillas and refried beans.

Soup Starter / Stew Starter — *Soup Starter* and *Stew Starter.*

REFRIGERATED FOOD

Swift — *Butterball* turkey, turkey breast, and other poultry products; *Brown 'N Serve* breakfast meats; *Sizzlean;* dry sausages, including hard salami and pepperoni, and *Hostess* ham.

Eckrich — Smoked sausage, hot dogs and luncheon meats.

Kneip — Corned beef.

Plume De Veau — Veal products.

BEVERAGE

Coca-Cola, TaB, diet Coke, Sprite — Regional bottlers and distributors of soft drinks in Southern and Central California, Hawaii, Southern Nevada, Missouri, Iowa, Kansas, Illinois, Wisconsin and Nebraska.

Meadow Gold — Milk, butter, ice cream, yogurt, cottage cheese and dairy specialties.

VIVA — Lowfat milk and cottage cheese.

Louis Sherry — Ice cream and frozen desserts.

Beatrice Specialty Products— Powders, emulsifiers, enzymes, food colorings, and other dry ingredients used in various food products.

Beatrice Cold Storage—Denver, Colorado.

Chicago Cold Storage—Chicago, Illinois.

Grand Trunk Warehouse & Cold Storage— Detroit Michigan.

Inland Center—Kansas City, Kansas.

CONSUMER PRODUCTS

PERSONAL PRODUCTS

playtex — Intimate apparel, infant nursers, tampons and rubber gloves.

Danskin — Bodywear, leotards, tights and leg warmers.

Round the Clock — *Round-the-Clock* and *Givenchy* hosiery.

CONSUMER DURABLES

Samsonite — Hard- and soft-side fashion luggage, sold under the *Samsonite* and *Lark* brands.

Stiffel — Brass, crystal and ceramic table lamps and brass floor lamps.

CS — *Chicago Specialty* plumbing repair and remodeling products.

Culligan — Residential, industrial and commercial water treatment equipment and services.

del mar window coverings / Louver Drape — Window shades, one-inch aluminum blinds, wood blinds, vertical blinds, pleated shades, and woven woods.

Aristokraft — Traditional and contemporary kitchen cabinets and bath vanities, sold under *Aristokraft* and *Decora* brands.

INTERNATIONAL FOOD

EUROPE

Campofrio — Sausage, luncheon and specialty meats.

Nuttall's — Confections.

Smith Kendon — Confections.

Callard & Bowser — Confections.

Franprix, Record, Migros — Food distribution.

CANADA

Beatrice — Dairy products.

Colonial — Cookies.

Royal Crest — Yogurt.

LATIN AMERICA

Savoy — Confections and biscuits.

Pernigotti — Confections and snack foods.

Jack's Snacks — Snack foods.

Boquitas Fiestas— Snack foods.

Adisa Snacks — Snack foods.

Hipy — Snack foods.

AUSTRALIA

Red Tulip — Confections.

Molly Bushell — Confections.

Van Camp — Confections.

FAR EAST

Doll Brand — Oriental foods.

Meadow Gold — Dairy products.

Guangmei 廣美 — Snack foods.

AVIS/OTHER OPERATIONS

AVIS — *Avis* is the second largest car rental company in the U.S. and the leading car rental company throughout the world. *Avis* operates in more than 100 countries from 3,500 locations including 1,000 airports.

Orville Redenbacher's Gourmet Popping Corn — Gourmet popping corn, microwave popping corn and popcorn oil.

Swiss Miss — Hot cocoa mix, sugar-free hot cocoa mix, refrigerated puddings, frozen pudding bars and chocolate.

La Choy — Canned and frozen Oriental vegetables, entrees and dinners, soy sauce and egg rolls.

Fisher — Honey-roasted peanuts, salted nuts, reduced-sodium nuts, salt-free nuts and sunflower seeds.

Lowrey's — Meat snacks and beef jerky.

Aunt Nellie's — Glass packed and canned vegetables, sloppy Joe sauce and spaghetti sauce.

FPI Food Producers International — Snack coatings, cheese sauces, fruit fillings, concentrated drink bases and dessert toppings.

Derby — Tamales.

Bonkers — Cat treats.

Tropicana — 100% pure orange, grapefruit and apple juices, as well as juice drinks.

Pauly — Natural cheeses.

Treasure Cave — Blue cheese.

Reddi wip — Whipped cream.

County Line Natural Cheese — Natural cheeses, and cheese spreads.

Swissrose International Inc — Imported cheeses, including *Flora Danica, Papillon, King's Choice, Rupp* and *Metco.*

Mountain High — High quality yogurt.

Arrowhead — Bottled drinking water systems and sparkling water in Southern California.

Great Bear — Bottled drinking water and drinking water systems in the Northeastern United States.

Ozarka Drinking Water — Bottled drinking water and drinking water systems in Texas and other Sunbelt states.

LeHigh Valley Refrigerated Services—Fogelsville, Pennsylvania.

Quincy Market Cold Storage—Watertown, Massachusetts.

Tampa Cold Storage—Tampa, Florida.

Termicold—Portland, Oregon.

Terminal Refrigerating—Los Angeles, California.

Max Factor — Cosmetics and fragrances.

Halston / Orlane Paris — Fragrances and skin care products.

Jhirmack — Hair care products.

Almay — Hypo-allergenic cosmetics and skin care products.

Samsonite — Patio furniture, folding chairs and tables and office contract specialty furniture.

Day-Timers — Time management planners and diaries.

Waterloo Industries — Tool boxes and chests, work benches, medical/health care products. Sold under the *All-American* and private label brands.

Rusty Jones provides a system of professional automotive appearance services marketed primarily through its network of new car dealers.

Webcraft — Specialty printing and paper products.

Sanson — Ice cream.

Premier is — Ice cream.

Artic / Kalise — Ice cream.

Stute — Jams and fruit juices.

La Menorquina — Ice cream.

Choky — Hot chocolate.

Tayto snack foods.

Beatrice Olde Fashioned Recipe — Ice cream.

Blue Boy — Ice cream.

Coca-Cola, Tab, diet Coke, Sprite — Regional distributors of soft drinks in Western Canada.

Holanda — Ice cream and ice cream stores.

Payco — Ice cream and novelties.

Cremo — Milk and ice cream.

Aliiram — Biscuits and confections.

Wilson — Specialty meats.

Adams International — Snack food machinery.

Europe — Food bars.

Baron's Table — Specialty meats.

patra — Fruit juices and drinks.

Bireley's — Juice drinks.

Meeting the needs of consumers around the world with top quality food and consumer products.

Beatrice

"The common theme that runs through all the uncommon efforts of the Beatrice family is our unfailing commitment to quality and value."

BEATRICE EMPLOYEES

Becoming the premier world-wide marketer of food and consumer products takes drive, determination and a desire to excel. These are the strengths of Beatrice employees, whose total dedication to the consumer have established a tradition of providing quality and value in the consumer marketplace. As the company moves forward to accomplish its marketing goals, Beatrice will continue to build on the strengths of its people. The Beatrice Mission Statement underscores the commitment of Beatrice employees and sets a clear direction—straight ahead—for the entire company. Through the hard work and originality of its people, Beatrice is meeting the challenge of the world marketplace.


County Line
Cheddar
County Line
Cheddar

THE BEATRICE MISSION

We have a bold mission. It will challenge us.
It will test us. Nothing else is worthy of Beatrice.
Nothing else will reward us more.

Over the next five years, Beatrice will emerge
as the world's premier marketer of food and consumer products...
the power in the consumer marketplace,
wherever we choose to compete.
Each of our brands will be a leader in its category.

Our first priority will be total dedication
to anticipating and satisfying consumer needs. We intend to improve
the consumer's life by providing products of superior quality,
value and convenience. We will place the consumer first in every decision
we make and in everything we do.
Only this course of action will enable us to satisfy the needs
of our employees for personal growth and meaningful careers.
Only this course will enable our suppliers, distributors,
trade partners and shareholders to prosper along with us.

The common theme that runs through all
the uncommon efforts of the Beatrice family
is our unfailing commitment to quality and value.
In meeting this challenge we will constantly break new ground,
foster new ideas, develop new technologies
and establish new rules in the world marketplace.
Our presence will be felt in a strong and positive way
everywhere that our products are sold.
This dedication extends to a true concern for the well-being
of all the communities in which we operate.

Quality...value...dedication to the consumer...
a commitment to excellence and originality... maintaining
our obligations to our employees, our shareholders,
our suppliers, distributors, trading partners and to our communities.

These are the solid cornerstones
on which the future of Beatrice will be built.
These are the standards by which all of us will be judged.


FISHER
Dry Roasted
Peanuts
NET WT. 16 OZ. (1 LB.) (454g)
Beatrice
Meadow Gold
New'n Very
Triple Chocolate
ICE CREAM
Beatrice
LA CHOY
Tropicana
PURE PREMIUM
100% PURE FLORIDA PASTEURIZED ORANGE JUICE
TROPIC-ANA
VACUUM PACKED
EXTRA FRESH!
ORVILLE REDENBACHER'S
GOURMET
POPPING CORN
NET WT. 45 OZ. (2 LBS. 13 OZ.) 1.28kg
CREAMY
32 oz.
All Natural
PREMIUM QUALITY
HOMEMADE
SOUP
STARTER
Rosarita
12 TACO SHELLS, TACO SAUCE
AND TACO SEASONING MIX FOR
TACO DINNER
Hunt's
SO PLUMP AND JUICY!
DEEP BASTED
BUTTERBALL
YOUNG
TURKEY
ECKRICH
LEAN
SUPREME
LESS FAT
FEWER CALORIES
Beatrice
NEW! ALL NATURAL
WESSON
LIGHT & NATURAL
TASTES LIGHTER • NO ADDITIVES
NO CHOLESTEROL • NO SALT
Swift
Premium
Brown'N Serve
SAUSAGE
Hunt's
Reddi-wip
Hunt's
tomato
sauce
ARROWHEAD
Mountain Spring
Water
diet Coke
diet Coke
diet Coke
Swiss Miss
HOT COCOA MIX
Milk Chocolate
FLAVOR

For some time we have provided an opportunity to sample some of our many fine products by including coupons in our annual and quarterly reports. This program has been a great success. This year we are including nine coupons offering special savings on some of our finest products and services. These brands symbolize the quality and value of all our products.
We encourage you to use these coupons.

25¢ OFF

"Tropicana™... for the fresh squeezed taste
25¢ off on any carton of Tropicana™ Orange Juice

RETAILER: We will reimburse you for the face amount of the coupon plus 8¢ per coupon for handling provided you and the consumer have complied with the terms of this offer. Presentation for redemption without such compliance constitutes fraud. Invoices proving purchase of sufficient stock of our brand(s) to cover coupons presented for redemption must be shown upon request. Consumer must pay any sales tax. Coupon may not be transferred or assigned and is void where its use is prohibited, taxed or otherwise restricted. Cash value 1/20 of one cent. This offer is limited to one coupon per purchase. Redeem by mailing to Beatrice Companies, Inc., P.O. Box 3185, Elm City, NC 27898. Coupon must be forwarded to clearing house within 60 days of expiration date. **OFFER EXPIRES APRIL 30, 1986.**

MANUFACTURER'S COUPON 20033

25¢ OFF

25¢ off on Swift Premium® Brown 'N Serve™ Roll Sausage

RETAILER: As our agent, please redeem for face value as specified. Any other use constitutes fraud. You will be paid face value plus 8¢ for handling, provided you and your customer have complied with the terms of this offer and invoices showing purchases sufficient to cover coupons are shown on request. Send coupons to Beatrice Companies, Inc., P.O. Box 3185, Elm City, NC 27890. Not to be sold, non reproducible. Customers must pay any sales tax. VOID where taxed, restricted or prohibited. Cash redemption value 1/20 of one cent. Limit one coupon per purchase. © 1985 Beatrice Meats Co.
OFFER EXPIRES APRIL 30, 1986

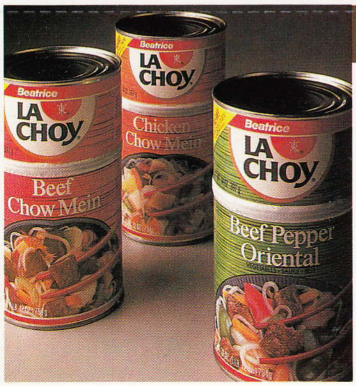
MANUFACTURER'S COUPON 38010

25¢ OFF

25¢ off on the purchase of new Wesson® Corn Oil

RETAILER: This coupon will be redeemed at face value plus 8¢ for handling if used in accordance with the offer stated hereon. Coupon is void if taxed, prohibited or restricted by law. Cash value of 1/100 of a cent. Valid only in the U.S.A. This coupon not assignable or transferable. Mail coupon to Beatrice Companies, Inc., P.O. Box. 3185, Elm City, NC 27898. Offer limited to one coupon per purchase.
OFFER EXPIRES APRIL 30, 1986

