SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended February 29, 1988 **Commission file number: 1-9119**

BEATRICE COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware (State of Incorporation)	**13-3327481** (I.R.S. Employer Id. No.)
Two North LaSalle Street, Chicago, Illinois **(Address of Principal Executive Offices)**	**60602** **(Zip Code)**

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

Securities registered pursuant to Sections 12(b) or 12(g) of the Securities Exchange Act of 1934:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. **Yes ✓ . No ____ .**

As of April 29, 1988, a total of 81,700,000 shares of Beatrice Company common stock was outstanding. The common stock is not traded.

Form 10-K Annual Report

For the Fiscal Year Ended February 29, 1988

Throughout this report, the following terms are used. Unless otherwise indicated or suggested by the context, references include the subsidiaries of the named legal entity.

"Beatrice" refers to Beatrice Company, formerly BCI Holdings Corporation, a Delaware corporation formed in 1985. Beatrice acquired Beatrice Companies, Inc. on April 17, 1986.

"Old Beatrice" refers to Beatrice Companies, Inc. In May 1986, Old Beatrice adopted a plan of liquidation which was completed during fiscal 1988.

"E-II" refers to E-II Holdings Inc. E-II was comprised of substantially all of the nonfood and food specialties businesses of Beatrice at the time of the Distribution.

"Beatrice U.S. Food" refers to Beatrice U.S. Food Corp.; "Beatrice International" refers to Beatrice International Food Company, formerly BCI International Food Corporation; and "BCI Products" refers to BCI Consumer Products Corporation. These entities were formed by Beatrice to effect the Old Beatrice acquisition. "First Tier Subsidiaries" collectively refers to these entities.

"Esmark" refers to Esmark, Inc. Esmark was acquired by Old Beatrice in June 1984. In July 1986, Esmark was sold by Beatrice.

"Beatrice/Hunt-Wesson" refers to Beatrice/Hunt-Wesson, Inc., "Beatrice Cheese" refers to Beatrice Cheese, Inc., "NSI" refers to Norton Simon, Inc., "Swift-Eckrich" refers to Swift-Eckrich, Inc., and "Tropicana" refers to Tropicana Products, Inc., each a wholly-owned, direct or indirect subsidiary of Beatrice.

"Merger" refers to the acquisition of Old Beatrice by Beatrice on April 17, 1986.

"Distribution" refers to Beatrice's distribution on July 2, 1987 of its ownership in E-II to Beatrice's stockholders and warrant holders.

"Predecessor" refers to consolidated Old Beatrice in periods prior to the Merger and "Successor" refers to consolidated Beatrice in periods subsequent to the Merger.

"U.S. Food" refers to Beatrice's principal operating businesses. U.S. Food includes substantially all of the operating subsidiaries comprising Beatrice U.S. Food, Swift-Eckrich and NSI.

PART I

ITEM 1. BUSINESS.

Beatrice is primarily a food company with three principal operations—Beatrice/Hunt-Wesson, Swift-Eckrich and Beatrice Cheese. Beatrice also has certain smaller food and consumer products operations. Beatrice has engaged an investment banker to consider and evaluate various alternatives for the future conduct of its business and for its capital structure.

At the time of the Merger, Beatrice's operations were comprised of U.S. Food, which was primarily engaged in the production and distribution of branded food products in United States markets, Beatrice International, which was primarily engaged in the production and distribution of branded food products outside the United States, and BCI Products, which was primarily engaged in the production and distribution of a wide range of products for consumer use. Subsequent to the Merger, Beatrice has sold significant portions of its U.S. Food operations including Tropicana, which was sold for $1.2 billion on April 8, 1988. Effective as of the end of the third quarter, Beatrice International, which comprised substantially all of the non-U.S. food operations, was sold for $985 million. BCI Products sold substantial operations in fiscal 1987 and distributed substantially all of its then remaining operations to Beatrice's stockholders and warrant holders in the Distribution.

The operating results and net assets of Tropicana and all other businesses sold or distributed are presented throughout this report as discontinued and are further described in Notes to Consolidated Financial Statements, contained elsewhere herein. Unless otherwise stated, the descriptions and discussions contained in this Form 10-K address Beatrice's continuing operations as further described below. All of the brand names appearing below in capital letters are trademarks or trade names of Beatrice.

Beatrice/Hunt-Wesson

Beatrice/Hunt-Wesson is one of the leading packaged food companies in the United States. Beatrice/Hunt-Wesson manages its business through the following five basic groups which reflect the company's marketing and distribution channels: (i) Consumer Marketing, (ii) Food Service and Specialty Foods, (iii) Non-Grocery, Military and Fisher Nuts, (iv) Industrial and (v) International Foods.

The Consumer Marketing group manufactures and distributes branded grocery food products. Major brands are HUNT'S tomato products, including tomato sauce and paste, canned tomatoes, ketchup, spaghetti sauce and barbecue sauce, WESSON cooking and salad oils, MANWICH sloppy joe sauce, ORVILLE REDDENBACHER'S popcorn, PETER PAN peanut butter, SNACK PACK puddings and fruits, SWISS MISS puddings and cocoa mixes, LA CHOY canned and frozen oriental food products, ROSARITA refried beans and GEBHARDT chili. These products are sold primarily by a network of approximately 600 direct sales people to food retailers nationwide. Frozen and refrigerated products are sold through a broker network. Most of the products are distributed nationally although ROSARITA brand products are sold primarily in the West and Southwest and GEBHARDT is primarily sold in the Southwest.

Beatrice/Hunt-Wesson introduced more than 50 new line items in fiscal 1988. The company's new line items reflect a shift in emphasis from ingredient products to more value-added, convenience products which appeal to consumers' changing lifestyles. New products include three lines of HUNT'S spaghetti sauce and 12 premium quality LA CHOY FRESH 'N LITE entrees and egg roll entrees. Line extensions include four new flavors of ORVILLE REDDENBACHER's microwave popcorn and new packaging includes new plastic containers for HUNT's ketchup.

The Food Services and Specialty Foods group sells through a separate direct sales force of approximately 220 people to major food distributors, fast-food chains, restaurants and institutions. In addition to selling institutional sizes of the grocery products described above, dessert toppings are marketed under the J. HUNGERFORD SMITH and JUBILEE brands, particularly to customers in the ice cream industry. The sales force also brokers food products of other manufacturers. Tomato products, popcorn and oriental sauces are also marketed to grocery customers in Canada.

The Non-Grocery, Military and Fisher Nut group sells grocery products to outlets such as drug stores, mass merchandisers and military commissaries. FISHER nuts are sold to grocery stores but are included in this group because more than 50% of sales are to the non-grocery market. Sales are primarily through broker networks.

The Industrial group sells bulk quantities of vegetable oil, tomato paste and spices to food manufacturing customers. The International Group sells various grocery food products to foreign markets other than Canada, particularly the Caribbean and the Philippines.

Swift-Eckrich

Swift-Eckrich is a leading United States manufacturer of high quality refrigerated and frozen prepared meats. The company operates through six groups: (i) Retail Consumer Products, (ii) Deli, (iii) Food Service, (iv) Food Ingredients, (v) Berliner & Marx and (vi) International. Swift-Eckrich is pursuing a marketing strategy which emphasizes high margin, value-added, differentiated products keyed to consumer needs and lifestyles.

The Retail Consumer Products group accounts for more than 50% of Swift-Eckrich's revenues. Principal products include SWIFT PREMIUM BROWN 'N SERVE sausage, ECKRICH fresh roll sausage, ECKRICH SMOK-Y LINK sausage, SIZZLEAN breakfast strips, ECKRICH franks, smoked sausage and cold cuts, BUTTERBALL turkeys, SWIFT PREMIUM franks, bacon and non-deli hams, and a complete line of BUTTERBALL turkey cold cuts and SLICE 'N SERVE turkey products. SWIFT and BUTTERBALL products are distributed nationally to retail outlets while ECKRICH products are distributed primarily in the North Central, Midwestern and Southwestern regions of the United States. Several new products have been or are in the process of being introduced such as microwaveable SWIFT PREMIUM BROWN 'N SERVE sausage, a line of five frozen BROWN 'N SERVE breakfast sandwiches, a PETER ECKRICH SIGNATURE line of premium quality, premium priced meat products such as precooked and prebasted barbecued spare ribs, BUTTERBALL smoked sausage and BUTTERBALL franks.

The Deli group represents one of Swift-Eckrich's fastest growing product lines. Deli products consist of dry sausage, bologna, poultry breasts, roast beef and hams sold under the SWIFT PREMIUM, ECKRICH, MARGHARITA and BUTTERBALL brands. Currently these products are available in approximately 40% of the United States and are sold primarily to supermarkets with full service delis.

The Food Service group sells products such as precooked sausage, cooked bacon, deli breasts, gourmet poultry entrees and cooked beef products to food service operators. In addition, commodity type products are sold so that the company may maintain its status as a "full line" prepared meats supplier. Food Ingredients sells dry sausage to pizza manufacturers and diced cooked chicken to manufacturers of soups, salads and frozen entrees. Berliner & Marx is a vertically integrated premium veal business which markets its products under the PLUME DE VEAU label. The International operations consist of a sales and distribution unit in Puerto Rico, an export sales unit, a licensing operation and a processed meats operation in Panama.

Products are sold by an in-house direct sales force of approximately 800 people serving various classes of trade. This sales force is supplemented by a broker network for sales to food service and food ingredient customers and retail customers in certain geographic areas. Brokers are also used for commodity products.

Beatrice Cheese

Beatrice Cheese, one of the largest cheese producers in the United States, is primarily engaged in manufacturing, distributing and marketing a broad line of natural cheese, cream cheese and processed cheese products for sale nationally to retail, food service and industrial customers. Retail brands include COUNTY LINE natural cheese, TREASURE CAVE bleu cheese and numerous private label brands. Major customers are supermarkets. Food service products include cheese sold under the PAULY label and processed mozzarella, cream, shredded and large block cheeses. The industrial market consists of manufacturers who purchase bulk mozzarella, processed, creamed and cheddar cheeses as well as by-products.

Beatrice Cheese also markets imported cheeses through its SWISSROSE division, supplies pizza parlors and Mexican food restaurants through its California based Alum Rock distribution business and manufactures and sells REDDI-WIP aerosol dessert toppings.

Sales are made through a series of brokers who are managed by 14 regional supervisors.

Other Businesses

Southern Bakeries, Inc. produces and distributes premium baked goods under the SUNBEAM, COUNTRY HEARTH and ROMAN MEAL brand names. This business was acquired at the end of fiscal 1988.