MANUFACTURER'S COUPON 95138



25¢ OFF

25¢ off on any of these La Choy® Oriental dinners

RETAILER: This coupon will be redeemed at face value plus 8¢ for handling if used in accordance with the offer stated hereon. Coupon is void if taxed, prohibited or restricted by law. Cash value of 1/100 of a cent. Valid only in the U.S.A. This coupon not assignable or transferable. Mail coupon to Beatrice Companies, Inc., P.O. Box. 3185, Elm City, NC 27898. Offer limited to one coupon per purchase.
OFFER EXPIRES APRIL 30, 1986

MANUFACTURER'S COUPON 68061

25¢ OFF

25¢ off on any package of Swiss Miss® Hot Cocoa Mix

RETAILER: This coupon will be redeemed at face value plus 8¢ for handling if used in accordance with the offer stated hereon. Coupon is void if taxed, prohibited or restricted by law. Cash value of 1/100 of a cent. Valid only in the U.S.A. This coupon not assignable or transferable. Mail coupon to Beatrice Companies, Inc., P.O. Box. 3185, Elm City, NC 27898. Offer limited to one coupon per purchase.
OFFER EXPIRES APRIL 30, 1986

MANUFACTURER'S COUPON

80074

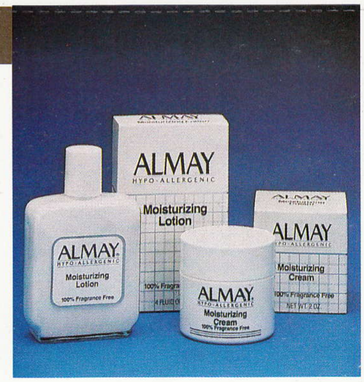
$1.00 OFF

$1.00 Off on a purchase of Almay® hypo-allergenic Moisturizer 2 oz. cream or 4 oz. lotion

RETAILER: Reimbursement is face value plus 8¢ handling. Limit one coupon per purchase. Good only in U.S.A. Misredemption or other uses are fraud. Coupon void if copied, transferred, prohibited, taxed, or restricted. Proof of purchase required on request. Consumer pays sales tax. Cash value 1/20 of one cent. International Playtex, Inc., Dept. 5951, El Paso, TX 79966.
OFFER EXPIRES APRIL 30, 1986.

MANUFACTURER'S COUPON

78300 200298



$50 OFF

$50.00 Off with purchase or *free* first month rental on a Culligan Drinking Water System!

Customer Name __________

Address __________

City __________ State ______ Zip ______

Dealer/Location __________

To receive your rebate, complete this form and take it to your local Culligan dealer. New customers only—12-month contract on rental. **Offer good through April 30, 1986.** Void where prohibited, taxed or otherwise restricted. Allow 6-8 weeks for rebate. One coupon per customer order.

SAVE UP TO $117

Save up to $117.00 on Samsonite® Velocé Leather Attaches

ITEM	SUGGESTED LIST	COST*	QUANTITY Brown	QUANTITY Burgundy	TOTAL
3″ Expandable Leather Attache	$265.00	**$159.00**			
4″ Expandable Leather Attache	$280.00	**$168.00**			
Add $5.00 per attache for freight and handling costs.		$ 5.00 X			
				Total Order	$

- Allow four weeks for delivery. **Offer expires April 30, 1986.**
- Offer only good in the Continental United States.

Name __________

Address __________

City __________

State ______ Zip ______

MAIL THIS COUPON AND A CHECK OR MONEY ORDER TO:
SAMSONITE CORPORATION
Code 123
11200 E. 45th Avenue
Denver, CO 80239

SAVE $650

Save $650.00 on Samsonite Charleston Casual Furniture

Enjoy the classic traditional styling and rugged durability of Charleston casual furniture by Samsonite. The five piece set consists of four fan back chairs and a 48″ round glass dining table. Chair fabrics come in your choice of Shoreline Blue (pictured) or Ivy Terrace (pastel striped).

We will deliver this set to your home for only **$800** freight prepaid...a savings of $650 from the suggested retail price of $1,450. Limit one set per coupon. **Offer expires April 30, 1986.** Allow six weeks for delivery.

Name __________

Address __________

City __________

State ______ Zip ______

MAIL THIS COUPON AND A CHECK OR MONEY ORDER FOR **$800** TO:
SAMSONITE FURNITURE
ATTN: Beatrice Customer Service
P.O. Box 189
Murfreesboro, IN 37133-0189


Culligan
Stiffel
Samsonite
HALSTON
BODY REFRESHER
ALMAY
HYPO-ALLERGENIC
Deep Mist
Purifying
Freshener
For Dry Skin
ALMAY
Protective Formula
Nail Enamel
Jhirmack
pH balanced
GELÁVE
gel shampoo
for normal hair
with nucleic acids
no phosphates
ALMAY
HYPO-ALLERGENIC
Deep Mist
Cleansing Cream
For Dry Skin
WHIPPED CREME
MOISTURE RICH
FLUID MAKE-UP
MAX FACTOR
Maxi
Run-Resist Sandal Toe
Sheer Leg
Panty Top
Round
the
Playtex
Support
can be
Beautiful
SEAMLESS UNDERWIRE BRA
playtex
Pre-Sterilized
Disposable
Bottles
Body Gleamers

FINANCIAL REVIEW

NET SALES AND EARNINGS BY BUSINESS SEGMENT

(In millions) Years ended February 1985, 1984 and 1983	1985 Sales	1985 Earnings	1984 Sales	1984 Earnings	1983 Sales	1983 Earnings
U.S. Food	$ 6,270	$372	$4,095	$338	$3,770	$304
Consumer Products	1,953	201	948	133	837	117
International Food	1,852	101	1,732	105	1,758	124
Avis/Other Operations	821	64	28	—	33	(1)
	10,896	738	6,803	576	6,398	544
Businesses divested through fiscal 1985	1,699	174	2,524	228	2,741	217
Total segments	$12,595	912	$9,327	804	$9,139	761
Unallocated operating expense		(132)		(106)		(75)
Gross operating margin		$780		$698		$686

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

OPERATIONS

The discussion of segment results reflects the new organizational structure announced by Beatrice in June 1984 and addresses Beatrice businesses at February 1985. Under the new structure, the combined Beatrice and newly acquired Esmark operations are divided into four major segments: U.S. Food, Consumer Products, International Food and Avis/Other Operations.

FISCAL 1985 COMPARED WITH FISCAL 1984

Summary Net sales rose 35 percent to $12.6 billion, compared with $9.3 billion a year ago. Net earnings rose 11 percent to $479 million after-tax compared with $433 million last year. Net earnings in both years included after-tax income from Business Realignment activity. In fiscal 1985, Business Realignment activity included pre-tax gains from the sale of various operations totaling $700 million. These gains were partially offset by a pre-tax charge of $286 million established for the anticipated costs of restructuring Beatrice's businesses following the acquisition of Esmark.

Excluding Business Realignment activity, earnings were $259 million, down 22 percent from $334 million a year ago. On a per share basis, such earnings declined at a slower rate because fewer common shares were outstanding during fiscal 1985. Related primary earnings per share of $2.66 were down 18 percent from $3.23 in fiscal 1984. The declines are primarily due to the costs associated with the acquisition of Esmark, significantly higher advertising and sales promotion expenses, and the absence of earnings from divested operations. These factors more than offset the earnings from the Esmark operations acquired in 1985.

Segment Results U.S. Food sales reached $6.3 billion, up 53 percent from $4.1 billion a year ago. The increase was due to the inclusion of acquired Esmark operations, increased demand in soft drinks and bottled waters, new product introductions and significantly higher selling prices in fruit juices operations.

U.S. Food segment earnings rose 10 percent due to the inclusion of acquired operations, and volume gains in soft drinks and bottled waters. These factors more than offset lower margins in the grocery, cheese, meats and fruit juices operations resulting from significantly higher advertising and sales promotion expenses and higher raw material prices.

Consumer Products sales increased 106 percent to $2.0 billion compared with $948 million a year ago. The increase is due to the inclusion of the Esmark personal products operations and volume gains in most consumer durable operations as a result of improved consumer demand and strong marketing efforts.

Consumer Products segment earnings increased 51 percent to $201 million compared with $133 million a year ago due to the inclusion of Esmark operations and earnings increases in home products, window coverings, water treatment and direct marketing operations. Luggage operations experienced a decline in earnings due to lower margins as unit volume gains and selling price increases could not offset higher production costs and selling and marketing expenses. Segment earnings were reduced by a $32 million pre-tax charge arising from costs, including the costs of a product exchange program, associated with the tampon business of International Playtex, Inc.

International Food sales rose 7 percent to $1.9 billion, compared with $1.7 billion a year ago. The increase in sales is primarily due to the inclusion of operations acquired during the year and at the end of last year.

International Food segment earnings were $101 million, 4 percent lower than the $105 million posted a year ago. Lower foreign currency translation rates accounted for the decline. Canada and Australia reported strong increases in segment earnings due to aggressive marketing efforts which resulted in increased demand. Europe and Latin America posted earnings increases in local currencies largely due to the inclusion of earnings from acquired operations and higher selling prices which more than offset higher production costs.

Avis/Other Operations reported sales and operating revenues of $821 million and segment earnings of $64 million. The increase in sales and earnings for the Avis/Other Operations segment primarily reflects the inclusion of the Avis vehicle rental business obtained in the acquisition of Esmark. The vehicle rental business is seasonal in nature; therefore, the results of operations for Avis are not representative of a full year's results.

Total segment sales and earnings, excluding businesses divested through fiscal 1985, increased 60 percent and 28 percent to $10.9 billion and $738 million, respectively. Total segment sales and earnings increased 35 percent and 13 percent to $12.6 billion and $912 million, respectively.

Other Results Unallocated operating expense increased $26 million primarily due to new program costs associated with corporate functions supporting Beatrice's increased marketing efforts. Ongoing costs of this nature will be absorbed by the appropriate segment. The addition of unallocated operating expense from Esmark operations also contributed to the increase.

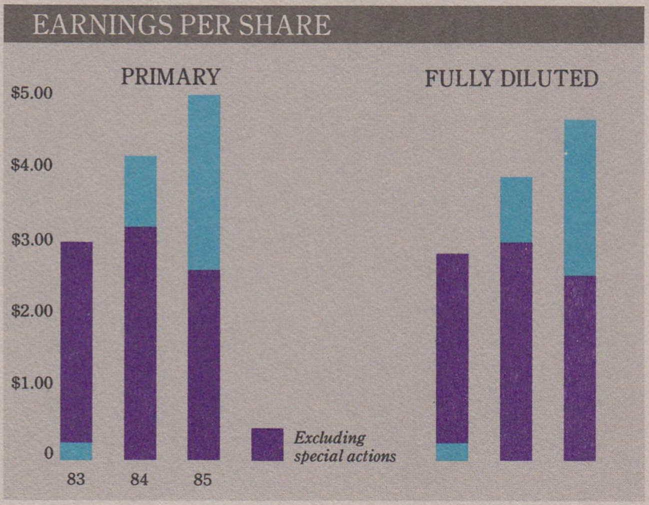
Net interest, exclusive of interest expense related to Prime Vehicle Trust, increased $253 million as a result of the debt incurred to finance the acquisition of Esmark, the inclusion of Esmark's net interest and the financing of the December 1983 stock repurchase program.

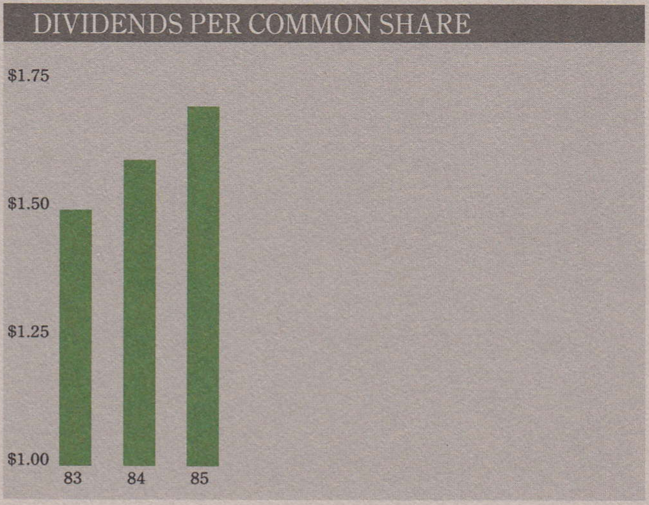
Interest expense of Prime Vehicle Trust totaled $67 million and directly related to the Avis vehicle rental business acquired with Esmark.

Business Realignment activity for fiscal 1985 resulted in pre-tax income of $414 million as compared with pre-tax income of $163 million in fiscal 1984. Fiscal 1985 divestiture activities resulted in gains of $700 million (after loss provisions of $45 million) and included divestitures of Beatrice's chemical, wine and spirits, foodservice equipment, foundry, bakery and cookies, leather, agri-products, specialty apparel, graphic arts, and cryogenic businesses. Following the Esmark acquisition, businesses serving specific market groups are being integrated and restructured. A pre-tax charge of $286 million for the anticipated costs of the integration and restructuring, which pertain to food businesses owned by Beatrice prior to the acquisition of Esmark, was recorded as a reduction of Business Realignment income in fiscal 1985. For fiscal 1984, the components of Business Realignment income of $163 million pre-tax were $125 million of pre-tax gains from the sale of businesses and a $38 million pre-tax reduction of the previously established Business Realignment reserve.

Other Income in fiscal 1985 includes a $19 million non-taxable gain from the early retirement of a portion of Beatrice's outstanding sinking fund debentures in exchange for 1.5 million shares of a new series of convertible adjustable preference stock during the second quarter.

The provision for income taxes in both years was affected by the taxes related to Business Realignment income. Fiscal 1985 income taxes were also affected by the nontaxable gain from the exchange of debentures for preference stock and by the reversal of $17 million of deferred taxes related to Beatrice's DISC. The income tax note included in Notes to Consolidated Financial Statements provides additional information on income taxes.





FISCAL 1984 COMPARED WITH FISCAL 1983

Summary Net sales increased 2 percent to $9.3 billion while segment earnings, excluding operations divested through February 1985, increased 6 percent to $576 million. Business Realignment activity resulted in after-tax income of $99 million in fiscal 1984 and after-tax charges of $99 million in fiscal 1983. Net earnings for fiscal 1983 also included charges of $188 million for goodwill write-downs, primarily attributable to fruit juices operations. Excluding Business Realignment activity in both years and the goodwill write-down in fiscal 1983, net earnings rose to $334 million in fiscal 1984 from $330 million in fiscal 1983.

Segment Results U.S. Food net sales rose 9 percent to $4.1 billion while segment earnings increased 11 percent to $338 million. Unit volume gains at fruit juices operations and new product introductions and acquisition of new Coca-Cola franchise territories at soft drinks operations were primarily responsible for the increases. An acquisition in late fiscal 1983 of additional warehousing operations also contributed to the increases. The earnings increase was partially offset by lower earnings at grocery and cheese operations due to heightened competition and significantly higher selling and marketing expenses to increase brand awareness, fund new products and broaden distribution throughout the segment.

Consumer Products net sales increased 13 percent to $948 million, while group earnings increased 14 percent to $133 million. Unit volume gains in most areas favorably influenced results, more than offsetting the effects of lower currency exchange rates. Significant sales and earnings gains were recorded at home products and direct marketing operations as a result of strong consumer demand.

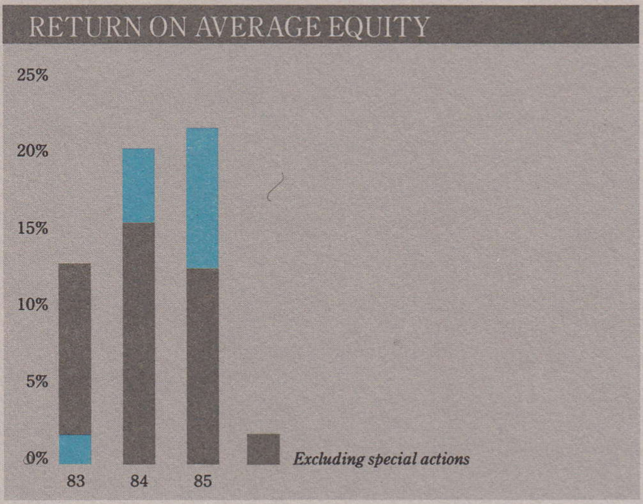
International Food reported a 1 percent decline in net sales to $1.7 billion and a 15 percent decline in earnings to $105 million. The strength of the U.S. dollar against most other currencies, especially those of Latin American countries, was responsible for the sales and earnings declines and substantially exceeded increases in volume and selling prices. In addition, a deterioration of economic conditions in Latin America adversely affected results. Despite the adverse currency translation effects, European operations posted an increase in earnings due to the acquisition of a producer of fruit juices and preserves in West Germany.

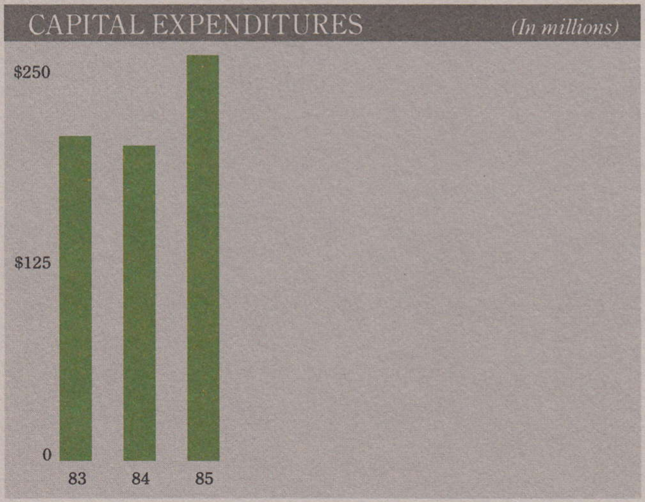
Other Results Unallocated operating expense increased $31 million primarily attributable to new corporate functions supporting Beatrice's new marketing focus. Beatrice incurred $7 million of promotion and discount coupon expense related to a campaign to establish Beatrice's new corporate identity during the 1984 Winter Olympics.

Net interest expense increased as a result of a reduction in marketable securities and notes receivable. The average level of borrowings and interest rates remained relatively stable during the year.

For fiscal 1984, the components of Business Realignment activity of $163 million pre-tax were $125 million of pre-tax gains from the divestiture of businesses and a $38 million pre-tax reduction of the Business Realignment reserve. Business Realignment activity for fiscal 1983 consisted of a pre-tax charge of $140 million for divestiture activities and a pre-tax charge of $30 million for a voluntary early retirement program.

The provision for income taxes for both years was significantly affected by the taxes related to Business Realignment activity and the $188 million charge for goodwill write-downs in fiscal 1983. The income tax note included in Notes to Consolidated Financial Statements provides additional information on income taxes.





FINANCIAL CONDITION AND INFLATION

Internal Funds In fiscal 1985, a large increase in debt was required to finance the Esmark acquisition. During fiscal years 1985, 1984 and 1983, Beatrice's other financing needs were met primarily from operations. Cash provided by operations was $659 million in fiscal 1985, $725 million in fiscal 1984 and $635 million in fiscal 1983. Other sources of funds during these years include proceeds from the sale of divested operations.

During the three-year period, significant funds were used for the acquisition of Esmark in 1985, the purchase of treasury stock in 1984, the acquisition of businesses in 1983 and capital expenditures and dividends in all three years. Operations are expected to contribute substantial funds in fiscal 1986 with divestitures contributing significant additional amounts to help further reduce the debt incurred to acquire Esmark.

Working Capital At the end of fiscal 1985, current assets exceeded current liabilities by $611 million, a decrease of $82 million from the prior fiscal year-end. This decrease is primarily attributable to the effects on current assets and liabilities, including the increase in short-term debt, resulting from the Esmark acquisition and to increases in the Business Realignment reserve for anticipated costs to restructure certain Beatrice businesses.

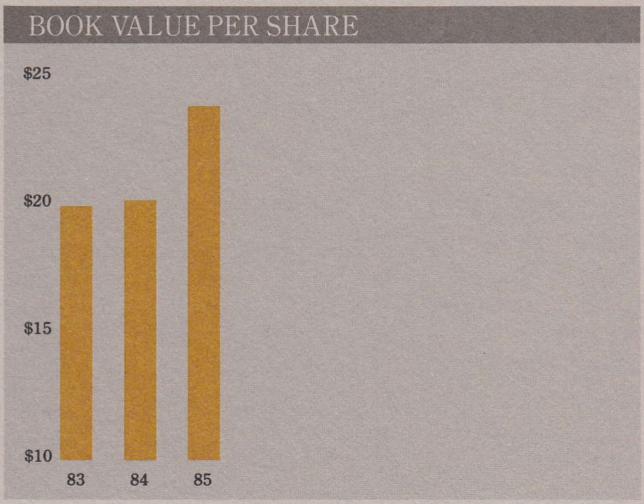
Capital Expenditures Net capital expenditures increased in fiscal 1985 to $265 million from $208 million in fiscal 1984 and $211 million in fiscal 1983. In fiscal 1985 this total includes expenditures of the Esmark businesses for the last eight months of the year.

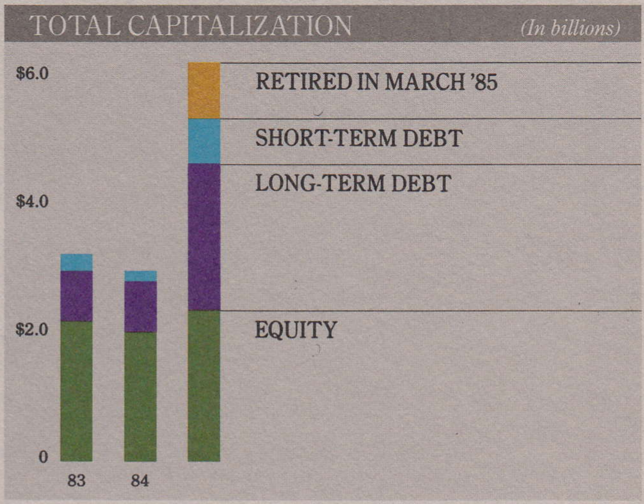
Leverage and Credit Availability The total debt to equity ratio increased from 49 percent at the end of fiscal 1984 to 199 percent at the end of fiscal 1985 as a result of the Esmark acquisition. This ratio was reduced to approximately 163 percent in March 1985. This ratio should continue to decrease as proceeds are received from additional divestitures.

In connection with the Esmark acquisition, Beatrice announced it would retire a portion of the debt incurred for the Esmark acquisition with $2 billion of proceeds from future divestitures expected over a two-year period. Through March 1985 approximately $1.4 billion of cash proceeds have been received from divestitures and debt reduced by approximately $1.3 billion. During fiscal 1985, $320 million of long-term debt was issued to retire short-term debt. Beatrice also retired approximately $93 million of debt in exchange for 1.5 million shares of a new series of preference stock.

During fiscal 1985, Beatrice had various credit facilities in place to fund the Esmark acquisition and normal seasonal requirements. At the end of fiscal 1985, Beatrice had $550 million committed lines of credit under revolving credit agreements and $317 million informal lines of credit in addition to a $2.5 billion four-year revolving credit facility. In April 1985, the $2.5 billion facility was replaced with a three-year $1.2 billion Note Placement and Swing Line Facility with a group of banks for the issuance of short-term notes as needs arise. This facility supports the commercial paper borrowings which Beatrice has issued to fund the Esmark acquisition and other needs. Beatrice believes its credit facilities are adequate for its requirements.

Inflation Inflation in the U.S. was not as significant a concern as it was in the previous few years. However, in certain other countries where Beatrice does business, inflation is still an important issue. Management throughout the world continuously attempts to counteract the effects of inflation with various productivity improvement and cost reduction programs.





ELEVEN YEAR REVIEW*

(Dollars in millions except per share data) Fiscal years ended February	1985	1984	1983
Net sales and operating revenues	$12,595	$9,327	$9,139
Operating expenses	11,815	8,629	8,453
Gross operating margin	780	698	686
Interest expense	(449)	(113)	(114)
Interest and other income (expense)	507	218	(300)
Pre-tax earnings	838	803	272
Income taxes	349	360	216
Earnings before minority interests and special items	489	443	56
Minority interests	(10)	(10)	(13)
Special items	—	—	—
Net earnings	$ 479	$ 433	$ 43
Total assets	$10,379	$4,464	$4,732
Long-term debt	$ 2,587	$ 779	$ 772
PER COMMON SHARE			
Earnings:			
Primary	$ 5.06	$ 4.23	$ .27
Fully diluted	$ 4.77	$ 3.99	$ .27
Dividends	$ 1.70	$ 1.60	$ 1.50
Book value	$ 23.07	$20.06	$19.77
Market price:			
High	$ 35.38	$36.00	$25.13
Low	$ 24.88	$24.13	$18.00
RATIOS/PERCENTAGES			
Current assets to current liabilities	1.14:1	1.55:1	1.60:1
Pre-tax return on sales	6.7%	8.6%	3.0%
After-tax return on sales	3.8%	4.6%	.5%
Effective tax rate	41.7%	44.9%	79.5%
Dividend payout rate	33.6%	37.8%	555.6%
Return on average equity	21.8%	20.4%	1.9%
Long-term debt to equity	109.8%	38.4%	34.9%
SUPPLEMENTAL DATA EXCLUDING SPECIAL ACTIONS***			
Earnings per common share:			
Primary	$ 2.66	$ 3.23	$ 3.15
Fully diluted	$ 2.59	$ 3.08	$ 2.99
Pre-tax return on sales	3.4%	6.9%	6.9%
After-tax return on sales	2.1%	3.6%	3.6%
Effective tax rate	36.5%	46.2%	45.6%
Dividend payout rate	63.9%	49.5%	50.8%
Return on average equity	12.7%	15.8%	15.2%