Beatrice has various nonfood businesses. International Jensen Incorporated ("Jensen") is a leading manufacturer and marketer of high performance automotive audio equipment for both the automotive industry and, under the JENSEN name, the consumer market. Jensen also produces a line of home speakers under the ADVENT name. Rusty Jones, Inc. distributes and markets various automotive appearance materials and services, such as rustproofing and soundproofing, under the RUSTY JONES brand name. Rusty Jones, Inc. is experiencing operating difficulties and has substantial obligations under rustproofing warranties. Other companies are engaged in distributing industrial chemicals to the oil and gas industry and in phosphate mining.

Raw Materials

Various agricultural commodities constitute the principal raw materials used in the manufacture of food products. Farmers, contract growers and meat packers are the major sources of the principal raw materials for most of the food businesses. Generally, the raw materials for significant products are readily available from a wide variety of independent suppliers. Prices of agricultural commodities tend to fluctuate widely due to various seasonal, climatic, governmental and economic factors which generally affect Beatrice's competitors as well. The availability of raw materials was adequate in fiscal 1988 and is expected to be adequate throughout fiscal 1989.

Competition

Beatrice faces substantial competition throughout its product lines from numerous large well-established businesses operating nationally or regionally with single or multiple product lines. Beatrice/Hunt-Wesson has seven major brands ranking number one nationally in their category, including HUNT's tomato sauce, ORVILLE REDDENBACHER's popcorn, SNACK PACK puddings and LA CHOY oriental foods. Several of Beatrice/Hunt-Wesson's products hold a number two market share. Swift-Eckrich holds the number one share nationally with its BUTTERBALL whole bird turkeys and in breakfast sausage and strips with SWIFT PREMIUM BROWN 'N SERVE and SIZZLEAN. ECKRICH is the number one brand in its marketing area. TREASURE CAVE cheese is the leading retail bleu cheese while COUNTY LINE is one of the nation's largest natural cheese brands. Regional competition is important to several brands and many of the products compete with generic or private label products. Principal competitive factors in addition to brand name recognition are price, quality and service.

Management and Employees

In general, operating decisions are made at the operating management level. The decisions typically include product mix, product pricing and market selection. A significant portion of the total compensation of operating executives typically is based upon profit contributions of the activities under their supervision. Senior management of the operating companies has had substantial experience with their operations. The presidents of Beatrice/Hunt-Wesson, Swift-Eckrich and Beatrice Cheese have had 25, 34 and 17 years of experience with their companies, respectively. The average experience of senior management with the three major operating companies ranges from nine years for Beatrice Cheese to 23 years with Beatrice/Hunt-Wesson.

As of February 29, 1988, Beatrice had approximately 19,700 employees. There have been no significant interruptions or curtailments of operations due to labor disputes and labor relations are considered satisfactory.

Trademarks, Patents and Licenses

The major operating companies have registered and unregistered trademarks for most of their retail products. Trademarks are important to Beatrice because brand name recognition is very important to the major operating companies. Beatrice is not aware of any factor which would affect its ability to utilize any of its major trademarks domestically. Principal trademarks are mentioned in the discussion of the major businesses.

Certain operating companies own or license a number of patents and patent applications which are important to aspects of their individual businesses, but the patents and licenses are not considered material to the conduct of Beatrice's business as a whole. Beatrice does not believe that the positions of any of its operating companies are substantially dependent on patent protection.

Research and Development

The operating companies' research and development activities are directed toward improvements of quality control standards, improvements in existing products and processes and the development of new products and new packaging. Beatrice/Hunt-Wesson has a staff of approximately 150 scientists, nutritionists and packaging and other professionals engaged in its research and development activities. Beatrice's research and development expenses were approximately $18 million in fiscal 1988 and $16 million in fiscal 1987 and 1986.

Customers, Sales and Backlog

No material portion of Beatrice's business is dependent upon a single or very few customers. In general, the backlog of orders is not deemed to be significant or material for an understanding of Beatrice's businesses.

Government Regulation

Beatrice's operating businesses are subject to regulation and inspection by various federal, state and local governmental agencies which enforce strict standards of sanitation, product composition, packaging and labeling. Prices paid for dairy products used in the manufacture of cheese products are controlled by Federal Milk Marketing Orders or state regulatory agencies. Support prices for cheese products set by the Commodity Credit Corporation act as a floor price for these products.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment is not expected to affect materially the earnings, capital expenditures or competitive position of Beatrice. No material capital expenditures are anticipated for the remainder of fiscal 1989 or the succeeding fiscal year for existing facilities to comply with current environmental regulations.

ITEM 2. PROPERTIES.

Beatrice's operating companies use various owned and leased plants, warehouses, distribution centers and other facilities in their operations. The facilities are generally considered to be suitable and adequate for the conduct of the businesses involved. In general, adequate productive capacity is provided by such facilities. Of the approximately 230 facilities operated as of February 29, 1988, substantially all of which are located in the U.S., approximately 130 were owned and 100 were leased.

ITEM 3. LEGAL PROCEEDINGS.

In the opinion of management, there are no claims or litigation pending to which Beatrice is a party which are expected to have a materially adverse effect on its consolidated financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

There is no public market for the common stock of Beatrice. Common stock of Beatrice is held of record by 34 persons or entities.

ITEM 6. SELECTED FINANCIAL DATA.

The following table provides selected financial data for Beatrice and its Predecessor.

	Year ended last day of February				
	1988	1987*	1986	1985	1984
	(In millions, except per share data)				
Net sales	$4,012	$3,951	$4,147	$5,424	$4,110
Earnings (loss) from continuing operations**	$ (105)	$ (118)	$ (12)	$ 392	$ 325
Loss per share from continuing operations***	$ (.61)	$ (1.54)			
Total assets	$5,711	$6,787	$6,799	$7,959	$3,644
Long-term debt	$3,372	$4,243	$1,146	$2,120	$ 647

**Fiscal 1987 includes the periods both before and after the Merger and charges of $84 million pre-tax ($45 million after-tax) related to the change of control.*

***Fiscal 1985 includes gains from divestiture activities of $700 million pre-tax ($386 million after-tax) and charges of $220 million pre-tax ($121 million after-tax) for integration and restructuring of businesses. Fiscal 1984 includes gains from divestiture activities of $163 million pre-tax ($99 million after-tax).*

****Due to the substantial effect which the Merger had upon Old Beatrice's capitalization, per share information is presented only for the periods subsequent to the Merger. The loss per share from continuing operations in fiscal 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these anti-dilutive common share equivalents would have been $1.28.*

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Operations

The following discussion addresses the results of operations of Beatrice and its Predecessor. Information regarding net sales and operating earnings excludes the results of discontinued operations. Fiscal 1987 results include the periods both before and after the Merger.

Fiscal 1988 Compared With Fiscal 1987

Net sales for fiscal 1988 increased $61 million, or 1.5% over the prior year. Volume gains were experienced in cheese, grocery and turkey products, offset by decreased volumes in processed meat products. Offsetting these gains were higher sales allowances for certain grocery products, decreased prices on whole turkey products and the absence of sales from certain lines of grocery and meat products which have been phased-out.

Operating earnings increased $33 million, representing a 15% increase over fiscal 1987. Contributing factors to these favorable results were the increase in net sales, substantially lower promotional expenses and a reduction in corporate-wide administrative expenses. These improvements were partially offset by lower margins on whole turkey products and a $6 million increase in amortization of intangible assets, primarily as a result of the full-year effect of the Merger in fiscal 1988.

A loss of $105 million from continuing operations was realized versus a loss of $118 million in fiscal 1987. The factors contributing to each of the year's losses from continuing operations were substantially different. The increase in operating earnings in fiscal 1988 was more than offset by an increase in interest expense, although debt levels were reduced significantly in fiscal 1988. This is primarily due to the fact that interest bearing debt was outstanding for the entire fiscal year 1988, while Redeemable Preferred Stock, bearing paid-in-kind dividends, was outstanding for a portion of fiscal 1987 before being exchanged for interest bearing debt. Miscellaneous income (expense) in fiscal 1988 includes $25 million of payments made in connection with obtaining consents to modify certain indenture agreements. In fiscal 1987, change of control expenses amounting to $84 million were incurred by Old Beatrice in connection with the Merger.

Net earnings of $529 million in fiscal 1988, as compared to a net loss of $105 million in fiscal 1987, was caused primarily by the $387 million net gain realized on the sale of Beatrice International and a $256 million net reduction of estimated liabilities for income taxes and related interest associated with a favorable U.S. Tax Court decision in February 1988 regarding a 1980 Esmark transaction. Further information regarding this transaction and the favorable decision of the tax court is included in Note 3 of Notes to Consolidated Financial Statements. Net earnings were also affected by a $49 million decrease in net earnings from discontinued operations and a $27 million decrease in after-tax extraordinary charges. In both years the extraordinary charges result from the early extinguishment of debt.

Fiscal 1987 Compared With Fiscal 1986

Net sales were $196 million lower than fiscal 1986 levels primarily due to the absence of sales from businesses divested in fiscal 1986. Other factors contributing to the decrease were lower selling prices for oil products (offset in part by increased volume) and a strong grocery product promotion in the latter part of fiscal 1986 which resulted in sales in late fiscal 1986 that would have normally been expected to occur in early fiscal 1987.

Operating earnings increased $92 million over fiscal 1986. Overall reductions in corporate activities, most significantly the phase-out of automobile racing sponsorships, were the principal components of the increase, aided by improved margins on oil-based product sales and decreased operating overhead expenses. Offsetting these increases, in part, were the absence of earnings from businesses divested in fiscal 1986 and increased amortization of intangibles in fiscal 1987 resulting from the Merger.

A loss from continuing operations of $118 million was incurred in fiscal 1987 compared to a loss of $12 million in fiscal 1986. The decrease was primarily the result of the Merger; change of control expenses paid by Old Beatrice prior to the Merger amounted to $84 million and interest expense for fiscal 1987 increased $186 million due to the substantially higher debt levels which financed the Merger.

The net loss of $105 million, compared to net earnings of $232 million in fiscal 1986, was affected by a $185 million decrease in net earnings from discontinued operations and extraordinary charges aggregating $46 million, after-tax, in fiscal 1987, as well as the factors discussed above. The extraordinary charges resulted from the early extinguishment of debt.

Financial Condition

In fiscal 1988, Beatrice successfully completed the sales of its bottled water operations and substantially all of its non-U.S. food businesses. Additionally, Beatrice distributed to its stockholders and warrant holders its ownership in E-II, which comprised substantially all of Beatrice's nonfood and food specialties businesses. These transactions resulted in net cash proceeds aggregating $2.1 billion, $800 million of which was received from E-II in repayment of indebtedness owed to Beatrice.