1982	1981	1980	1979	1978	1977	1976	1975
$9,021	$8,773	$8,291	$7,479	$6,522	$5,745	$5,174	$4,785
8,371	8,099	7,655	6,907	6,035	5,320	4,812	4,456
650	674	636	572	487	425	362	329
(90)	(96)	(91)	(73)	(58)	(34)	(37)	(35)
65	41	40	22	26	20	21	16
625	619	585	521	455	411	346	310
299	302	286	251	221	198	166	147
326	317	299	270	234	213	180	163
(13)	(13)	(9)	(8)	(7)	(7)	(5)	(4)
77**	—	—	—	—	—	—	—
$ 390	$ 304	$ 290	$ 262	$ 227	$ 206	$ 175	$ 159
$4,744	$4,237	$3,980	$3,674	$2,857	$2,371	$2,076	$1,934
$ 759	$ 691	$ 659	$ 679	$ 486	$ 294	$ 299	$ 315
$ 3.02**	$ 2.94	$ 2.81	$ 2.60	$ 2.35	$ 2.15	$ 1.84	$ 1.68
$ 2.87**	$ 2.79	$ 2.67	$ 2.51	$ 2.30	$ 2.09	$ 1.79	$ 1.63
$ 1.40	$ 1.30	$ 1.20	$ 1.08	$ .96	$ .82	$ .74	$ .68½
$21.95	$19.63	$17.95	$16.32	$14.70	$13.24	$11.70	$10.48
$23.50	$24.50	$24.25	$28.25	$26.13	$28.50	$25.88	$22.63
$16.75	$16.25	$18.50	$21.50	$22.00	$21.50	$18.00	$12.13
1.73:1	2.13:1	1.96:1	2.00:1	2.12:1	2.22:1	2.39:1	2.38:1
6.9%**	7.1%	7.1%	7.0%	7.0%	7.2%	6.7%	6.5%
3.5%**	3.5%	3.5%	3.5%	3.5%	3.6%	3.4%	3.3%
47.7%**	48.7%	48.8%	48.1%	48.6%	48.3%	48.0%	47.4%
46.4%**	44.2%	42.7%	41.5%	39.8%	38.5%	39.8%	40.4%
13.6%**	14.5%	15.1%	16.1%	16.9%	17.2%	16.4%	16.6%
31.3%	31.7%	32.9%	36.9%	34.3%	23.1%	26.7%	31.2%

*Amounts have not been restated for capitalization of leases prior to fiscal 1978, change to LIFO method for valuing inventories prior to fiscal 1982 and change in foreign currency translation method prior to fiscal 1983.

**Special items in fiscal 1982 include gain on the sale of the Dannon business and cumulative effect of accounting change for investment tax credit. Per share data and percentages are computed before these special items.

***Special actions relate primarily to the Business Realignment Program, which includes gains and losses from divestiture activities (fiscal 1985—$700 million pre-tax, $386 million after-tax; fiscal 1984—$163 million pre-tax, $99 million after-tax; fiscal 1983—$140 million pre-tax, $84 million after-tax) and other charges (fiscal 1985—$286 million pre-tax, $166 million after-tax for integration and restructuring of businesses; fiscal 1983—$30 million pre-tax, $15 million after-tax for early retirement program). In 1983 special actions include charges of $188 million for goodwill write-down.

CONSOLIDATED BALANCE SHEET

(In millions)

ASSETS As of February	1985	1984
Current assets:		
Cash	$ 126	$ 67
Short-term investments, at cost which approximates market	222	65
Divestiture proceeds received in March 1985	855	—
Receivables, less allowance for doubtful accounts of $52 (1984—$30)	1,201	906
Inventories	1,418	819
Rental vehicles	846	—
Other current assets	375	101
Total current assets	5,043	1,958
Investments in affiliated companies	246	75
Net property, plant and equipment	2,198	1,559
Unallocated purchase cost	1,924	—
Intangible assets, principally goodwill	683	741
Other noncurrent assets	285	131
	$10,379	$4,464

LIABILITIES AND STOCKHOLDERS' EQUITY	1985	1984
Current liabilities:		
Short-term debt and current portion of long-term debt:		
Retired in March 1985 with divestiture proceeds	$ 855	$ —
Prime Vehicle Trust	538	—
Other	715	212
Accounts payable	1,020	583
Accrued expenses	1,304	470
Total current liabilities	4,432	1,265
Long-term debt, exclusive of Prime Vehicle Trust	2,316	779
Long-term debt of Prime Vehicle Trust	271	—
Other noncurrent liabilities	549	176
Noncurrent and deferred income taxes	374	159
Minority interests	80	57
Stockholders' equity:		
Preference stock (at stated values)	243	194
Common stock (at $1.85 stated value)	189	189
Additional capital	180	178
Retained earnings	2,304	2,005
Common stock in treasury, at cost	(344)	(353)
Cumulative foreign currency translation adjustment	(215)	(185)
Total stockholders' equity	2,357	2,028
	$10,379	$4,464

See Notes to Consolidated Financial Statements.

Statement of CONSOLIDATED EARNINGS

(In millions except per share data)

Years ended February	1985	1984	1983
Net sales and operating revenues	$12,595	$9,327	$9,139
Operating expenses:			
Cost of sales and operating revenues, excluding depreciation	8,789	6,664	6,597
Selling and administrative expenses, excluding depreciation	2,761	1,771	1,674
Depreciation	265	194	182
Total operating expenses	11,815	8,629	8,453
Gross operating margin	780	698	686
Other income (expense):			
Interest income	55	39	46
Interest expense, exclusive of Prime Vehicle Trust	(382)	(113)	(114)
Interest expense of Prime Vehicle Trust	(67)	—	—
Business Realignment	414	163	(170)
Goodwill write-down	—	—	(188)
Other, net	38	16	12
Total other income (expense)	58	105	(414)
Earnings before income taxes and minority interests	838	803	272
Provision for income taxes	349	360	216
Earnings before minority interests	489	443	56
Minority interests	(10)	(10)	(13)
Net earnings	$ 479	$ 433	$ 43
Earnings per share:			
Primary	$ 5.06	$ 4.23	$ .27
Fully diluted	$ 4.77	$ 3.99	$ .27

See Notes to Consolidated Financial Statements.

Statement of CONSOLIDATED STOCKHOLDERS' EQUITY

Years ended February 1985, 1984 and 1983	NUMBER OF SHARES* (In thousands) Preference stock	Issued common stock	Common stock in treasury	STOCKHOLDERS' EQUITY (In millions) Preference stock	Issued common stock	Additional capital	Retained earnings	Common stock in treasury	Cumulative foreign currency translation adjustment
Balance, February 1982	5,001	98,544	105	$259	$182	$107	$1,874	$ (1)	$ —
Net earnings	—	—	—	—	—	—	43	—	—
Conversion of preference stock	(104)	—	(205)	(5)	—	3	—	2	—
Conversion of debentures	—	—	(106)	—	—	—	—	3	—
Stock contributed to employee stock benefit plans, (forfeitures shown as treasury stock)	—	57	11	—	—	1	—	—	—
Purchase of treasury stock	—	—	2,746	—	—	—	—	(54)	—
Stock issued for assets of purchased companies	—	3,034	—	—	6	50	—	—	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(149)	—	—
Preference stock	—	—	—	—	—	—	(17)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(89)
Balance, February 1983	4,897	101,635	2,551	254	188	161	1,751	(50)	(89)
Net earnings	—	—	—	—	—	—	433	—	—
Conversion of preference stock	(1,164)	—	(2,239)	(60)	—	5	—	55	—
Conversion of debentures	—	—	(811)	—	—	(1)	(1)	21	—
Exercise of stock options	—	—	(757)	—	—	(3)	(3)	21	—
Stock contributed to employee stock benefit plans (forfeitures shown as treasury stock)	—	6	(94)	—	—	—	—	3	—
Purchase of treasury stock	—	—	12,169	—	—	—	—	(403)	—
Stock issued for assets of purchased companies	—	618	—	—	1	16	—	—	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(159)	—	—
Preference stock	—	—	—	—	—	—	(16)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(96)
Redemption of preference stock	(5)	—	—	—	—	—	—	—	—
Balance, February 1984	3,728	102,259	10,819	194	189	178	2,005	(353)	(185)
Net earnings	—	—	—	—	—	—	479	—	—
Conversion of preference stock	(505)	—	(941)	(26)	—	(1)	(5)	32	—
Conversion of debentures	—	—	(287)	—	—	—	(2)	10	—
Exercise of stock options	—	—	(203)	—	—	—	(3)	7	—
Stock contributed to employee stock benefit plans (forfeitures shown as treasury stock)	—	—	(51)	—	—	(1)	—	2	—
Purchase of treasury stock	—	—	1,393	—	—	—	—	(46)	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(155)	—	—
Preference stock	—	—	—	—	—	—	(15)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(30)
Preference stock issued to retire outstanding debt	1,500	—	—	75	—	—	—	—	—
Debt redemption	—	—	(126)	—	—	(1)	—	4	—
Common stock warrants issued	—	—	—	—	—	5	—	—	—
Balance, February 1985	4,723	102,259	10,604	$243	$189	$180	$2,304	$(344)	$(215)

**Preference shares authorized on last day of February: 1985—50 million, 1984 and 1983—20 million.*
Common shares authorized on last day of February: 1985—300 million, 1984 and 1983—200 million.

See Notes to Consolidated Financial Statements.

Statement of CONSOLIDATED CHANGES IN FINANCIAL POSITION

(In millions)

Years ended February	1985	1984	1983
Cash provided (used) by operations:			
Net earnings	$479	$433	$ 43
Items not involving cash:			
Depreciation and amortization of goodwill and zero coupon notes discount	312	237	220
Amortization of rental vehicles	121	—	—
Goodwill write-downs	—	—	188
Charges (credits) due to Business Realignment asset write-downs and reserve changes	364	(38)	139
Deferred taxes and other items, net	277	62	28
Changes in working capital:			
Divestiture proceeds received in March 1985	(855)	—	—
Receivables	167	(49)	(39)
Inventories	111	14	60
Rental vehicles excluding amortization	(207)	—	—
Other current assets	(147)	21	(17)
Accounts payable and other current liabilities	37	45	13
Cash provided by operations	659	725	635
Cash provided (used) by investment activities:			
Net expenditures for property, plant and equipment	(265)	(208)	(211)
Noncurrent assets of purchased businesses, other than Esmark	(169)	(109)	(326)
Investments in affiliated companies	(9)	(22)	(4)
Net noncurrent assets of divested operations, less associated reduction of Business Realignment reserve	200	79	14
Other items, net	70	(41)	(2)
Cash used by investment activities	(173)	(301)	(529)
Cash provided (used) by financing activities, excluding Esmark acquisition:			
Change in debt	(456)	(28)	100
Fair value of common stock issued for assets of purchased companies	—	17	56
Common stock issued upon conversion of preference stock and debentures	34	79	8
Preference stock and debentures retired upon conversion into common stock	(34)	(79)	(8)
Issuance of preference stock	75	—	—
Purchase of treasury stock	(46)	(403)	(54)
Treasury stock used for stock option plans	4	15	—
Other items, net	57	17	(2)
Cash provided (used) by financing activities	(366)	(382)	100
Acquisition of Esmark:			
Debt issued	2,708	—	—
Value assigned to noncurrent liabilities	1,168	—	—
Cost assigned to:			
Working capital, excluding cash and short-term investments	(440)	—	—
Noncurrent tangible assets	(1,212)	—	—
Unallocated purchase cost	(1,958)	—	—
Esmark cash and short-term investments at acquisition	266	—	—
Cash provided before dividend payments	386	42	206
Cash dividends paid	(170)	(175)	(166)
Increase (decrease) in cash and short-term investments	216	(133)	40
Cash and short-term investments at beginning of year	132	265	225
Cash and short-term investments at end of year	$348	$132	$265

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include Beatrice, its significant subsidiaries and Prime Vehicle Trust (note 6). Leasing and certain finance subsidiaries and affiliated (20 percent to 50 percent owned) companies are carried on the equity method.

Fiscal Year The fiscal year of Beatrice ends on the last day of February. Many non-U.S. subsidiaries have fiscal years that end on December 31 and certain subsidiaries have fiscal years ending on the last Saturday in February.

Inventories Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) cost basis was used to determine 32 percent of inventories at the end of fiscal 1985 and 51 percent of inventories at the end of fiscal 1984. The first-in, first-out (FIFO) cost basis is generally used for other inventories. Had all inventories been valued on a FIFO basis, inventories would have been greater by $80 million and $52 million at the end of fiscal 1985 and 1984, respectively.

Rental Vehicles Rental vehicles are generally held for approximately one year and, accordingly, are classified as current assets. Rental vehicles are stated net of amortization to reflect the estimated reduction in market value during the period the vehicles are used. Most rental vehicles are assets of Prime Vehicle Trust. When vehicles are sold, gains or losses are recorded as adjustments to amortization expense.

Net Property, Plant and Equipment Depreciation is provided principally on the straight-line method for financial reporting purposes and on accelerated methods for income tax purposes where possible. Amortization of capitalized leases and capitalized interest costs is included with depreciation expense. The amount of interest capitalized was not material in any year.

Intangible Assets Intangible assets (principally goodwill) are amortized using the straight-line method over periods not in excess of 40 years. Amortized amounts are not accumulated but are deducted directly from the related asset.

Goodwill is written down when there is evidence of a permanent loss in its value. Such write-downs in fiscal 1983 included $170 million associated with Tropicana Products, Inc.

Income Taxes Income taxes include deferred income taxes which result from certain items of income and expense that are reported differently for income tax purposes than for financial reporting purposes. Investment tax credit is recognized on the flow-through method.

Calculation of Earnings Per Share Primary earnings per share is computed by adjusting net earnings for preference stock dividends and dividing that amount by the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during the period. Fully diluted earnings per share is computed by adjusting net earnings for the after-tax interest expense on convertible debentures and dividing that amount by the sum of the weighted average number of shares of common stock and shares issuable for stock options and for the assumed full conversion of preference stock and convertible debentures. If the effect of the assumed conversion of any security is anti-dilutive, then the primary earnings per share calculation is used for that security in the determination of fully diluted earnings per share.

Pension and Postretirement Plans Pension costs for the majority of Beatrice's U.S. pension plans are funded on a current basis. Substantially all prior service costs are amortized to expense over periods not exceeding 30 years.

Approximately 78 percent of Beatrice's U.S. postretirement health care expense is determined by an actuarial cost method which accrues expense over the employee's service life. The remaining postretirement health care expense is recognized as claims are incurred under the company's self-insured programs and by expensing premiums paid to outside carriers over the policy period. Substantially all of Beatrice's postretirement health care is funded when claims are paid by the company. Health care premiums owed to outside carriers are paid under the terms of the policies. Postretirement life insurance is expensed over the policy period and premiums owed to outside carriers are paid under the terms of the policies.

Reclassification Certain amounts for previous years in the consolidated financial statements have been reclassified to conform to the presentation used for fiscal 1985.

2. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are:

(In millions)	1985	1984
INVENTORIES		
Raw materials and supplies	$ 423	$ 303
Work in process	240	116
Finished goods	755	400
Total	$1,418	$ 819
RENTAL VEHICLES		
Rental vehicles, at cost	$ 967	$ —
Less accumulated amortization	121	—
Net	$ 846	$ —
OTHER CURRENT ASSETS		
Deferred income tax charges	$ 152	$ 58
Net current assets of business to be disposed*	108	—
Other	115	43
Total	$ 375	$ 101
NET PROPERTY, PLANT AND EQUIPMENT		
Land	$ 228	$ 128
Buildings	1,149	847
Machinery and equipment	1,768	1,422
	3,145	2,397
Less accumulated depreciation	947	838
Net	$2,198	$1,559
OTHER NONCURRENT ASSETS		
Net noncurrent assets of business to be disposed*	$ 76	$ —
Receivables	81	57
Investments	30	58
Prime Vehicle Trust escrow (note 6)	43	—
Other	55	16
Total	$ 285	$ 131
ACCRUED EXPENSES		
Employee compensation and benefits	$ 292	$ 168
Business Realignment reserve	242	55
Income taxes	126	88
Taxes, other than income taxes	57	30
Other accruals	587	129
Total	$1,304	$ 470
OTHER NONCURRENT LIABILITIES		
Postretirement health care and pensions	$ 263	$ 53
Deferred credits	29	27
Other	257	96
Total	$ 549	$ 176

**Represents net assets of Esmark's fertilizer and phosphate business which was identified for divestiture upon the acquisition of Esmark.*

3. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies, including advances to and from such companies, are comprised as follows:

(In millions)	1985	1984
Leasing subsidiaries	$ 80	$ 25
Other nonconsolidated subsidiaries	26	6
Other affiliated companies (ownership interest 20% to 50%)	140	44
	$246	$ 75

At the end of fiscal 1985, the leasing subsidiaries had total assets of $493 million and total liabilities of $413 million of which $327 million represents debt payable to third parties. The debt payable to third parties of the leasing subsidiaries is not guaranteed by Beatrice or its consolidated subsidiaries, but there are agreements that provide for the maintenance of certain financial ratios in the leasing subsidiaries. Beatrice's equity in the net earnings of the leasing subsidiaries for fiscal 1985 totaled $8 million.

Included in other affiliated companies at the end of fiscal 1985 are investments in Swift Independent Corporation (SIC), a publicly traded company. The investments include a 35% equity interest totaling $44 million and a $35 million 15% subordinated debenture due through 1996. Beatrice's equity in net earnings of SIC in fiscal 1985 totaled $1 million.

4. BUSINESS REALIGNMENT

Beatrice is undergoing a long-term Business Realignment program to organize its operations along marketing lines. This program includes acquisitions of new companies, divestitures of businesses that do not fit the strategic direction of Beatrice, a corporate identity marketing program and reorganizations of management and corporate structures.

Acquisitions Effective June 1984 Beatrice acquired Esmark, Inc. ("Esmark") for cash of approximately $2.7 billion, including related expenses. Esmark, through its subsidiaries, operates primarily in the food, consumer products, and vehicle rental industries. Beatrice has accounted for the Esmark acquisition as a purchase. Esmark's net assets are included in the accompanying consolidated balance sheet at values representing a preliminary allocation of the purchase cost to such net assets. The excess of purchase cost over the preliminary valuation of the net tangible assets is reflected as Unallocated Purchase Cost and is being amortized over 40 years using the straight-line method. The preliminary purchase cost allocation is subject to change when additional information concerning asset and liability valuations is obtained. Therefore, the final allocation will probably differ from the preliminary allocation. The preliminary allocation, in millions, is summarized as follows:

Current assets	$2,463
Current liabilities	(1,757)
Working capital	706
Property, plant and equipment	854
Unallocated purchase cost	1,958
Investments in affiliated companies	141
Other noncurrent assets	217
Long-term debt	(879)
Deferred items and other noncurrent liabilities	(289)
	$2,708

continued

Results of Esmark operations are included in the statement of consolidated earnings for the last eight months of fiscal 1985. Unaudited pro forma results of operations, assuming the acquisition of Esmark had occurred at the beginning of fiscal 1984, are presented below. In addition to purchase accounting and acquisition financing adjustments, pro forma adjustments include the effects of the exchange of preference stock for previously outstanding debt (note 8), the repurchase of common shares (note 9), and the divestitures and other realignment activities discussed below, as if each had occurred at the beginning of fiscal 1984. The pro forma adjustments are based upon available information and upon certain assumptions and estimates which Beatrice believes are reasonable in the circumstances. Pro forma results of operations are as follows:

(In millions except per share data)	1985	1984
As reported:		
Net sales	$12,595	$ 9,327
Net earnings	$ 479	$ 433
Less Business Realignment income, after-tax	(220)	(99)
Net earnings, exclusive of Business Realignment income	$ 259	$ 334
Per share:		
Primary	$ 2.66	$ 3.23
Fully diluted	$ 2.59	$ 3.08
Pro forma (unaudited):		
Net sales	$12,219	$11,666
Net earnings, exclusive of Business Realignment income	$ 216	$ 226
Per share:		
Primary	$ 2.15	$ 2.28
Fully diluted	$ 2.10	$ 2.22

Pro forma information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods presented and is not intended to be a projection of future results.

In fiscal 1985, 1984 and 1983 Beatrice acquired several other businesses, the revenues and net earnings of which did not significantly affect consolidated results.

Divestitures and Other Realignment Activities Business Realignment income (expense) is summarized as follows:

(In millions)	1985	1984	1983
Divestiture activities	$700	$163	$(140)
Other	(286)	–	(30)
	$414	$163	$(170)

During fiscal 1985, following the acquisition of Esmark, Beatrice reorganized into four segments. Businesses serving specific market groups are being integrated and restructured to better utilize combined resources for more efficient operations and effective marketing. The charge to earnings for the anticipated cost of this integration and restructuring, which pertains to the food businesses owned by Beatrice prior to the acquisition of Esmark, totals $286 million ($166 million after-tax) and has been reflected as a reduction of Business Realignment income. This charge results from the planned elimination of duplicate and/or inefficient production facilities and distribution and administrative functions and includes asset write-downs and reserves for costs incurred in connection with the restructuring.

Also during fiscal 1985, Beatrice identified certain businesses for divestiture. Net pre-tax gains amounting to $700 million were recognized in Business Realignment income as a result of these divestiture activities, the most significant of which was the divestiture of Beatrice's chemical business. The net after-tax gain from divestitures totaled approximately $386 million. Certain of the above mentioned divestitures, which resulted in proceeds of $158 million and after-tax gains of $18 million and were completed in March 1985, are reflected as fiscal 1985 transactions in the accompanying financial statements. Also in fiscal 1985, costs associated with the corporate identity marketing program, amounting to $14 million ($8 million after-tax), were charged against the Business Realignment reserve.

During fiscal 1984, several businesses were divested, notably the domestic candy operations, John Sexton & Co., and the Shedd's margarine business. Gains amounting to $125 million ($76 million after-tax) were realized as Business Realignment income on certain of these divestitures, while losses of $56 million ($30 million after-tax) were incurred on the remainder. The losses were charged against the portion of the Business Realignment reserve established for these losses during fiscal 1983. The reserve was further reduced due to better than anticipated results on planned divestitures, resulting in additional Business Realignment income of $38 million ($23 million after-tax). In addition, a new corporate identity marketing program was introduced. Costs associated with these activities of $18 million ($10 million after-tax) were charged against the Business Realignment reserve.

During fiscal 1983, Beatrice incurred losses of $13 million ($9 million after-tax) on divestitures. An additional $127 million ($75 million after-tax) was provided for losses on planned divestitures; such amounts were included in the Business Realignment reserve. The other realignment costs totaling $30 million ($15 million after-tax) related to a voluntary early retirement program offered to U.S. personnel meeting certain age and service criteria.

The Business Realignment program is continuing. Beatrice is actively pursuing the divestiture of certain Esmark businesses which had net sales of $420 million during the last eight months of fiscal 1985 and assets of $500 million at the end of fiscal 1985.

5. LEASES

Leased property is included in net property, plant and equipment as follows:

(In millions)	1985	1984
Real property	$ 115	$ 115
Machinery and equipment	44	38
	159	153
Less accumulated amortization	53	52
Net	$ 106	$ 101

Future minimum rentals under capital subleases as of the end of fiscal 1985 are $7 million. Contingent rent under capital leases was immaterial in fiscal 1985, 1984 and 1983.

Future minimum payments under non-cancellable leases as of the end of fiscal 1985 are:

(In millions)	Capital leases	Operating leases
1986	$ 25	$ 81
1987	21	63
1988	17	47
1989	13	34
1990	9	22
Later years	84	123
Total minimum lease payments	169	$370
Less estimated executory costs	1	
Net minimum lease payments	168	
Less amount representing interest	66	
Present value of net minimum lease payments	$102	

Future minimum rental receipts under non-cancellable operating subleases as of the end of fiscal 1985 are $16 million.

Rent expense for operating leases for fiscal 1985, 1984 and 1983 was:

(In millions)	1985	1984	1983
Minimum rent	$ 80	$ 55	$ 53
Contingent rent	44	4	4
	124	59	57
Less sublease rentals	7	2	1
Net	$117	$ 57	$ 56

6. RENTAL VEHICLES AND PRIME VEHICLE TRUST

Changes in rental vehicles since the date of acquisition of Esmark, in millions, are as follows:

Additions	$548
Net book value of disposed vehicles	$370
Amortization charged to costs and expenses	$121

Most of the vehicles used in the Avis, Inc. ("Avis") vehicle rental operations are leased from a domestic trust and substantially equivalent nondomestic entities (collectively referred to as Prime Vehicle Trust). The assets, liabilities and results of operations of Prime Vehicle Trust have been included in the accompanying financial statements; transactions between Prime Vehicle Trust and Avis have been eliminated. The vehicles, which are owned by Prime Vehicle Trust and not by Beatrice or its subsidiaries, secure the repayment of the outstanding debt. Avis may terminate the leases by purchasing the vehicles for an amount sufficient to repay all outstanding debt of Prime Vehicle Trust. Alternatively, the leases may be terminated by payment of a fee that could be minimal but would not exceed 25 percent of the amortized value of the vehicles. The obligation to pay the fee also secures the repayment of Prime Vehicle Trust's outstanding debt, all of which is without recourse to Beatrice and its subsidiaries. A subsidiary of Beatrice is obligated to assure the performance of Avis under the leases. An escrow account, included in Other Noncurrent Assets, is maintained which may be used to pay a portion of the lease termination fee or to meet other contingent payment obligations. At the end of fiscal 1985, the debt of Prime Vehicle Trust, in millions, comprised:

Current:	
Short-term debt, weighted average 9.8%	$342
Current portion of long-term debt	196
	$538
Long-term promissory notes, due after one year:	
10.5% due 1987	$ 13
12.5% due 1987	10
14⅛% due 1988	10
17% due 1987	71
16.8% due 1987	20
16⅛% due to 1989	15
11¼% due 1990	10
12.5% due 1988	25
13¾% due 1997	65
Other, weighted average 11.0%	32
	$271

Weighted average outstanding short-term debt of Prime Vehicle Trust for the last eight months of fiscal 1985 was $362 million. The maximum outstanding short-term debt at any month-end during the same period was $429 million. Available lines of credit at the end of fiscal 1985 amounted to $1.2 billion ($382 million unused). There are virtually no compensating balance or commitment fee requirements under these lines.