Primarily as a result of the above sales and distribution, Beatrice reduced long-term debt in fiscal 1988 by approximately $1.0 billion and increased its cash and cash equivalents by $925 million. Debt reductions were accomplished primarily by the repayment of revolving loan borrowings, purchases of senior notes through tender offers and through open market purchases of senior notes and other debentures. Additionally, as a result of the completion on April 8, 1988 of the previously announced sale of Tropicana, an offer to purchase all of the remaining senior notes will be made no later than June 14, 1988. Also, in fiscal 1988, Beatrice obtained modifications to certain indenture agreements to provide more flexibility regarding the retirement, repayment and defeasance of the related notes and debentures and refinanced its 15.25% Junior Subordinated Exchange Debentures with Increasing Rate Subordinated Debentures.

Beatrice continued to improve and expand the operating facilities of its continuing operations by investing $107 million in net property, plant and equipment expenditures in fiscal 1988. Also, in connection with the distribution of E-II, Beatrice distributed $80 million to its stock, option and warrant holders.

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

Inflation

Management continuously attempts to maintain profit margins and to counteract the effects of inflation with various productivity improvements, cost reduction programs and timely price increases within the constraints of highly competitive markets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and supplementary data filed herewith are listed in the Index to Financial Statements on page F-1. Information regarding selected quarterly financial data can be found in Note 18 of Notes to Consolidated Financial Statements.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and present principal occupation or employment and five year employment histories of the directors and executive officers of Beatrice are set forth below. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to Beatrice as Successor and Old Beatrice as Predecessor.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Karl M. Becker	44	Senior Vice President and General Counsel since March 1988 and from September 1986 to June 1987. Senior Vice President and General Counsel of E-II from May 1987 to March 1988. Senior Vice President, General Counsel and Secretary of Swift Independent Packing Company from April to August 1986. Vice President, General Counsel and Secretary of Swift Independent Packing Company from January 1985 to April 1986. Associate General Counsel of Esmark from December 1983 to September 1984. Previously, Assistant General Counsel of Esmark.
Kevin A. Bousquette	30	Director since April 1986. Associate, Kohlberg Kravis Roberts & Co. since 1985. Investment Banker, Morgan Stanley & Co. Incorporated from 1984 to 1985. Previously, Attorney, Latham & Watkins.
William P. Carmichael	44	Senior Vice President and Treasurer since March 1988, Vice President and Chief Financial Officer from June 1987 to March 1988 and Vice President, Taxes from April 1986 to June 1987. Vice President, Taxes of E-II from May 1987 to March 1988. Vice President, Taxes, of First Chicago Corp. from September 1985 to April 1986. Vice President, Taxes, of Old Beatrice from June 1984 to August 1985. Previously, Vice President, Taxes and Insurance, of Esmark.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
William L. Chambers	50	Senior Vice President, Human Resources since March 1988 and from July 1986 to June 1987. Senior Vice President, Human Resources of E-II from May 1987 to March 1988. Executive Vice President, Human Resources and Organization, of Ogden-Allied Services Corporation from 1985 to June 1986. Previously, Vice President, Human Resources, of Ogden Corporation.
J. S. Corcoran	45	Senior Vice President, Financial since March 1988 and Vice President, Financial from August 1984 to June 1987. Vice President, Financial of E-II from May 1987 to March 1988. Prior to August 1984, Controller of Esmark.
Michael L. Goldberg	37	Vice President and Controller since March 1988 and Director of Tax Research and Planning from September 1986 to March 1988. Director of Taxes and Assistant Treasurer of Beatrice U.S. Food from June 1984 to September 1986. Previously, Director, Tax Administration of Esmark.
John W. Grant	63	Group President of Beatrice U.S. Food since July 1986. Previously, President of the Household Products Division, Vice President and member of the executive committee of Miles Laboratories, Inc.
F. Edward Gustafson	46	President of Beatrice Holdings Inc. since March 1988. President of E-II Food Specialities Company, Inc. from May 1987 to March 1988. Executive Vice President of Beatrice U.S. Food from July 1986 to June 1987. President of the Consumer Health Care Division of Miles Laboratories, Inc. from January 1983 to July 1986.
Raymond V. Hartman	47	Vice President, Taxes since August 1987. Director of Taxes from October 1985 to August 1987 and Manager of Federal Taxes prior thereto.
Lee R. Keenan	39	Vice President, Compensation, Benefits and Staffing since March 1988. Director of Compensation from July 1985 to March 1988. Director of Compensation and Benefits of Northwest Industries, Inc. from November 1984 to July 1985. Previously, Director of Compensation for Northwest Industries, Inc.
Donald P. Kelly	66	Chairman of the Board since April 1986 and Chief Executive Officer from April 1986 to June 1987. Chairman of the Board and Chief Executive Officer of E-II from May 1987 to March 1988. President, Kelly, Briggs & Associates Inc. from June 1984 to April 1986. Previously, Chairman of the Board, President and Chief Executive Officer of Esmark.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Jerome Kohlberg, Jr.	62	Director since April 1986. General Partner, Kohlberg & Company since May 1987. Previously, General Partner, Kohlberg Kravis Roberts & Co.
Henry R. Kravis	44	Director since April 1986. General Partner, Kohlberg Kravis Roberts & Co.
Daniel M. Lechin	45	Vice President, Corporate Development since March 1988 and from April 1983 to January 1988. Vice President, E-II from January 1988 to May 1988. Vice President, Operations Administration, of Old Beatrice from April 1982 to April 1983.
Arthur J. McGivern	40	Vice President, Associate General Counsel and Secretary since October 1986. Vice President, Associate General Counsel and Secretary of E-II from May 1987 to March 1988. Prior to October 1986, Partner, Vedder, Price, Kaufman & Kammholz.
Paul E. Raether	41	Director since April 1986. General Partner, Kohlberg Kravis Roberts & Co. since April 1986. Previously, Associate, Kohlberg Kravis Roberts & Co.
William E. Reidy	56	Senior Vice President, Strategic Planning since March 1988 and Senior Vice President, Planning and Strategy from April 1986 to June 1987. Senior Vice President, Planning and Strategy of E-II from May 1987 to March 1988. Consultant from July 1985 to April 1986. Senior Vice President (Corporate Strategy) of Old Beatrice from January 1983 to July 1985.
Frederick B. Rentschler	48	Director since April 1986, President and Chief Executive Officer since June 1987, President and Chief Operating Officer from March 1987 to June 1987 and Executive Vice President from April 1986 to February 1987. President, Beatrice U.S. Food since April 1986. Consultant from June 1984 to April 1986. President and Chief Executive Officer of Swift/Hunt-Wesson Foods, Inc. from September 1983 to June 1984. Previously, President and Chief Executive Officer of Hunt-Wesson Foods, Inc.
George R. Roberts	44	Director since April 1986. General Partner, Kohlberg Kravis Roberts & Co.
Lizabeth G. Sode	37	Vice President, Corporate Relations since March 1988 and Vice President from June 1986 to June 1987. Vice President of E-II from May 1987 to March 1988. Director of Corporate Communications of The Quaker Oats Company from September 1985 to June 1986. Assistant Vice President and Director of Public Affairs of Old Beatrice from July 1984 to May 1985. Previously, Assistant Vice President, Corporate Affairs of Esmark.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Michael T. Tokarz	38	Director since April 1986. Associate, Kohlberg Kravis Roberts & Co. since 1985. Vice President and Manager, New York office, Continental Illinois National Bank and Trust Company of Chicago ("Continental Bank") from 1984 to 1985. Previously, Vice President and Manager, Miami office, Continental Bank.

Mr. Kohlberg is a director of Fred Meyer, Inc., L. B. Foster Company, Motel 6, G. P., Inc., SCI Holdings, Inc., Storer Communications, Inc. and Union Texas Petroleum Holdings, Inc. Mr. Kravis is a director of L. B. Foster Company, Motel 6, G. P., Inc., Owens-Illinois Holdings Corporation, SCI Holdings, Inc., SCI Television, Inc., Storer Communications, Inc., Safeway Stores Holdings Corporation, Seaman's Furniture Co., Inc. and Union Texas Petroleum Holdings, Inc. Mr. Raether is a director of Fred Meyer, Inc., SCI Holdings, Inc., SCI Television, Inc., Storer Communications, Inc. and Seaman's Furniture Co., Inc. Mr. Rentschler is a director of Escagenetics Corporation. Mr. Roberts is a director of Motel 6, G. P., Inc., Owens-Illinois Holdings Corporation, SCI Holdings, Inc., SCI Television, Inc. Storer Communications, Inc. Safeway Stores Holdings Corporation, Seaman's Furniture Co., Inc. and Union Texas Petroleum Holdings, Inc. Mr. Tokarz is a director of Safeway Stores Holdings Corporation. Mr. Bousquette is a director of Seaman's Furniture Co., Inc.

Messrs. Kravis and Roberts are first cousins.

ITEM 11. EXECUTIVE COMPENSATION.

Cash Compensation

Beatrice and E-II entered into a Services Agreement on June 30, 1987 pursuant to which Beatrice provided certain staff and other services to E-II and E-II provided certain management and other services to Beatrice on a fee basis. See Item 13 for a description of the Services Agreement. As part of this arrangement Messrs. Kelly, Becker, Carmichael, Chambers, Corcoran, Reidy and McGivern, Ms. Sode and others, who are not currently executive officers of Beatrice, were employed by and compensated by E-II for the period July 2, 1987 through February 29, 1988 during which period they continued to provide management services to Beatrice under the Services Agreement and, in certain cases, continued to be officers of Beatrice. In view of the foregoing, management believes the most meaningful disclosure relating to executive compensation is to disclose the current compensation for executive officers. The current annual salaries for the five most highly compensated executive officers and all executive officers as a group are as follows:

Name of Individuals or Number in Group	Capacities in Which Served	Salary
Donald P. Kelly	Chairman of the Board	$ 750,000
Frederick B. Rentschler	President and Chief Executive Officer	400,000
John W. Grant	Group President of Beatrice U.S. Food	275,000
William E. Reidy	Senior Vice President, Strategic Planning	250,000
F. Edward Gustafson	President of Beatrice Holdings Inc.	225,000
All executive officers as a group (15 persons, including those listed above)		$3,503,000

The Beatrice Management Incentive Plan provides for annual bonuses to key employees of Beatrice and its subsidiaries based on financial performance and personal goals. Target bonuses range from 16.67% to 63.34% of base salary and maximum bonuses range from 25% to 95% of base salary. All of Beatrice's executive officers participate in such plan. Target bonuses for Messrs. Kelly, Rentschler, Grant, Reidy and Gustafson are $475,050, $226,680, $137,500, $125,000 and $112,500, respectively, and $1,797,931 for all executive officers as a group. Maximum bonuses for Messrs. Kelly, Rentschler, Grant, Reidy and Gustafson are $712,500, $340,000, $206,250, $187,500 and $168,750, respectively, and $2,696,750 for all executive officers as a group. The amount of bonus earned is normally determined after fiscal year-end.