Aggregate annual maturities of long-term debt of Prime Vehicle Trust for fiscal 1987 through 1990 are $41 million, $16 million, $16 million and $39 million, respectively.

7. SHORT-TERM DEBT, EXCLUSIVE OF PRIME VEHICLE TRUST

Short-term debt, exclusive of Prime Vehicle Trust debt, is comprised of:

(Dollars in millions)	1985	1984	1983
U.S. borrowings	$1,321*	$ 57	$ 122
Non-U.S. borrowings	149	88	87
Current portion of long-term debt	100	67	63
Total short-term debt at year-end	$1,570	$ 212	$ 272
Weighted average interest rate at year-end	10.1%	11.0%	10.9%

**Includes $855 million of short-term debt retired in March 1985 with proceeds received from divestiture transactions.*

continued

U.S. borrowings principally comprised commercial paper in fiscal 1985 and 1983 and demand notes in fiscal 1984. Non-U.S. borrowings are primarily bank related debt.

Information regarding short-term debt activities during the respective fiscal years follows:

(Dollars in millions)	1985	1984	1983
Maximum amount outstanding	$2,735	$ 304	$ 261
Average amount outstanding	$1,450	$ 212	$ 192
Weighted average interest rate	11.3%	11.6%	14.2%

Average short-term debt amounts are calculated based on month-end balances during each fiscal year. The associated weighted average interest rates are exclusive of the cost of maintaining certain compensating balances. These average rates represent short-term interest expense divided by the average balances outstanding.

In connection with the acquisition of Esmark, Beatrice arranged with a syndicate of banks for a four-year revolving credit facility of $3.0 billion which was subsequently reduced to $2.5 billion. Although there were no borrowings outstanding at the end of fiscal 1985 under this agreement, it was necessary to support outstanding commercial paper borrowings. Subsequent to the end of fiscal 1985, Beatrice negotiated a three-year $1.2 billion Note Placement and Swing Line Facility ("Credit Facility") with a group of eleven banks for the issuance of short-term notes. The Credit Facility enables Beatrice to borrow funds in the Eurodollar market by issuing notes of up to six months maturity. The underwriting banks ensure that the rate will not exceed .20% over London interbank offered rates (LIBOR) at the time the notes are issued. The Credit Facility replaced the former $2.5 billion credit facility.

Beatrice's credit lines are adjusted as needs change. In addition to the facilities discussed above, Beatrice has $550 million committed lines of credit under revolving credit agreements, and $317 million informal lines of credit, with U.S. and non-U.S. banks as of the end of fiscal 1985. Commitment fees for these credit lines range between ¼ and ⅜ of 1 percent of the unused credit. Compensating balance requirements are not significant. Borrowings under these lines of credit are at prime interest rates or, at Beatrice's option, may instead be priced at rates based upon LIBOR or certificate of deposit rates. As of the end of fiscal 1985, these revolving credit agreements are available to Beatrice for periods of 3 and 5 years.

Beatrice's informal lines of credit as of the end of fiscal 1985 and 1984 are:

(In millions)	1985	1984
Maximum lines of credit:		
U.S.	$ 38	$ 146
Non-U.S.	279	140
Borrowings under lines of credit:		
Non-U.S.	$ 123	$ 55

8. LONG-TERM DEBT, EXCLUSIVE OF PRIME VEHICLE TRUST

Long-term debt, exclusive of Prime Vehicle Trust debt, comprised:

(In millions)	1985	1984
Sinking fund debentures:		
7.7%, $17 million due to 1996	$ 14*	$ —
6%, subordinated, $13 million due to 1998	9*	—
9½%, $39 million due to 1999	34*	—
9¼%, $41 million due to 2000	38*	—
8½% due 1989 to 2008	34	55
10⅞% due 1991 to 2010	98	150
Other debt:		
8.9% notes due to 1986	10	15
12.85% due 1987	100	—
12% due 1989	20	—
10½%, $13 million due 1989	12*	—
8¼% due 1989	27	—
8⅞%, subordinated, $54 million due to 1992	49*	—
4½%, convertible subordinated, due to 1992	16	20
12⅝%, $50 million due to 1993	51*	—
7¾% notes due 1994	40	50
10½% due 1994	200	—
11⅞%, $50 million due to 1995	49*	—
8.3%, $81 million due 1997	72*	—
13%, $26 million due 1998	25*	—
9⅞%, $118 million due to 2004	108*	—
Zero coupon note payments due:		
Feb. 1992 — $250 million (14.6%**)	97	84
May 2014 — $114 million (12.2%**)	4	4
Industrial revenue bonds, due various dates through 2014 (8.2%**)	75	60
Miscellaneous, individually less than $10 million in 1985, due various dates through 2006 (9.6%**)	152	314
Commercial paper borrowings classified as long-term debt (8.8%**)	980	—
Capitalized lease obligations (9.1%**)	102	94
	2,416	846
Less current portion	100	67
Total long-term debt	$2,316	$ 779

**Balances discounted to an effective rate of 12.5% in conjunction with the acquisition of Esmark.*
***Percentages represent weighted average effective rates.*

The 4½% convertible subordinated debentures are convertible into common stock at a rate of 35.7 shares of common stock for each $1,000 principal amount.

Beatrice intends to refinance commercial paper borrowings, classified as long-term debt, with long-term debt issuances or to continuously refinance such borrowings with short-term instruments over a period in excess of one year. The Credit Facility (note 7) gives Beatrice the ability to continuously refinance these borrowings for up to three years.

During fiscal 1985, Beatrice exchanged 1.5 million shares of a new series of preference stock (note 9) to retire approximately $20 million, $21 million and $52 million principal amounts, respectively, of its 7⅞%, 8½% and 10⅞% outstanding sinking fund debentures. The early retirement of these debentures resulted in a nontaxable gain of $19 million which is included in Other Income.

Aggregate annual maturities and sinking fund requirements of long-term debt, including capitalized lease obligations, for fiscal 1987 through 1990 are $196 million, $82 million, $1,047 million and $107 million, respectively, which for fiscal 1989 includes commercial paper borrowings classified as long-term.

9. STOCKHOLDERS' EQUITY

Preference Stock The components of outstanding preference stock are:

(Dollars in millions)	1985	1984
Series A Cumulative Convertible:		
3,222,509 shares in 1985 and 3,727,884 shares in 1984	$ 168	$ 194
Convertible Adjustable:		
1,500,000 shares in 1985	75	–
Total	$ 243	$ 194

Outstanding shares of Series A preference stock are convertible into common stock at a conversion price of $27.957 based upon the stated value of $52 and the annual dividend rate is $3.38 per share. The reduction of outstanding shares was primarily due to conversions into common stock. This preference stock may be redeemed at Beatrice's option, at $54 per share through August 7, 1985, declining one dollar each year thereafter to $52 beginning August 8, 1986. The stock can be redeemed prior to August 8, 1986 only if the dividends paid on the underlying common stock during the 12 months preceding the redemption total at least 105 percent of the dividends paid on the Series A stock. The Series A preference stock is preferred as to assets over common stock in the event of voluntary liquidation in an amount equal to the then current redemption price. Upon involuntary liquidation the Series A preference stock has preference by an amount equal to the stated value of such stock.

In connection with the exchange of equity for debt described in Note 8, Beatrice issued 1.5 million shares of a newly authorized series of convertible adjustable preference stock. The new series is without par and has a stated value of $50. Each share is convertible into Beatrice common shares based upon its stated value and the then current market value of the common stock; however, the conversion rate may not exceed 3.75 common shares to one preference share. Dividends are payable quarterly at a rate based on the then current interest rates for certain U.S. Treasury marketable securities, less 4.5%, but shall not be less than 6% nor greater than 12%. Beginning in fiscal 1990, Beatrice has the option to redeem this issue at its stated value. In the event of voluntary or involuntary liquidation, this preference stock is preferred as to assets over common stock in an amount equal to its stated value plus dividends accrued or in arrears. There is no established public trading market for the convertible adjustable preference stock.

Common Stock As of the end of fiscal 1985 and 1984, shares of Beatrice common stock were reserved for issuance as follows:

	1985	1984
Exercise of stock options	1,019,976	1,242,909
Conversion of preference stock	11,618,864	6,933,861
Conversion of debentures	845,630	1,132,175
Exercise of warrants	5,460,800	–
Incentive deferred compensation plans	190,673	550,497
Total	19,135,943	9,859,442

In March 1985, the compensation committee of the board of directors awarded $9 million to the participants of the "Performance Unit Plan" which was approved by the shareholders in fiscal 1983. The award recognized achievement of certain performance goals established under the plan. The total award had been expensed over the three-year performance period. The "1982 Stock Option Plans" (individually the "1982 Incentive Stock Option Plan" and the "1982 Non-Qualified Stock Option Plan") permit purchase of Beatrice's common stock at prices not less than 100 percent of market value at the date of grant. The number of shares of common stock which may be issued under the 1982 stock option plans, in the aggregate, may not exceed 2 million. Options granted under these plans may not be exercised during the first 12 months after the date of grant and expire not later than 10 years thereafter. Options may not be granted under the 1982 plans after February 29, 1992. All other stock option plans had ended by February 28, 1983.

Activity in shares under option during the fiscal years is:

	1985	1984
Beginning of year	813,309	1,519,350
Options granted	193,600	96,250
Options exercised	(222,933)	(757,091)
Options cancelled	(5,000)	(45,200)
End of year	778,976	813,309

The total option price of options exercised was $4 million during fiscal 1985 and $15 million during fiscal 1984. The total option price of options outstanding as of the end of fiscal 1985 and 1984 was $18 million and $16 million, respectively. As of the end of fiscal 1985, 619,676 stock options were currently exercisable at a total option price of $13 million.

Warrants to purchase common stock were issued in fiscal 1985 in connection with the issuance of $200 million

continued

of 10½ percent notes due in fiscal 1995. Each $1,000 note was issued with a warrant to purchase 27.3 shares of common stock at a price of $36⅝ per share. The warrants may be exercised through fiscal 1995.

Treasury Stock During fiscal 1985, Beatrice purchased 1.4 million shares of its common stock through a privately negotiated transaction for an aggregate cost of $46 million. Pursuant to a cash tender offer in fiscal 1984, approximately 10.1 million common shares were acquired for a total cost of $345 million (including related fees and expenses). An additional 2.1 million shares were acquired in fiscal 1984 at an aggregate cost of $58 million. During fiscal 1985 and 1984, a total of 1.6 million and 4.0 million treasury shares, respectively, were reissued for conversion of preference stock and debentures, exercises of stock options, issuances under incentive deferred compensation and retirement of long-term debt.

Retained Earnings Retained earnings include approximately $42 million and $35 million as of the end of fiscal 1985 and 1984, respectively, representing undistributed earnings of affiliated companies.

There are currency controls over the remittance of dividends from certain non-U.S. operations. The effect of these restrictions on the payment of dividends is not significant to Beatrice's consolidated operations.

10. OPERATIONS OUTSIDE THE UNITED STATES

Selected financial information relating to Beatrice's operations outside the United States is as follows:

(In millions)	1985	1984
Current assets	$ 952	$ 615
Net property, plant and equipment	425	326
Investments in affiliated companies	53	32
Intangibles (principally goodwill) and other assets	105	135
	1,535	1,108
Less:		
Current liabilities	704	413
Other liabilities	235	101
Minority interests	76	57
	1,015	571
Beatrice's equity in net assets	$ 520	$ 537

Beatrice's equity in net earnings was $95 million, $71 million and $63 million for fiscal 1985, 1984 and 1983, respectively (after goodwill amortization and write-downs of $3 million, $4 million and $21 million, respectively). Foreign currency adjustments, after the effect of hedging transactions, resulted in losses of $13 million for fiscal 1985, $9 million for fiscal 1984 and $13 million for fiscal 1983.

The above information excludes certain non-U.S. financing subsidiaries whose purpose is to help obtain funds from outside the United States. Also excluded is any Unallocated Purchase Cost potentially attributable to the non-U.S. operations of Esmark since the final allocation of purchase cost has not yet been completed. Beatrice's equity in net earnings excludes Business Realignment income related to divestiture activities.

The foreign currency translation adjustment included in stockholders' equity as of the end of fiscal 1985 and 1984 comprised the following:

(In millions)	1985	1984
Beginning of year	$ 185	$ 89
Translation adjustments	51	102
Divested businesses	(18)	—
Hedging transactions, net of applicable income taxes of $3 in 1985 and 1984	(3)	(6)
End of year	$ 215	$ 185

11. CONTINGENT LIABILITIES

In the opinion of management, there are no claims or litigation pending at the end of fiscal 1985 to which Beatrice is a party which could have a material adverse effect on Beatrice's consolidated financial condition.