Directors of Beatrice who are not employees receive fees of $30,000 per year. Such fees aggregated $180,000 during fiscal 1988.

Employee Benefit Plans

Employee benefit plans sponsored by Beatrice and in which executive officers participate are described below:

Beatrice Retirement Income Plan. Certain officers and salaried employees are covered by the Beatrice Retirement Income Plan ("BRIP"), which is designed to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"). BRIP provides a monthly retirement benefit at age 60 equal to (i) 1% of final average monthly earnings multiplied by years of benefit service plus (ii) .5% of final average monthly earnings multiplied by years of benefit service less 1.5% of monthly social security benefits multiplied by years of benefit service up to 33⅓ years. "Final average monthly earnings" means average monthly cash compensation and 401(k) deferrals (excluding payments under long-term incentive plans and expense reimbursements) over the highest 60 consecutive months during a participant's last 120 months of employment, or the five calendar years during a participant's last fifteen calendar years of employment, if greater, during which average compensation was highest. BRIP also provides early retirement benefits and a surviving spouse benefit if a participant dies after satisfying certain requirements. Participants become fully vested in BRIP after completing 5 years of service.

The Code imposes a limitation on the benefits that may be paid under BRIP. Beatrice has a non-qualified Supplemental Retirement Income Plan ("SRIP") to provide benefits that participants would have been entitled to receive under BRIP were it not for the limitation. SRIP also provides for payments of amounts which would have been paid by BRIP were it not for the election of participants to defer compensation.

The normal form of payment under BRIP is a life annuity if the participant is unmarried or a 50% joint and survivor annuity if married. The following table reflects annual life annuity benefit payments to participants at specified salary levels and with specified lengths of service, using estimated social security benefit levels and disregarding the Code limitation noted above:

Final Average Annual Covered Earnings	Years of Benefit Service at Retirement			
	10	20	30	40
$100,000	$ 13,492	$ 26,983	$ 40,475	$ 54,972
200,000	28,492	56,983	85,475	114,972
300,000	43,492	86,983	130,475	174,972
400,000	58,492	116,983	175,475	234,972
500,000	73,492	146,983	220,475	294,972
600,000	88,492	176,983	265,475	354,972
700,000	103,492	206,983	310,475	414,972
800,000	118,492	236,983	355,475	474,972

Effective March 1, 1988 Beatrice adopted the Beatrice Executive Supplemental Pension Plan ("Supplemental Pension Plan"). This non-qualified plan includes only executive officers of Beatrice whose pension benefits under BRIP for periods prior to their employment by E-II were assumed by E-II. The Supplemental Pension Plan provides for payment of the difference between what a participant would have received had the participant participated continuously in BRIP and SRIP and the actual amount received from BRIP, SRIP and corresponding plans of E-II.

As of March 1, 1988, Messrs. Rentschler, Grant, Reidy and Gustafson had 7, 2, 0 and 0 years, respectively, of benefit service for purposes of BRIP and SRIP. Messrs. Reidy and Gustafson have earned pensions from E-II based on 5 and 2 years of service. Mr. Kelly does not accrue benefits under BRIP. However, at the time of the Merger he was receiving benefits under a former Esmark plan that had been merged into BRIP, which benefits he continues to receive.

Beatrice Employee Savings Trust. Officers and salaried employees are eligible to participate in the Beatrice Employee Savings Trust ("BEST"), a profit sharing plan with a salary deferral feature designed to qualify under Sections 401(a) and 401(k) of the Code as a profit sharing plan. BEST allows employees to defer up to 17% of their eligible compensation on a pre-tax basis, except that pre-tax contributions are limited to $7,313 annually and total employee and employer contributions are limited to $30,000 annually to conform with the Tax Reform Act of 1986. Matching contributions are made in amounts equal to 50% of the amount of employee contributions (on up to 6% of compensation) elected by a BEST participant. Under the Tax Reform Act of 1986 BEST must comply with certain tests of discrimination for deferral percentages between various groups of employees. Accordingly, Beatrice has reduced the 17% maximum for all plan participants with annual compensation in excess of $50,000.

Amounts contributed for a participant are held in trust until distributed either in a lump sum, or installments, pursuant to the provisions of the plan. All employee contributions are 100% vested. Fifty percent of the employer contribution vests after three years of employment and 100% is vested after five years of employment. Employee contributions and employer contributions are invested at the employee's discretion in investment alternatives offered by the plan.

Messrs. Kelly, Grant, Reidy and Gustafson and all executive officers as a group have elected to make contributions to BEST in amounts that would require matching employer contributions at an annual rate of $10,000, $8,250, $7,500, $6,234, and $87,284, respectively.

Beatrice Stock Option Plan. Beatrice's Stock Option Plan for Key Employees provides for the discretionary granting to key employees of Beatrice and its subsidiaries of options to purchase Beatrice common stock. Incentive stock options intended to qualify for tax treatment under Section 422A of the Code and non-qualified stock options may be issued under the plan at exercise prices set by the Stock Option Committee of the Board of Directors (the "Committee"), except that the price per share of any incentive stock option may not be less than 100% of the fair market value of such share on the date of grant and 110% of such fair market value in the case of an incentive option granted to a 10% stockholder. Options become exercisable in such cumulative annual or other installments and expire at such time up to ten years after the date of grant (five years in the case of an incentive stock option granted to a 10% stockholder) as the Committee determines. All key employees of Beatrice and its subsidiaries, including officers and directors who are employees, are eligible to receive options granted under the plan. The Board of Directors has limited to 17,700,000 the aggregate number of Beatrice shares which employees may acquire by direct purchase from Beatrice and pursuant to option grants. Current and former employees and members of their families hold 1,700,000 Beatrice shares and options to acquire an additional 15,822,000 shares. The shares and options currently held were acquired prior to fiscal 1988. The total number of Beatrice shares covered by options are: Mr. Kelly, 3,120,000; Mr. Rentschler, 1,260,000; Mr. Grant, 180,000; Mr. Reidy, 382,500; Mr. Gustafson, 90,000; and all executive officers as a group, 5,455,500 shares. The number of shares for which Mr. Kelly holds options does not include 6,240,000 shares for which options were transferred by him in June 1987 to a partnership of which his adult children are the general partners.

The Beatrice Stock Option Plan contains anti-dilution provisions which required the Committee to make appropriate and equitable adjustments in the outstanding options "to the end that after [the Distribution] the optionee's proportionate interest shall be maintained as before the occurrence of such event." Management estimated that approximately 20% of Beatrice's total net assets exclusive of funded debt on a fair market value basis would be distributed in the Distribution. Based on this estimate the Committee, at the time of the Distribution, reduced the option price by 20%, or from $5 a share to $4 a share, and caused an E-II replacement option to be granted to each person holding options under the Beatrice Stock Option Plan. The E-II replacement option provided the optionee with the right to acquire one share of E-II common stock at an option price of $3 for each three shares of Beatrice common stock to which he or she was entitled under his or her Beatrice option. In connection with the Distribution, Beatrice also distributed $.574 in cash to Beatrice optionees for each Beatrice share subject to an option.

Beatrice Employee Savings Trust. Officers and salaried employees are eligible to participate in the Beatrice Employee Savings Trust ("BEST"), a profit sharing plan with a salary deferral feature designed to qualify under Sections 401(a) and 401(k) of the Code as a profit sharing plan. BEST allows employees to defer up to 17% of their eligible compensation on a pre-tax basis, except that pre-tax contributions are limited to $7,313 annually and total employee and employer contributions are limited to $30,000 annually to conform with the Tax Reform Act of 1986. Matching contributions are made in amounts equal to 50% of the amount of employee contributions (on up to 6% of compensation) elected by a BEST participant. Under the Tax Reform Act of 1986 BEST must comply with certain tests of discrimination for deferral percentages between various groups of employees. Accordingly, Beatrice has reduced the 17% maximum for all plan participants with annual compensation in excess of $50,000.

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The Beatrice Stock Option Plan contains anti-dilution provisions which required the Committee to make appropriate and equitable adjustments in the outstanding options "to the end that after [the Distribution] the optionee's proportionate interest shall be maintained as before the occurrence of such event." Management estimated that approximately 20% of Beatrice's total net assets exclusive of funded debt on a fair market value basis would be distributed in the Distribution. Based on this estimate the Committee, at the time of the Distribution, reduced the option price by 20%, or from $5 a share to $4 a share, and caused an E-II replacement option to be granted to each person holding options under the Beatrice Stock Option Plan. The E-II replacement option provided the optionee with the right to acquire one share of E-II common stock at an option price of $3 for each three shares of Beatrice common stock to which he or she was entitled under his or her Beatrice option. In connection with the Distribution, Beatrice also distributed $.574 in cash to Beatrice optionees for each Beatrice share subject to an option.

Beatrice Long Term Growth Plan. The Beatrice Long Term Growth Plan (the "Long Term Growth Plan") is a long term incentive plan for key employees who do not hold options on Beatrice shares. The Long Term Growth Plan provides for the grant of award units which, after a performance period (two years for the Long Term Growth Plan's fiscal 1987 and 1988 grants), may be converted into cash by multiplying the number of units owned by the after-tax operating earnings per Beatrice share. The units have a life span of five years after which the units must be converted into cash. One third of the units awarded are earned based on the participant's continued employment ("Retention Portion") and the remaining two-thirds depends on meeting certain financial criteria (currently, various levels of operating return on total capital) determined by the Chief Executive Officer of Beatrice at the time the award is granted ("Performance Portion"). At the end of the performance period, the Performance Portion of each participant's award is subject to being increased or decreased depending on whether the financial performance of Beatrice exceeds or falls below the financial target. If the financial target is met, the participant will earn 100% of the Performance Portion of the award. If the financial performance exceeds the target, the participant can earn up to 150% of the Performance Portion of the award, and if it falls short of the target the participant will earn less than 100% of the Performance Portion. Three executive officers of Beatrice participate in the Long Term Growth Plan and hold a total of 51,668 units, each of which had a value of $6 as of February 29, 1988. The 15,579 units awarded in fiscal 1987 vested as of February 29, 1988.

Financial Counseling Plan. All executive officers of Beatrice are covered by a plan providing financial counseling services. Each participant is entitled to annual services having a value of $3,000 to $10,000, depending on his or her office, and $50,000 in the case of Mr. Kelly. The financial counseling services include tax and estate planning, tax return preparation assistance and personal financial management advice.

Severance Plan. Beatrice has a severance pay policy ("Severance Pay Policy") applicable to corporate office employees of the parent company including executive officers. The Severance Pay Policy provides for maximum severance payments for executive officers equal to two times the sum of their then current annual salary plus their maximum annual bonus under the Beatrice Management Incentive Plan for involuntary terminations other than as a result of death, disability, retirement or willful misconduct and for certain constructive terminations. The Severance Pay Policy also provides for payment of certain amounts to replace amounts forfeited under BRIP and BEST, continuation of medical, dental and life insurance for up to 18 months after such termination and outplacement services.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of April 29, 1988, there were 81,700,000 shares of Beatrice common stock outstanding. An additional 52,754,631 shares of Beatrice common stock are issuable under currently exercisable warrants and options.

The following table sets forth the beneficial owners of more than five percent of Beatrice common stock as of April 29, 1988. Beneficial ownership under the Securities and Exchange Commission's definition includes shares that can be acquired within 60 days upon the exercise of warrants or options.

Name and Address	Number of Shares	% of Shares Outstanding(5)
KKR Associates(1) 9 West 57th Street Suite 4200 New York, NY 10019	51,947,989(3)	38.6%
BCI Partners, L.P.(2) 9 West 57th Street Suite 4200 New York, NY 10019	69,791,142(4)	51.9%

(1) KKR Associates is a limited partnership of which Messrs. Kravis, Roberts, Raether, Michael Michelson and Robert I. MacDonnell are general partners. Shares shown as owned by KKR Associates are owned of record by three limited partnerships of which KKR Associates is the sole general partner and as to which it possesses sole voting and investment power. The general partners of KKR Associates may be deemed to share beneficial ownership of the shares shown as beneficially owned by KKR Associates. Messrs. Kravis, Raether and Roberts are directors of Beatrice.

(2) BCI Partners, L.P., is a limited partnership of which Messrs. Kravis, Roberts and MacDonnell are general partners. Shares shown as owned by BCI Partners, L.P., are owned of record by two limited partnerships of which BCI Partners, L.P., is the sole general partner and as to which it possesses sole voting and investment power. The general partners of BCI Partners, L.P., may be deemed to share beneficial ownership of the shares shown as beneficially owned by BCI Partners, L.P. Messrs. Kravis and Roberts are directors of Beatrice.

(3) Includes 4,867,630 shares of Beatrice common stock issuable on the exercise of currently exercisable warrants.

(4) Includes 36,871,501 shares of Beatrice common stock issuable on the exercise of currently exercisable warrants.

(5) The percentage is computed on the assumption that all shares which could be acquired within 60 days upon the exercise of warrants and options are outstanding.

The following table sets forth the beneficial ownership of Beatrice common stock by each director of Beatrice who beneficially owns shares as of April 29, 1988 and by all directors and officers of Beatrice as a group.

Name	Number of Shares
Donald P. Kelly	4,160,000(1)
Frederick B. Rentschler	455,000(1)
All directors and officers as a group	5,021,375(1)(2)

(1) Includes 3,120,000, 315,000 and 3,733,875 shares of Beatrice common stock issuable to Messrs. Kelly and Rentschler and directors and officers as a group, respectively, on the exercise of currently exercisable options to purchase Beatrice common stock.

(2) Excludes shares of Beatrice common stock which may be deemed to be beneficially owned by Messrs. Kravis, Roberts and Raether as general partners of KKR Associates or BCI Partners, L.P.

None of the directors or officers beneficially owns more than 1% of Beatrice common stock except Mr. Kelly who beneficially owns 3.1% and the directors and officers as a group who beneficially own 3.7%. These percentages were computed on the assumption that all shares which could be acquired within 60 days upon the exercise of warrants and options are outstanding.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Kohlberg Kravis Roberts & Co. ("KKR") has an agreement with Beatrice that became effective April 17, 1986 to render management, consulting and financial services to Beatrice and its affiliates. Such services include, but are not limited to, advice and assistance concerning the operations, planning and financing of Beatrice and its affiliates as is needed from time to time. In fiscal 1988 Beatrice paid KKR $1,000,000 for services provided under the agreement and reimbursed KKR $110,337 for expenses.

KKR leased an airplane from Beatrice for most of fiscal 1988 and on occasion used other Beatrice aircraft. For such usage KKR paid Beatrice $1,686,743 in fiscal 1988 which approximated Beatrice's costs for the leased airplane and was comparable to intercompany charges made by Beatrice to its operating companies for the other aircraft.

Beatrice and E-II entered into a Services Agreement on June 30, 1987 (the "Services Agreement") pursuant to which Beatrice provided certain staff and other services to E-II and E-II provided certain management and other services to Beatrice. E-II's employees were responsible for directing accounting, financial, legal, tax, corporate development, cash management, employee benefits, human resources, insurance and public relations activities at both E-II and Beatrice. Beatrice's corporate staff provided support and certain other, primarily staff, services and resources to E-II in all of the above-referenced areas. Each company was obligated to compensate the other company for furnishing services under the Services Agreement. The fees were designed to reimburse the provider of services for the allocable portion of each employee's compensation and related overhead based on a reasonable estimate of the time such employee spent on matters relating to the other entity. For fiscal 1988 the payments to Beatrice for services under the Services Agreement were approximately $3.1 million and the payments to E-II were approximately $2.3 million. The Services Agreement will terminate at the end of June 1988.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) List of documents filed as part of this Report:

(1) The financial statements listed in the Index to Financial Statements on page F-1 are filed as part of this Report.

(2) The financial statement schedules listed in the Index to Financial Statements on page F-1 are filed as part of this Report.

(b) Reports on Form 8-K

None.

(c) Exhibits:

Exhibit Number	Description of Exhibits
3.1	Restated Certificate of Incorporation of Beatrice Company effective September 6, 1987.
3.2	By-laws of Beatrice Company.
4.1	Form of Indenture between BCI Holdings Corporation, as Issuer, and Irving Trust Company, as Trustee, relating to the 11% Ten Year Senior Notes of BCI Holdings Corporation (incorporated by reference to Exhibit 4.1 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).
4.2	Form of Indenture between BCI Holdings Corporation, as Issuer, and Harris Trust and Savings Bank, as Trustee, relating to the 12½% Twelve Year Senior Subordinated Debentures of BCI Holdings Corporation (incorporated by reference to Exhibit 4.2 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).
4.3	Form of Indenture between BCI Holdings Corporation, as Issuer, and The Citizens and Southern National Bank, as Trustee, relating to the 12¾% Fifteen Year Subordinated Debentures of BCI Holdings Corporation (incorporated by reference to Exhibit 4.3 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).
4.4	Form of Indenture between BCI Holdings Corporation, as Issuer, and LaSalle National Bank, as Trustee, relating to the Fifteen Year Floating Rate Junior Debentures of BCI Holdings Corporation (incorporated by reference to Exhibit 4.4 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).

4.5 First Supplement to Indenture dated as of April 15, 1986 between BCI Holdings Corporation, as Issuer, and Irving Trust Company, as Trustee, relating to the 11% Ten Year Senior Notes of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.5 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

4.6 First Supplement to Indenture dated as of April 15, 1986 between BCI Holdings Corporation, as Issuer, and Harris Trust and Savings Bank, as Trustee, relating to the 12½% Twelve Year Senior Subordinated Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.6 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

4.7 First Supplement to Indenture dated as of April 15, 1986 between BCI Holdings Corporation, as Issuer, and The Citizens and Southern National Bank, as Trustee, relating to the 12¾% Fifteen Year Subordinated Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.7 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

4.8 First Supplement to Indenture dated as of April 15, 1986 between BCI Holdings Corporation, as Issuer, and LaSalle National Bank, as Trustee, relating to the Fifteen Year Floating Rate Junior Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.8 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

4.9 Second Supplement to Indenture dated as of June 30, 1987 between BCI Holdings Corporation, as Issuer, and Irving Trust Company, as Trustee, relating to the 11% Ten Year Senior Notes of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.1 to BCI Holdings Corporation's report on Form 10-Q for the quarter ended May 31, 1987).

4.10 Second Supplement to Indenture dated as of June 30, 1987 between BCI Holdings Corporation, as Issuer, and Harris Trust and Savings Bank, as Trustee, relating to the 12½% Twelve Year Senior Subordinated Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.2 to BCI Holdings Corporation's report on Form 10-Q for the quarter ended May 31, 1987).

4.11 Second Supplement to Indenture dated as of June 30, 1987 between BCI Holdings Corporation, as Issuer, and The Citizens and Southern National Bank, as Trustee, relating to the 12¾% Fifteen Year Subordinated Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.3 to BCI Holdings Corporation's report on Form 10-Q for the quarter ended May 31, 1987).

4.12 Second Supplement to Indenture dated as of June 30, 1987 between BCI Holdings Corporation, as Issuer, and LaSalle National Bank, as Trustee, relating to the Fifteen Year Floating Rate Junior Subordinated Debentures of BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.4 to BCI Holdings Corporation's report on Form 10-Q for the quarter ended May 31, 1987).

4.13 Execution Form of Indenture dated as of September 30, 1987 between Beatrice Company, as Issuer, and Wilmington Trust Company, as Trustee, relating to Increasing Rate Subordinated Debentures due 2002.

10.1 Revolving Credit Agreement dated as of June 25, 1987 among BCI Holdings Corporation and Financial Institutions listed therein and Bankers Trust Company, as Agent.

10.2 Form of Warrant to BCI Holdings Corporation (incorporated herein by reference to Exhibit 4.8 to Amendment No. 4 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).

10.3 Form of Services Agreement dated as of June 30, 1987 between BCI Holdings Corporation and E-II Holdings Inc. (incorporated herein by reference to Exhibit 10.1 to Amendment No. 2 to Form S-1 (No. 33-14454) of E-II Holdings Inc.).

10.4 Amendment to Services Agreement dated as of February 26, 1988 between Beatrice Company and E-II Holdings Inc.

10.5 Form of Indemnification Agreement dated as of June 30, 1987 between BCI Holdings Corporation and E-II Holdings Inc. (incorporated herein by reference to Exhibit 10.2 to Amendment No. 2 to Form S-1 (No. 33-14454) of E-II Holdings Inc.).

10.6 Form of Tax Allocation Agreement dated as of June 30, 1987 between BCI Holdings Corporation and E-II Holdings Inc. (incorporated herein by reference to Exhibit 10.3 to Amendment No. 2 to Form S-1 (No. 33-14454) of E-II Holdings Inc.).

10.7 Corporate Office Severance Pay Policy (as Amended and Restated April 1, 1988).

10.8 Beatrice Retirement Income Plan (Restated January 1, 1987), First Amendment effective April 1, 1988.

10.9 Beatrice Executive Supplemental Pension Plan.

10.10 Beatrice Supplemental Retirement Income Plan (Restated January 1, 1987) (incorporated herein by reference to Exhibit 10.14 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

10.11 Beatrice Employee Savings Trust (Restated January 1, 1987), First Amendment effective April 1, 1988.

10.12 Beatrice Supplemental Employee Savings Plan (incorporated herein by reference to Exhibit 10.20 to Amendment No. 4 to Form S-1 (No. 33-2229) of BCI Holdings Corporation).