12. INCOME TAXES

The provision for income taxes comprised:

(In millions)	1985	1984	1983
Current taxes:			
U.S. federal	$ (7)	$ 188	$ 155
Non-U.S.	77	64	74
U.S. state and local	12	25	21
	82	277	250
Deferred and noncurrent taxes:			
U.S. federal:			
Accelerated tax depreciation	44	17	14
Zero coupon note interest	32	—	5
Business Realignment	184	45	(43)
Other	(45)	2	(3)
Non-U.S.	11	3	(1)
U.S. state and local:			
Business Realignment	33	—	—
Other	8	16	(6)
	267	83	(34)
Total	$ 349	$ 360	$ 216

Earnings before income taxes and minority interests are:

(In millions)	1985	1984	1983
U.S.	$ 656	$ 656	$ 127
Non-U.S.	182	147	145
Total	$ 838	$ 803	$ 272

Following is a reconciliation of the difference between the U.S. statutory rate and the effective tax rate:

	1985	1984	1983
U.S. statutory rate	46.0%	46.0%	46.0%
Amortization and write-down of goodwill, non-deductible depreciation and Unallocated Purchase Cost	2.1	1.3	36.7
Reversal of $17 million deferred taxes on DISC	(2.0)	–	–
U.S. state and local income taxes, net of U.S. federal income tax benefit	3.4	2.7	3.7
Rate differential on Business Realignment activity	(3.6)	(2.3)	3.5
Non-U.S. tax rate differential	(1.5)	(1.5)	(5.2)
Investment tax credit	(1.6)	(1.0)	(4.9)
Other, net	(1.1)	(.3)	(.3)
Effective tax rate	41.7%	44.9%	79.5%

Beatrice has provided for deferred taxes on that portion of the undistributed earnings of its non-U.S. subsidiaries which is not considered to be permanently invested. The accumulated earnings that are considered permanently invested in these operations aggregate approximately $400 million at the end of fiscal 1985. In the event such earnings were distributed, Beatrice would have available tax credits which would substantially reduce any U.S. federal income tax.

13. PENSION AND POSTRETIREMENT PLANS

Beatrice has pension plans which cover most U.S. salaried employees and certain hourly-paid employees. Beatrice also contributes to other plans jointly administered by industry and union representatives.

The amounts charged to earnings for Beatrice's U.S. and non-U.S. pension plans, including plans jointly administered by industry and union representatives, totaled $55 million, $41 million and $42 million for fiscal 1985, 1984 and 1983, respectively. Accumulated plan benefit information and plan net assets, including amounts accrued but not yet funded, for Beatrice's U.S. defined benefit plans are as follows:

(In millions)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$ 464	$ 255
Nonvested	38	20
	$ 502	$ 275
Net assets available for benefits	$ 638	$ 394

The preceding accumulated plan benefit and plan net asset information is primarily based on valuation dates which are at the beginning of each fiscal year. The information in the table excludes amounts for plans jointly administered by industry and union representatives because the information is not readily available from the plans' trustees. Beatrice does not determine the actuarial present value of accumulated plan benefits or net assets available for benefits for its non-U.S. pension plans.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.0% and 8.3% as of the beginning of fiscal 1985 and 1984, respectively, except that the rate used in both years to value the benefits of a certain group of retirees was 12.3%, which is the rate of return on a dedicated bond portfolio established to fund such benefits.

Beatrice's acquisition of Esmark was the primary reason for the increase in expense in fiscal 1985 when compared with fiscal 1984, the decrease in the weighted average assumed rate of return and the increase in accumulated plan benefits and net assets available for benefits.

Beatrice provides company-sponsored postretirement health care and postretirement life insurance benefits to certain groups of U.S. retirees. Approximately 37 percent of U.S. personnel may become eligible for company-sponsored postretirement health care and 28 percent of U.S. personnel may become eligible for company-sponsored postretirement life insurance if they were to retire from the company.

The cost of providing company-sponsored postretirement health care and life insurance benefits for U.S. retirees was $14 million in fiscal 1985. Approximately 58 percent of this expense relates to postretirement health care attributable to retirees from businesses that have been discontinued by Esmark. The cost of postretirement health care and life insurance benefits for plans outside the U.S. is unavailable.

14. INFORMATION BY BUSINESS SEGMENT AND GEOGRAPHIC LOCATION

During fiscal 1985, Beatrice realigned its operations into four segments. See Note 4 for further details. Net sales and earnings by business segment are shown on page 30 of this report and the information is considered an integral part of this note.

Intersegment and intergeographic sales to affiliates are not significant to the net sales of any business segment or geographic location. There were no material sales to any single customer. Export sales to unaffiliated customers are an immaterial percentage of net sales.

Earnings by geographic location and business segment represent gross operating margin excluding net unallocated corporate operating expenses.

Identifiable segment assets are those assets used in the operations of the segment. Corporate assets are cash, short-term investments, investments in affiliated companies, certain corporate receivables and certain other assets.

continued

Segment information for 1985, 1984 and 1983 is:

BUSINESS SEGMENT

(In millions)	Identifiable assets 1985	1984	1983	Net property, plant and equipment additions 1985	1984	1983	Depreciation and goodwill amortization expense 1985	1984	1983
U.S. Food	$2,992	$1,970	$1,971	$ 520	$ 84	$ 275	$ 144	$ 109	$ 97
Consumer Products	1,267	507	468	350	28	16	47	21	19
International Food	823	801	722	119	115	71	45	38	36
Avis/Other Operations	1,290	11	12	155	—	1	14	1	1
Corporate	2,014	427	550	33	5	13	40	1	4
Divested Businesses	69	748	1,009	(146)	(91)	13	29	41	50
Total	$8,455*	$4,464	$4,732	$1,031	$ 141	$ 389	$ 319	$ 211	$ 207

**Excludes unallocated purchase cost.*

GEOGRAPHIC LOCATION

(In millions)	Net sales	Segment earnings	Identifiable assets Segment	Corporate	Total
United States					
1985	$ 9,832	$701	$5,111	$1,809	$ 6,920
1984	7,270	655	3,082	274	3,356
1983	7,027	607	3,279	346	3,625
Europe					
1985	1,714	114	769	102	871
1984	1,243	83	589	81	670
1983	1,207	79	507	83	590
Canada					
1985	486	44	185	29	214
1984	390	29	122	22	144
1983	363	26	120	13	133
Central and South America					
1985	269	25	192	57	249
1984	204	24	123	38	161
1983	325	35	147	98	245
Other					
1985	294	28	184	17	201
1984	220	13	121	12	133
1983	217	14	129	10	139
Consolidated					
1985	$12,595	$912	$6,441	$2,014	$ 8,455*
1984	9,327	804	4,037	427	4,464
1983	9,139	761	4,182	550	4,732

**Excludes unallocated purchase cost*

15. INFLATION ACCOUNTING (Unaudited)

Introduction Financial statements prepared in accordance with generally accepted accounting principles present historical costs stated in dollars of varying purchasing power, which may not adequately measure the impact of inflation. The following supplemental schedules, prepared in accordance with the Financial Accounting Standards Board requirements, attempt to reflect the effects of changing prices on Beatrice's operations.

The objective of reporting inflation-adjusted data is to reflect the current costs of the resources actually used in the operations, rather than the historical costs expended to acquire them. Because the development of inflation-adjusted data requires the use of estimation techniques and assumptions, which may also vary among companies, caution should be exercised when using the inflation-adjusted financial data presented herein. The inflation-adjusted data reflect the estimated current costs of fixed assets in their present condition, and do not indicate actual amounts for which those assets could be sold, nor reflect how Beatrice would actually replace existing assets. Technological changes, which significantly influence decisions regarding fixed asset replacement, are not considered in calculating the current cost of fixed assets. Also, financial information adjusted for general inflation in the United States based on the U.S. Consumer Price Index for all Urban Consumers (CPI-U) can result in distortion of data for a company such as Beatrice with operations in foreign countries which may have different rates of inflation.

In preparing these schedules, historical amounts were translated into U.S. dollars and then restated to reflect changes in specific prices during the periods being measured. Under the current cost method, property, plant and equipment, depreciation expense, inventories and cost of sales are required to be adjusted for specific price changes. The effect of general inflation on the resulting current cost and net monetary liabilities is based on the CPI-U. Other revenues and expenses are assumed to have occurred proportionately throughout the year in relation to changing prices and are considered to be stated in average fiscal 1985 dollars.

Current cost disclosures in this note for property, plant and equipment, depreciation expense, inventories and cost of sales were derived as follows:

Esmark's inventories and property, plant and equipment—Beatrice's financial statements include the results of Esmark for the last eight months of fiscal 1985. This acquisition has been accounted for as a purchase; thus, Esmark's property, plant and equipment and inventories have been recorded at preliminary fair market value as of the date of acquisition. Since the inflation rate in the

U.S. was nominal during the last eight months of fiscal 1985, Esmark current cost information is generally based on the acquisition cost, which is the preliminary fair market value.

Property, plant and equipment and depreciation expense—The current costs of property, plant and equipment were determined by the use of indices issued by the United States and foreign governments for the class of assets being measured. The adjusted values of plant and equipment were then used to compute the related depreciation expense.

Inventories and cost of sales—The current cost of inventories and cost of sales and operating revenues were generally determined by valuing year-end inventories on a first-in, first-out (FIFO) basis and applying specific indices to these amounts on the basis of inventory turnover.

At the end of fiscal 1985, the current cost values of net property, plant and equipment and inventories were $2.7 billion and $1.5 billion, respectively.

1985 Historical and Current Cost Statement of Consolidated Earnings Following is a comparison of the historical and current cost fiscal 1985 Statement of Consolidated Earnings. Current cost amounts represent historical values after current cost adjustments have been applied to cost of sales and depreciation expense. Since the provision for income taxes is not adjusted for current cost, the effective tax rate is increased from the historical financial statements.

(In millions except per share data)	Historical	Current cost
Net sales and operating revenues	$12,595	$12,595
Operating expenses:		
Cost of sales and operating revenues, excluding depreciation	8,789	8,806
Selling and administrative expenses, excluding depreciation	2,761	2,761
Depreciation	265	308
Total operating expenses	11,815	11,875
Gross operating margin	780	720
Other income, net	58	58
Earnings before income taxes and minority interests	838	778
Provision for income taxes	349	349
Earnings before minority interests	489	429
Minority interests	(10)	(10)
Net earnings	$ 479	$ 419
Primary earnings per share	$ 5.06	$ 4.40

Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices In the following chart, the current cost information is presented in the current costs of each year adjusted to average fiscal 1985 dollars for comparability measured by the CPI-U.

(Dollars in millions except per share data)	1985	1984	1983	1982	1981
Net sales	$12,595	$9,712	$9,835	$10,232	$10,925
Historical cost information adjusted to estimated current costs:					
Net earnings	$ 419	$ 342	$ (57)	$ 257*	$ 269
Primary earnings per share	$ 4.40	$ 3.30	$ (.76)	$ 2.45*	$ 2.56
Net assets at year-end (stockholders' equity)	$ 2,922	$2,705	$3,142	$ 3,512	$ 3,461
Increase in specific prices over (under) increase in general price level	$ (55)	$ (1)	$ 180	$ (18)	$ (213)
Foreign currency translation adjustment	$ (41)	$ (132)	$ (64)	$ —	$ —
Unrealized gain from decline in purchasing power of net amounts owned	$ 94	$ 51	$ 35	$ 57	$ 89
Cash dividends declared per common share	$ 1.70	$ 1.67	$ 1.61	$ 1.59	$ 1.62
Market price per common share at year-end	$ 30.63	$35.14	$25.70	$ 20.85	$ 22.56
Average consumer price index	312.9	300.5	290.8	275.9	251.3

**Before the effect of special items which include the net gain on the sale of the Dannon business and the cumulative effect of change in accounting principle for investment tax credit.*

Explanations of selected captions are as follows:

Net assets at year-end (stockholders' equity)—The value of net assets (stockholders' equity) stated at current cost was determined by adding to historical stockholders' equity the difference between historical and inflation-adjusted values for inventories, net property, plant and equipment and net monetary liabilities.

Increase in specific prices over (under) the increase in the general price level—This compares the change in specific prices of inventories and property with the change in general price levels. The effects of foreign currency translation are included for years prior to fiscal 1983.

Foreign currency translation adjustment—This reflects the effect of exchange rate changes on net assets, adjusted to current cost. Translation adjustment amounts prior to fiscal 1983 have not been separately disclosed.

Unrealized gain from decline in purchasing power of net amounts owed—This represents the unrealized gain in purchasing power that holders of monetary liabilities derive in periods of inflation because liabilities are repaid in dollars of diminished purchasing power.

16. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal 1985 and 1984:

(In millions except per share data)

1985*	First	Second	Third	Fourth
Net sales and operating revenues	$2,207	$3,241	$3,748	$3,399
Cost of sales and operating revenues	$1,560	$2,309	$2,584	$2,336
Net earnings	$ 72	$ 101	$ 127	$ 179
Earnings per share:				
Primary	$ .76	$ 1.06	$ 1.34	$ 1.90
Fully diluted	$ .73	$ 1.01	$ 1.26	$ 1.77

1984**	First	Second	Third	Fourth
Net sales and operating revenues	$2,296	$2,344	$2,456	$2,231
Cost of sales and operating revenues	$1,652	$1,676	$1,748	$1,588
Net earnings	$ 76	$ 87	$ 137	$ 133
Earnings per share:				
Primary	$ .72	$ .83	$ 1.33	$ 1.35
Fully diluted	$ .69	$ .78	$ 1.25	$ 1.27

*In the second quarter of fiscal 1985, net earnings included a nontaxable gain from a debt/equity exchange of $19 million (per share effect: $.20 primary; $.19 fully diluted); the reversal of deferred taxes on DISC earnings of $17 million (per share effect: $.19 primary; $.17 fully diluted) and gains from the divestiture of businesses of $4 million (per share effect: $.04 primary; $.04 fully diluted). In the second quarter, the gain from the debt/equity exchange was reflected as an extraordinary item; this item is no longer classified as extraordinary because the amount is not material to annual net earnings. Third quarter net earnings included a gain of $39 million (per share effect: $.43 primary; $.39 fully diluted) from the divestiture of businesses. Fourth quarter net earnings included additional gains from the divestiture of businesses of $343 million (per share effect: $3.74 primary; $3.40 fully diluted) and reduction of net earnings for costs associated with the integration and restructuring of Beatrice's businesses of $166 million (per share effect: $1.81 primary; $1.65 fully diluted).

**In the third quarter of fiscal 1984, net earnings included gains from the divestiture of businesses of $21 million (per share effect: $.21 primary; $.19 fully diluted) and from a reduction of the Business Realignment reserve of $23 million (per share effect: $.23 primary; $.21 fully diluted). Fourth quarter net earnings included additional gains from the divestiture of businesses of $55 million (per share effect: $.56 primary; $.51 fully diluted).

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
Beatrice Companies, Inc.

We have examined the consolidated balance sheet of Beatrice Companies, Inc. and subsidiaries as of February 1985 and 1984 and the related statements of consolidated earnings, stockholders' equity and changes in financial position for each of the years in the three-year period ended February 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Beatrice Companies, Inc. and subsidiaries at February 1985 and 1984 and the results of their operations and changes in their financial position for each of the years in the three-year period ended February 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
303 East Wacker Drive
Chicago, Illinois 60601
April 22, 1985

MANAGEMENT REPORT ON FINANCIAL STATEMENTS

The integrity of the information contained in the consolidated financial statements and elsewhere in the annual report is the responsibility of management. The financial statements were prepared by Beatrice in conformity with generally accepted accounting principles considered appropriate in the circumstances and accordingly are based on certain judgments and estimates.

Management believes that Beatrice's systems of internal accounting controls provide reasonable assurance that, in all material respects, transactions are executed in accordance with management's policies, assets are safeguarded, and the financial statements are reliable. The concept of reasonable assurance is based on the recognition that the cost of such systems should not exceed the expected benefits. These systems include written policies and procedures, a comprehensive program of internal audit and the careful selection and training of financial staff.

The maintenance and monitoring of internal accounting controls is a responsibility of all levels of management. Internal accounting controls are also monitored and tested by a program of internal and external audits. The activities of the internal auditors and independent public accountants are coordinated to obtain reasonable audit coverage with a minimum of duplicate effort and cost. Audit findings are reported to management.

Beatrice's independent public accountants, Peat, Marwick, Mitchell & Co., have been engaged to render an opinion on the fairness of the financial statements. They review and make appropriate tests of the systems of internal accounting control and of the financial data included in the financial statements to the extent they consider necessary to render an opinion.

The audit committee of the board of directors, comprising five outside directors, meets at least four times each year with management, the internal auditors and the independent public accountants to review their activities, to discuss various auditing, internal accounting control and financial reporting matters, and to recommend appointment of the independent public accountants. Both the independent public accountants and the director of internal audit periodically meet privately with and have free access to the audit committee.

DIRECTORS

Angelo R. Arena
Chairman
Chief Executive Officer
Hutzler Brothers Company
Baltimore, MD

Alexander Brody
President
Chief Executive Officer
DYR Worldwide
New York, NY

G. A. Costanzo
Retired Vice Chairman
Citicorp and Citibank, N.A.
Vero Beach, FL

James W. Cozad
Vice Chairman
Standard Oil Company (Indiana)
Chicago, IL

James L. Dutt
Chairman of the Board
Chief Executive Officer

Frank E. Grzelecki*
Executive Vice President
President, Consumer Products

Walter J. Leonard
Distinguished Senior Fellow
Institute for the Study
of Educational Policy
Howard University
Washington, D.C.

David E. Lipson*
Executive Vice President
Chief Financial Officer

Anthony Luiso
Executive Vice President
President, U.S. Food

Bernard A. Monaghan
Of Counsel
Bradley, Arant, Rose & White
Birmingham, AL

William S. Mowry, Jr.
Executive Vice President
President, International Food

Richard J. Pigott
Executive Vice President
Chief Administrative Officer

Cedric E. Ritchie
Chairman of the Board
Chief Executive Officer
The Bank of Nova Scotia
Toronto, Ontario, Canada

Goff Smith
Retired Chairman
Chief Executive Officer
Amsted Industries
Incorporated
Chicago, IL

Jayne B. Spain
Distinguished Visiting Professor
and Executive in Residence
George Washington University
Washington, D.C.

Omer G. Voss
Retired Vice Chairman
International Harvester Company
Chicago, IL

Russell L. Wagner
Retired Chairman
Chief Executive Officer
NLT Corporation
Vero Beach, FL

Murray L. Weidenbaum
Mallinckrodt Distinguished
University Professor
Director of the Center for the
Study of American Business
Washington University
St. Louis, MO

COMMITTEES

Executive Committee

James L. Dutt, *Chairman*
Angelo R. Arena
Walter J. Leonard
Richard J. Pigott
Goff Smith
Omer G. Voss
Russell L. Wagner

Audit Committee

Goff Smith, *Chairman*
G. A. Costanzo
James W. Cozad
Bernard A. Monaghan
Murray L. Weidenbaum

Compensation and Benefits Committee

G. A. Costanzo, *Chairman*
James W. Cozad
Cedric E. Ritchie
Goff Smith
Jayne B. Spain
Russell L. Wagner

Nominating Committee

Russell L. Wagner, *Chairman*
Angelo R. Arena
Alexander Brody
G. A. Costanzo
James L. Dutt
Cedric E. Ritchie
Murray L. Weidenbaum

Public Policy Committee

Omer G. Voss, *Chairman*
Alexander Brody
Walter J. Leonard
Bernard A. Monaghan
Jayne B. Spain

**Elected April 22, 1985*

CORPORATE OFFICERS

James L. Dutt
Chairman of the Board
Chief Executive Officer

Frank E. Grzelecki
Executive Vice President
President, Consumer Products

David E. Lipson
Executive Vice President
Chief Financial Officer

Anthony Luiso
Executive Vice President
President, U.S. Food

William S. Mowry, Jr.
Executive Vice President
President, International Food

Richard J. Pigott
Executive Vice President
Chief Administrative Officer

Fred M. Adamany
Senior Vice President
President, Refrigerated Food

Nolan D. Archibald
Senior Vice President
President, Consumer Durables

John R. Attwood
Senior Vice President
President, Beverage

Rueben W. Berry
Senior Vice President
Organization and
Management Resources

Thomas P. Kemp
Senior Vice President
President, Grocery

William E. Reidy
Senior Vice President
Director, Corporate Strategy

Hercules P. Sotos
Senior Vice President
President, International Playtex

Richard F. Vitkus
Senior Vice President
General Counsel

Richard S. Williamson
Senior Vice President
Corporate and
International Relations

Mary D. Allen
Vice President
Assistant General Counsel

Chance Bahadur
Vice President
Treasurer

William P. Carmichael
Vice President
Director, Taxes

John S. Corcoran
Vice President

Edward Ehrenberg
Vice President
Director, Planning
and Operations Staff

Michael Fung
Vice President
Director, Operations Analysis

Donald H. Klein
Vice President
Director, Security

Daniel M. Lechin
Vice President
Director, Corporate Development

Mari Maseng
Vice President
Director, Corporate Relations

Lee F. Reiser, Jr.
Vice President
Director, Special Events

John A. Stevens
Vice President
Controller

M. Patricia Kehoe
Secretary

A. Jerome Becker
Assistant Vice President
Director, International Treasury

Kathleen B. Kallman
Assistant Vice President
Assistant to the Chairman

OPERATING EXECUTIVES

Bill Adams
Beatrice Soft Drinks/West

J. Patrick Barrett
Avis

Robert H. Burns
Beatrice Cheese

Malcolm Candlish
Samsonite Corporation

Robert T. Drape
Beatrice Europe

James A. Fischer
Beatrice Home Products

Bruce Gescheider
Refrigerated Foodservice

Ronald B. Gordon
Family Products

Dennis G. Heiner
Beatrice Window Coverings

James T. Hill
Beatrice Dairy Products

Andre J. Job
Beatrice Latin America

William F. Karnbach
Knitwear

Michael A. Kaufman
Intimate Apparel

Gerald M. Lausin
Cosmetics

G. Warren Lewis
Beatrice Warehouse

Lee Lochman
Beatrice Meats

Michael Mater
Rusty Jones

Donald McCarthy
Beatrice Canada

Arthur J. Peever
Beatrice Bottled Waters

I. Donald Rosuck
Culligan International

Nicholas Sanders
Beatrice Australia

Robert G. Shaw
International Jensen

Spencer Volk
Beatrice Fruit Juices

James E. Waller
Beatrice Soft Drinks/Mid-America

H. J. Warner
Beatrice Food Ingredients

INVESTOR INFORMATION

STOCK EXCHANGE SYMBOL
BRY—Common Stock
BRYA—Series A Preference Stock

STOCK EXCHANGE LISTINGS
Beatrice Common Stock is listed on the New York, Midwest, Basel, Geneva, Zurich, Lausanne, Frankfurt and Dusseldorf Stock Exchanges.

Beatrice Series A Preference Stock is listed on the New York Stock Exchange.

SHAREHOLDERS OF RECORD
As of April 5, 1985, Beatrice had approximately 53,120 registered shareholders, of which approximately 51,380 were record shareholders of common stock.

STOCK TRANSFER AGENT, DIVIDEND DISBURSING AGENT, AND REGISTRAR
Continental Illinois National Bank and Trust Company of Chicago
Shareholder Service Division
30 North LaSalle Street
Chicago, Illinois 60693

DIVIDEND REINVESTMENT PLAN
A Dividend Reinvestment Plan is available to Beatrice shareholders. The plan provides for automatic dividend reinvestment service. Participants may also make voluntary cash contributions for the purchase of additional shares of Beatrice common stock. All fees associated with the plan are paid by Beatrice.

Those interested in this service are invited to write to:

Continental Illinois National Bank and Trust Company of Chicago
Shareholder Service Division
30 North LaSalle Street
Chicago, Illinois 60693

INVESTOR INQUIRIES
Shareholders and potential investors should direct inquiries to:

Director, Investor Relations
Beatrice Companies, Inc.
Two North LaSalle Street
Chicago, Illinois 60602
312/782-3820

PUBLIC INQUIRIES
General public inquiries and requests for corporate reports and materials should be directed to:

Corporate Relations
Beatrice Companies, Inc.
Two North LaSalle St.
Chicago, Illinois 60602
312/782-3820

FORM 10-K
A copy of the Form 10-K Annual Report may be obtained without charge by writing to:

Investor Relations
Beatrice Companies, Inc.
Two North LaSalle Street
Chicago, Illinois 60602

NOTICE OF ANNUAL STOCKHOLDERS MEETING
The 88th Annual Meeting of Stockholders will be held at The Town and Country Hotel, 500 Hotel Circle North, San Diego, California at 10:00 a.m., Tuesday, June 4, 1985.

STOCK DATA	Fiscal 1985		Fiscal 1984	
	Cash dividends paid	Market price range	Cash dividends paid	Market price range
COMMON*				
First quarter (May 31)	$ .42½	$35⅜-27⅛	$ .40	$28½-24⅛
Second quarter (August 31)	.42½	30 -24⅞	.40	28⅝-25
Third quarter (November 30)	.42½	30¾-26⅜	.40	33 -26¾
Fourth quarter (February 29/28)	.42½	31⅛-28	.40	36 -30
SERIES A PREFERENCE**				
First quarter (May 31)	$ .84½	$65 -50¼	$ .84½	$52¾-45½
Second quarter (August 31)	.84½	54¾-46½	.84½	53¼-47
Third quarter (November 30)	.84½	57 -48⅞	.84½	60¾-50
Fourth quarter (February 29/28)	.84½	57⅝-52½	.84½	65½-56

*High and low market prices based on composite sales prices, which include trades on the New York Stock Exchange and the Midwest Stock Exchange and transactions reported by the National Association of Securities and Instinet.

**High and low market prices based upon trades on the New York Stock Exchange.

DESIGN: ROBERTZ, WEBB AND COMPANY

Beatrice Companies, Inc.
Corporate Offices
Two North LaSalle Street
Chicago, Illinois 60602