10.13 First Amendment dated June 26, 1986, Second Amendment dated June 26, 1986 and Third Amendment dated January 26, 1987 to Beatrice Supplemental Employee Savings Plan.

10.14 Beatrice Company Fiscal Year 1988 Management Incentive Plan.

10.15 Stock Option Plan For Key Employees of BCI Holdings Corporation (incorporated herein by reference to Exhibit 10.22 to BCI Holdings Corporation's report on Form 10-K for the fiscal year ended February 28, 1987).

10.16 Long Term Growth Plan, as amended effective June 22, 1987.

22. Subsidiaries of Beatrice Company.

25. Powers of Attorney.

(d) Financial statements of 50% or less owned companies and other unconsolidated subsidiaries of Beatrice have been omitted since all such companies considered in the aggregate do not constitute a significant subsidiary of Beatrice.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEATRICE COMPANY

By /s/ J. S. CORCORAN
J. S. Corcoran
Senior Vice President, Financial

May 17, 1988

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated this 17th day of May 1988.

Signature	Title
* Frederick B. Rentschler	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ J. S. CORCORAN J. S. Corcoran	Senior Vice President, Financial (Principal Financial Officer)
/s/ MICHAEL L. GOLDBERG Michael L. Goldberg	Vice President and Controller (Principal Accounting Officer)
* Donald P. Kelly	Chairman of the Board
* Kevin A. Bousquette	Director
* Jerome Kohlberg, Jr.	Director
* Henry R. Kravis	Director
* Paul E. Raether	Director
* George R. Roberts	Director
* Michael T. Tokarz	Director

*By /s/ J. S. CORCORAN
J. S. Corcoran
Attorney-in-Fact

BEATRICE COMPANY

INDEX TO FINANCIAL STATEMENTS

Note:

All other financial statement schedules are omitted as not applicable or because the information required is included in the consolidated financial statements or the notes thereto.

AUDITORS' REPORT

The Board of Directors and Stockholders
Beatrice Company

We have examined the consolidated balance sheet of Beatrice Company and subsidiaries ("Beatrice") as of February 29, 1988 and February 28, 1987 and the related statements of consolidated earnings, stockholders' equity and changes in financial position of Beatrice for the year ended February 29, 1988, Beatrice and Beatrice Companies, Inc. and subsidiaries ("Old Beatrice") for the year ended February 28, 1987, and Old Beatrice for the year ended February 28, 1986. 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 connection with our examinations of the consolidated financial statements, we also examined the schedule of supplementary income statement information.

As more fully described in Note 2 to the consolidated financial statements, Beatrice acquired Old Beatrice as of April 17, 1986 in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Beatrice at February 29, 1988 and February 28, 1987 and the results of operations and changes in financial position of Beatrice for the year ended February 29, 1988, Beatrice and Old Beatrice for the year ended February 28, 1987, and Old Beatrice for the year ended February 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

PEAT MARWICK MAIN & CO.

Chicago, Illinois
April 29, 1988

BEATRICE COMPANY

CONSOLIDATED BALANCE SHEET

(In millions)

	February 29, 1988	February 28, 1987
ASSETS		
Current assets:		
Cash and cash equivalents	$ 970	$ 45
Receivables, less allowance for doubtful accounts of $19 and $17, respectively	291	340
Inventories	496	510
Net current assets of discontinued operations	72	436
Other current assets	155	122
Total current assets	1,984	1,453
Net property, plant and equipment	818	776
Intangible assets, principally goodwill and unallocated purchase cost, respectively	2,092	2,174
Net noncurrent assets of discontinued operations	553	2,040
Other noncurrent assets	264	344
	$5,711	$6,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ —	$ 4
Accounts payable	333	371
Accrued expenses	546	599
Current maturities of long-term debt	21	124
Total current liabilities	900	1,098
Long-term debt	3,372	4,243
Noncurrent and deferred income taxes	370	459
Other noncurrent liabilities	580	679
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings (deficit)	68	(121)
Cumulative foreign currency translation adjustment	2	10
Total stockholders' equity	489	308
	$5,711	$6,787

See Notes to Consolidated Financial Statements.

BEATRICE COMPANY

CONSOLIDATED INCOME STATEMENT

(In millions, except per share data)

	Year ended last day of February		
	1988	**1987**	**1986**
	(Successor)	**(Successor/ Predecessor Note 2)**	**(Predecessor)**
Net sales	$4,012	$3,951	$4,147
Costs and expenses:			
Cost of sales	2,954	2,868	3,044
Selling and administrative expenses	745	809	934
Amortization of intangible assets	56	50	37
Total costs and expenses	3,755	3,727	4,015
Operating earnings	257	224	132
Interest income	41	40	22
Interest expense	(347)	(284)	(98)
Change in control expenses	—	(84)	(17)
Miscellaneous income (expense), net	(61)	(28)	(39)
Loss from continuing operations before income taxes	(110)	(132)	—
Income tax expense (benefit)	(5)	(14)	12
Loss from continuing operations	(105)	(118)	(12)
Discontinued operations:			
Earnings from operations, net of income tax expense of $36, $98 and $212, respectively	10	59	244
Gain on sale of Beatrice International, net of income tax expense of $95	387	—	—
Reduction of estimated liabilities for income taxes and related interest, net of income tax expense of $23	256	—	—
Extraordinary items, net of income tax benefit of $11 and $40, respectively	(19)	(46)	—
Net earnings (loss)	$ 529	$ (105)	$ 232
Net earnings (loss) applicable to Beatrice common stockholders:			
Net earnings (loss)	$ 529	$ (105)	
Exclude: net loss in Predecessor period	—	36	
Deduct: preferred dividend requirements	—	(52)	
	$ 529	$ (121)	
Weighted-average common shares outstanding	82	82	
Common share equivalents	57	—	
	139	82	
Earnings (loss) per share:			
Continuing operations	$ (.61)	$(1.54)	
Discontinued operations	4.70	.50	
Extraordinary items	(.14)	(.44)	
Net earnings (loss)	$ 3.95	$(1.48)	

See Notes to Consolidated Financial Statements.

BEATRICE COMPANY

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

Years ended last day of February 1988, 1987 and 1986

	NUMBER OF SHARES* (In thousands)			STOCKHOLDERS' EQUITY (In millions)					
	Preference stock	Issued common stock	Common stock in treasury	Preference stock	Issued common stock	Additional capital	Retained earnings (deficit)	Common stock in treasury	Cumulative foreign currency translation adjustment
Balance, February 28, 1985	4,723	102,259	(10,604)	$243	$189	$180	$2,304	$(344)	$ (2)
Net earnings	—	—	—	—	—	—	232	—	—
Sale of common stock	—	4,738	9,662	—	9	134	(30)	321	—
Conversion of preference stock	(2,787)	4,516	150	(143)	9	130	(1)	5	—
Conversion of debentures	—	556	9	—	1	13	—	—	—
Exercise of stock options	—	231	154	—	1	5	(2)	5	—
Exercise of common stock warrants	—	2,200	—	—	3	73	—	—	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	17	(1)	—	—	1	—	1	—
Dividends paid	—	—	—	—	—	—	(195)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(1)
Balance, February 28, 1986	1,936	114,517	(630)	100	212	536	2,308	(12)	(3)
Net loss	—	—	—	—	—	—	(36)	—	—
Conversion of preference stock	(804)	1,304	191	(41)	2	35	—	4	—
Conversion of debentures	—	17	10	—	—	—	—	—	—
Exercise of stock options	—	191	212	—	—	8	—	4	—
Exercise of common stock warrants	—	25	219	—	—	4	—	4	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	(125)	(2)	—	—	(3)	—	—	—
Dividends paid	—	—	—	—	—	—	(53)	—	—
Change stated value to par value	—	—	—	—	(213)	213	—	—	—
Balance, April 16, 1986	1,132	115,929	—	59	1	793	2,219	—	(3)
Effect of Merger:									
Retire Old Beatrice equity	(1,132)	(115,929)	—	(59)	(1)	(793)	(2,219)	—	3
Issue Beatrice equity	—	81,425	—	—	1	416	—	—	—
Balance, April 17, 1986	—	81,425	—	—	1	416	—	—	—
Net loss	—	—	—	—	—	—	(69)	—	—
Sale of common stock	—	288	—	—	—	2	—	—	—
Common stock reacquired	—	(8)	—	—	—	—	—	—	—
Dividends paid on Redeemable Preferred Stock	—	—	—	—	—	—	(52)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	10
Balance, February 28, 1987	—	81,705	—	—	1	418	(121)	—	10
Net earnings	—	—	—	—	—	—	529	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(8)
Common stock reacquired	—	(5)	—	—	—	—	—	—	—
Distributions:									
E-II	—	—	—	—	—	—	(260)	—	—
Cash	—	—	—	—	—	—	(80)	—	—
Balance, February 29, 1988	—	81,700	—	$—	$ 1	$418	$ 68	$ —	$ 2

**Old Beatrice preference shares authorized on February 28, 1986—50 million.*
Old Beatrice common shares authorized on February 28, 1986—300 million.
Beatrice preferred shares authorized on the last day of February: fiscal 1988 and 1987—250 million.
Beatrice common shares authorized on last day of February: fiscal 1988 and 1987—200 million.

See Notes to Consolidated Financial Statements.

BEATRICE COMPANY

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(In millions)

	Year ended last day of February		
	1988	**1987**	**1986**
	(Successor)	**(Successor/ Predecessor Note 2)**	**(Predecessor)**
Cash provided (used) by operations:			
Loss from continuing operations	$ (105)	$ (118)	$ (12)
Items not involving cash:			
Depreciation and amortization of intangibles	136	133	117
Interest expense paid in Exchange Debentures	—	64	—
Deferred taxes	7	1	125
Other items, net	34	32	25
Changes in working capital, excluding current debt:			
Divestiture proceeds received in March 1985	—	—	855
Receivables	51	(33)	7
Inventories	15	9	(9)
Other current assets	(10)	44	4
Accounts payable and other current liabilities	(128)	(130)	(154)
Cash provided by continuing operations	—	2	958
Net cash provided (used) by discontinued operations	(68)	(69)	142
Net cash used by extraordinary items	(10)	(46)	—
Cash provided (used) by operations	(78)	(113)	1,100
Cash provided (used) by investment activities:			
Net expenditures for property, plant and equipment	(107)	(88)	(121)
Net proceeds from divested operations and other asset sales	1,327	3,385	360
Repayment to Beatrice of the E-II Notes	800	—	—
Other items, net	34	(11)	(49)
Cash provided by investment activities	2,054	3,286	190
Cash provided (used) by financing activities, excluding the Merger:			
Change in debt	(1,029)	(3,636)	(1,778)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	—	1,230	—
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	—	(1,230)	—
Proceeds from sale of Old Beatrice common stock	—	—	434
Refund of income taxes	106	—	176
Old Beatrice common stock issued upon conversion of preference stock and debentures	—	41	157
Old Beatrice preference stock and debentures retired upon conversion into Old Beatrice common stock	—	(41)	(157)
Old Beatrice common stock issued for exercises of stock options and stock warrants	—	20	85
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	—	74	—
Dividends paid in Redeemable Preferred Stock	—	(52)	—
Other items, net	(48)	81	(24)
Cash used by financing activities	(971)	(3,513)	(1,107)
Increase in cash and cash equivalents resulting from the Merger	—	292	—
Cash provided (used) before cash distribution and dividends	1,005	(48)	183
Beatrice cash distribution in 1988 and Old Beatrice cash dividends in 1987 and 1986	(80)	(53)	(195)
Increase (decrease) in cash and cash equivalents	925	(101)	(12)
Cash and cash equivalents at beginning of year	45	146	158
Cash and cash equivalents at end of year	$ 970	$ 45	$ 146

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

The definitions contained in the introduction to this Annual Report on Form 10-K are an integral part of Notes to Consolidated Financial Statements.

Principles of Consolidation The consolidated financial statements include Beatrice and its significant subsidiaries in the Successor periods and Old Beatrice and its significant subsidiaries in the Predecessor periods. Entities which are 20% to 50% owned are included on the equity method.

Beatrice has elected not to adopt Statements of Financial Accounting Standards No. 95, Statement of Cash Flows ("FAS 95") and No. 96, Accounting for Income Taxes ("FAS 96"). Beatrice expects only minor changes to the current format of its statement of consolidated changes in financial position in order to comply with FAS 95. Note 14, Income Taxes, contains further information regarding the future adoption of FAS 96.

Fiscal Year The fiscal year of Beatrice ends on the last day of February. Certain subsidiaries have fiscal years ending on the last Saturday in February. Unless otherwise stated, financial information for fiscal 1987 includes the periods both before and after Beatrice's April 17, 1986 acquisition of Old Beatrice.

Industry Beatrice's continuing operations conduct business primarily in the processed food industry through the production and distribution of branded food products.

Discontinued Operations The underlying net assets and related operating results of operations sold, distributed or to be disposed subsequent to the Merger are segregated in the financial statements as discontinued. Accordingly, prior period financial information presented is also restated.

Cash Equivalents Cash equivalents are highly liquid, low risk investments generally maturing within 90 days that are readily convertible into known amounts of cash.

Inventories Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) cost basis was used to determine 21% and 22% of inventories at the end of fiscal 1988 and 1987, respectively. The first-in, first-out (FIFO) cost basis is generally used for other inventories. The value of inventories would not have been significantly different had all inventories been accounted for on a FIFO basis.

Net Property, Plant and Equipment Depreciation is provided principally on the straight-line method.

Intangible Assets Intangible assets 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.

Income Taxes Income taxes include deferred income taxes which result from reporting certain items of income and expense in different periods for income tax purposes than for financial reporting purposes.

Per Share Data Earnings per share in fiscal 1988 are computed assuming the proceeds from the exercise of common share equivalents are applied to reduce long term debt, resulting in a reduction of interest expense, net of related income taxes, of $20 million. The loss per share from continuing operations in fiscal 1988 is also required to reflect the effects of these common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these anti-dilutive common share equivalents would have been $1.28. The loss per share computation for the Successor period ended February 28, 1987 excludes common share equivalents as the effect is anti-dilutive. Per share data for the Predecessor periods have not been presented due to the significantly different capital structures of Beatrice and Old Beatrice.

Postretirement Health Care Approximately 79% of U.S. postretirement health care expense is determined by an actuarial cost method which accrues expense over employees' service lives. The remaining U.S. postretirement health care expense is recognized as claims are incurred under Beatrice's self-insured programs and by expensing premiums paid to outside carriers over the policy periods. Substantially all U.S. postretirement health care is funded when claims are paid.

Reclassification Certain amounts for previous years in the consolidated financial statements have been reclassified to conform to the presentation used for fiscal 1988.

2. Acquisition of Old Beatrice

Beatrice, Beatrice U.S. Food, BCI Products and Beatrice International were formed solely for purposes relating to the acquisition of Old Beatrice. The acquisition was completed on April 17, 1986, when a wholly-owned, direct and indirect, subsidiary of Beatrice was merged into Old Beatrice. Predecessor refers to consolidated Old Beatrice in periods prior to the Merger and Successor refers to consolidated Beatrice in periods subsequent to the Merger.

Merger Consideration

The total cost of the acquisition, including related expenses, was approximately \$6.2 billion. In the Merger, each of Old Beatrice's then outstanding shares of common stock was converted into the right to receive \$40 cash and $^{10}/_{25}$ of a share of Beatrice 15¼% Cumulative Exchangeable Preferred Stock ("Redeemable Preferred Stock") with a liquidation preference of \$25 per share (collectively, "Merger Consideration"). In addition, Old Beatrice's then outstanding convertible preference stock, convertible debt securities and stock warrants became convertible into Merger Consideration based upon the number of common shares the holders thereof would have received had such rights been converted or exercised immediately prior to the Merger.

Funding

The following table, in millions, summarizes the sources and applications of funds to effect the Merger. Further information is contained in Notes 8 and 9.

Sources:	
Bank borrowings	\$3,300
Debt securities issued	2,500
Common stock and warrants issued	417
Redeemable Preferred Stock issued	1,156
	7,373
Applications:	
Purchase of equity securities	(6,183)
Debt repaid	(898)
Increase in cash and cash equivalents resulting from the Merger	\$ 292

Purchase Accounting

Beatrice has accounted for the Merger as a purchase. A preliminary allocation of purchase cost to Old Beatrice's net assets was made in fiscal 1987 and finalized in fiscal 1988. The final allocation, after giving effect to, among other things, the results of asset appraisals and the disposals of certain operations (Note 3), is summarized as follows, in millions:

Current assets of continuing operations	\$ 982
Current liabilities of continuing operations	(2,108)
Net current assets of discontinued operations	670
Net noncurrent assets of discontinued operations	5,383
Intangible assets, principally goodwill	2,209
Other net noncurrent liabilities	(953)
	\$ 6,183

The accompanying consolidated income statement for the fiscal year ended February 28, 1987 includes the following results of operations, in millions, for the Predecessor period:

Net sales	$ 446
Costs and expenses	(425)
Amortization of intangibles	(4)
Operating earnings	17
Interest expense	(12)
Change in control expenses	(84)
Loss from continuing operations before income taxes	(79)
Income tax benefit	(35)
Loss from continuing operations	(44)
Earnings from discontinued operations, net of income tax expense of $19	18
Extraordinary items, net of income tax benefit of $8	(10)
Net loss	$ (36)

3. Discontinued Operations

On April 8, 1988, Beatrice completed its previously announced sale of Tropicana for cash proceeds of $1.2 billion.

In November 1987, Beatrice completed the sale of Beatrice International, consisting of substantially all of Beatrice's non-U.S. food businesses, for cash proceeds of $985 million resulting in a net gain of $387 million.

In July 1987, the bottled water operations were sold for cash proceeds of $453 million. These operations were under contract for sale in May 1987 and, in connection with the allocation of purchase cost (Note 2), were valued based upon net proceeds. Therefore, no gain or loss was realized upon the sale.

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

In fiscal 1987, Beatrice sold its vehicle rental and leasing business; its personal products, knitwear and specialty printing operations; and its soft drink bottling, dairy and warehousing operations. In the allocation of purchase cost (Note 2), these operations were valued at net proceeds and, therefore, no gains or losses were recognized upon the sales.

The businesses described in the preceding paragraph are segregated in the accompanying consolidated financial statements as discontinued operations. Summary financial data for these operations follows (in millions):

	1988	1987
BALANCE SHEET DATA:		
Current assets	$210	$ 158
Current liabilities	(138)	(131)
Net current assets of operations sold or distributed	—	409
Net current assets of discontinued operations	72	436
Net property, plant and equipment	104	87
Intangible assets, principally goodwill and unallocated purchase cost, respectively	450	462
Long-term debt	—	(1)
Other, net	(1)	—
Net noncurrent assets of operations sold or distributed	—	1,492
Net noncurrent assets of discontinued operations	553	2,040
Net assets of discontinued operations	$625	$2,476

	1988	1987	1986
INCOME STATEMENT DATA*:			
Net sales and operating revenues	$3,493	$7,885	$8,853
Costs and expenses	(3,256)	(7,243)	(8,158)
Amortization of intangible assets	(20)	(63)	(39)
Interest allocation**	(171)	(422)	(200)
Earnings before income tax allocation	46	157	456
Income tax expense allocation	36	98	212
Earnings from discontinued operations	$ 10	$ 59	$ 244

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

***In the periods following the Merger, interest has been allocated based upon the actual or anticipated debt reductions resulting from the application of actual or estimated net proceeds received or to be received upon sale or the Distribution. To the extent that proceeds received or to be received from sales of discontinued operations have not been and are not expected to be used to reduce debt, interest has been allocated based upon the ratio of net assets of the discontinued operations to Beatrice's consolidated capitalization. Interest in the periods prior to the Merger has been allocated based on the ratio of the estimated fair value of these operations relative to the estimated fair value of all operations as of the Merger date.*

The interest expense allocated to discontinued operations is reflected in the accompanying consolidated income statement as a reduction of interest expense related to continuing operations. Assuming that (i) the proceeds from the sales or distribution of discontinued operations had been received and invested in interest bearing cash equivalents at the beginning of fiscal 1988 and (ii) no additional debt reductions occurred beyond those that are reflected in the accompanying consolidated financial statements, pro forma interest expense would have been $476 million and pro forma interest income would have been $159 million, which would have resulted in a pro forma increase of $11 million in the fiscal 1988 loss from continuing operations before income taxes.

Also in fiscal 1988, the consolidated income statement reflects credits of $256 million due to a reduction of estimated liabilities for income taxes and related interest, resulting from a favorable U.S. Tax Court decision on February 2, 1988. A deposit of $119 million made in July 1986 by Esmark to the Internal Revenue Service ("IRS"), which is expected to be refunded to Beatrice upon ultimate disposition of the case, is included in other current assets as of February 29, 1988. The decision related to a transaction in 1980 between Mobil-TransOcean Company ("Mobil") and Esmark, wherein Esmark transferred the outstanding shares of Vickers Energy Corporation ("Vickers"), a wholly-owned subsidiary whose sole asset at the time was its investment in TransOcean Oil, Inc., to Mobil in exchange for Esmark common stock and cash. Mobil had previously acquired the Esmark shares in a cash tender offer. Esmark believed that the exchange of its shares for Vickers shares constituted a nontaxable redemption and, therefore, Esmark was not required to recognize a taxable gain on the exchange. In March 1983, the IRS issued a revenue ruling which indicated that it might challenge Esmark's position. In June 1984, the IRS assessed a deficiency in connection with the exchange of approximately $115 million, exclusive of interest. Esmark and, subsequently, Beatrice believed the position taken by the IRS had no merit and vigorously contested the case. The favorable U.S. Tax Court decision on February 2, 1988 upheld that position and found Esmark to be free of any tax liability on the exchange. The IRS has the right to appeal the decision within 90 days from the date that the tax court decision is entered as final. Although the IRS has not appealed the tax court decision to date, the ultimate liabilities, if any, which may result from such an appeal cannot be predicted with certainty. However, in the opinion of Beatrice's management, which is supported by special legal counsel, the probability of the IRS prevailing in such an appeal is not likely.

4. Balance Sheet Components

The components of certain balance sheet accounts, in millions, are as follows:

	1988	1987
INVENTORIES:		
Raw materials and supplies	$137	$150
Work in process	63	57
Finished goods	296	303
	$496	$510
OTHER CURRENT ASSETS:		
Refundable U.S. federal income taxes	$119	$100
Other	36	22
	$155	$122
OTHER NONCURRENT ASSETS:		
Receivables	$ 84	$ 90
Investments	83	85
Other	97	169
	$264	$344
ACCOUNTS PAYABLE:		
Outstanding drafts and checks and other in-transit cash items	$ 52	$106
Trade and other	281	265
	$333	$371
ACCRUED EXPENSES:		
Interest	$129	$149
Employee compensation and benefits	123	126
Restructuring costs	50	98
Advertising and sales promotion	62	50
Income taxes	46	22
Other	136	154
	$546	$599
OTHER NONCURRENT LIABILITIES:		
Postretirement health care and pensions	$155	$159
Deferred credits	21	22
Other	404	498
	$580	$679

5. Net Property, Plant and Equipment

The components of net property, plant and equipment, in millions, are as follows:

	1988	1987
Land	$ 63	$ 77
Buildings	275	242
Machinery and equipment	643	530
	981	849
Less accumulated depreciation	(163)	(73)
	$818	$776

Included in net property, plant and equipment are assets under capital leases aggregating $17 million and $20 million at the end of fiscal 1988 and 1987, respectively. Depreciation expense amounted to $80 million, $83 million and $80 million in fiscal 1988, 1987 and 1986, respectively.

6. Leases

Future minimum payments under non-cancellable leases, in millions, are:

	Capital leases	Operating leases
1989	$ 5	$20
1990	4	18
1991	3	15
1992	2	11
1993	2	9
Later years	18	9
Total minimum lease payments	34	$82
Less:		
Estimated executory costs	(1)	
Amount representing interest	(13)	
Present value of net minimum lease payments	$20	

Future minimum rental receipts under capital subleases and non-cancellable operating subleases at the end of fiscal 1988 are $6 million and $7 million, respectively.

Rent expense for operating leases in fiscal 1988, 1987 and 1986 amounted to $24 million, $19 million and $20 million, respectively.

7. Short-term Debt

Short-term debt, in millions of dollars, is comprised of:

	1987	1986
U.S. borrowings	$—	$506
Non-U.S. borrowings	4	35
	$ 4	$541
Weighted-average interest rate of short-term debt at year-end	13.8%	8.2%

U.S. borrowings principally consisted of commercial paper in fiscal 1986. Non-U.S. borrowings are primarily bank debt.

Information regarding short-term debt activities, in millions of dollars, during the periods follows:

	1988	1987	1986
Maximum amount outstanding	$ 4	$ 915	$1,327
Average amount outstanding	$ 2	$ 100	$ 582
Weighted-average interest rate	13.8%	10.5%	10.3%

In June 1987, Beatrice entered into a revolving credit agreement (the "Revolving Credit Agreement") with a group of banks which refinanced and replaced its former Bank Credit Agreement and Working Capital Facility which, at the time of refinancing, had provided revolving lines of credit aggregating $1.2 billion. The new agreement provides for an initial aggregate commitment of $1.2 billion which is subject to mandatory reductions in the event certain assets are sold. The sale of Tropicana (Note 3) resulted in a $300 million mandatory reduction. Borrowings under the Revolving Credit Agreement bear interest, at Beatrice's option, at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required. At the end of fiscal 1988 there were no borrowings outstanding under this agreement, however, approximately $270 million of standby letters of credit were issued under this agreement, thus temporarily reducing availability for borrowings by a like amount.

8. Long-term Debt

Long-term debt, in millions of dollars, is comprised of:

	1988	1987
Revolving Loan due to 1992	$ —	$ 395
11% senior notes due to 1996	399	600
12½% senior subordinated debentures due to 1998	629	800
12¾% subordinated debentures due to 2001	810	950
Increasing Rate Subordinated Debentures due 2002 (13.7%*)	526	—
Floating rate junior subordinated debentures due to 2001 (14.9%*)	150	150
15.25% Junior Subordinated Exchange Debentures Due 2002	—	521
7.7% sinking fund debentures due to 1996	14	14
9½% sinking fund debentures due to 1999	33	32
12.85% notes due 1987	—	100
12% notes due 1989	100	100
8¼% notes due 1989 (*denominated in Dutch Guilders*)	52	49
12⅛% notes due 1991	93	86
10¼% notes due 1992 (*denominated in European Currency Units*)	60	56
7¾% notes due 1993 (*denominated in Deutsche Marks*)	76	71
10½% notes due 1994	45	49
8.3% notes due to 1997	57	62
9⅞% notes due to 2004	93	98
Zero coupon note payments due:		
1992—$250 million (14.6%*)	146	127
2014—$114 million (12.2%*)	6	5
Industrial revenue bonds, due various dates through 2014 (7.8%*)	23	25
Other, due various dates through 2007 (8.1%*)	61	55
Capitalized lease obligations, due various dates through 2037 (8.6%*)	20	22
	3,393	4,367
Current maturities	(21)	(124)
	$3,372	$4,243

**Represents weighted-average effective rate.*

Aggregate annual maturities and sinking fund requirements of long-term debt for fiscal 1990 through 1993 are $169 million, $23 million, $362 million and $76 million, respectively.

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

The terms of the 11% senior notes, 12½% senior subordinated debentures, 12¾% subordinated debentures and floating rate junior subordinated debentures (collectively, the "Merger Notes") were modified to allow for the Distribution (Note 3) and to provide more flexibility regarding the retirement, repayment and defeasance of the various issues. The stock of all U.S. first tier subsidiaries of Beatrice and certain second tier subsidiaries is pledged as collateral. In addition, dividends to common stockholders are prohibited unless Beatrice meets specified financial requirements defined in the indentures.

Under the terms of the 11% senior notes, an offer to purchase the lesser of the amount of principal notes outstanding or the amount of net cash proceeds received must be made by the tenth business day of the fiscal quarter following consummation of any asset sale (as defined in the indentures). As a result of the sale of Tropicana (Note 3), an offer to purchase all of the remaining senior notes will be made no later than June 14, 1988. During fiscal 1988 Beatrice purchased $102 million principal amount of its 11% senior notes through tender offers and another $99 million through open market purchases. In addition, $311 million of other Merger Notes were acquired through open market purchases.

During fiscal 1987, Beatrice repaid the initial bank borrowings utilized in the Merger prior to maturity and reduced its subsequent borrowings to $395 million. In addition, immediately prior to the Merger, Old Beatrice prepaid certain of its previously outstanding debt issues.

9. Redeemable Preferred Stock

In the Merger, approximately 48.5 million shares of Redeemable Preferred Stock were reserved for issuance as a portion of the Merger Consideration. In August 1986, the Redeemable Preferred Stock was exchanged for 15.25% Junior Subordinated Exchange Debentures Due 2002 (Note 8). Approximately 49.2 million shares were exchanged, including shares issued in payment of dividends for the period April 17 to July 31, 1986.

10. Stockholders' Equity

Preferred Stock

Beatrice has 250 million shares of authorized and unissued preferred stock with a par value of $.01 per share.

Common Stock

Beatrice common stock, with a par value of $.01 per share, is owned primarily by entities formed by Kohlberg Kravis Roberts & Co. for purposes of effecting the acquisition of Old Beatrice. The remaining shares are held by certain present or former executive employees of Beatrice or its subsidiaries.

Through the end of fiscal 1988, 17.7 million common shares had been reserved for sale to employees and for employee stock options. During fiscal 1987, 1.7 million of these shares were sold and options to acquire 15.8 million shares were granted, of which 5.4 million were exercisable as of February 29, 1988. Concurrent with the Distribution, the original grant price of $5 for each share under option was reduced to $4.

Beatrice has also reserved 41.7 million shares of common stock for warrants sold in connection with the Merger. Such warrants are exercisable at any time through April 17, 2001, and have an exercise price of $5 per share, subject to certain anti-dilution adjustments.

Retained Earnings (Deficit)

The terms of the Merger Notes (Note 8) restrict the payment of dividends on common stock. As of February 29, 1988, approximately $54 million of retained earnings was available for dividends on common stock.

11. Contingent Liabilities

Beatrice and its subsidiaries are engaged in various litigation proceedings, including the income tax matter described in Note 3, which occur in the ordinary course of business. In the opinion of management, there are no claims or litigation pending at the end of fiscal 1988 to which Beatrice is a party which are expected to have a materially adverse effect on its consolidated financial condition.

12. Change in Control Expenses

The following change in control expenses, in millions, were incurred in the periods prior to the Merger:

	1987	1986
Accelerated compensation	$39	$—
Fees and other expenses	31	17
Employee stock option plans	14	—
	$84	$ 17

Accelerated compensation resulted from provisions contained in employee incentive plans and executive compensation agreements concerning any changes in the control of Old Beatrice which were activated by the Merger. Fees and other expenses related to investment banking and legal fees, proxy costs and other expenses incurred by Old Beatrice in connection with the Merger. In addition, certain unexercised employee stock options were acquired prior to the Merger.

13. Miscellaneous Income (Expense), Net

Miscellaneous income (expense), net includes expense in fiscal 1988 of $25 million relating to payments made in connection with obtaining consents to modifications of certain debt agreements (Note 8) and expense in fiscal 1986 of $20 million relating to the phase-out of automobile racing sponsorships.

14. Income Taxes

During fiscal 1988, FAS 96 was issued which significantly affects methods of accounting for income tax expense and related deferred income tax liabilities. The adoption of FAS 96, which is not required of Beatrice until fiscal 1990, may be done retroactively through restatement of previously issued financial statements or prospectively by recognizing the cumulative effect of the change in accounting principle on income. Also, special transition rules for business combinations completed prior to the year of adoption can significantly affect the amounts to be reported upon initial adoption. Beatrice is currently evaluating the effect of adopting FAS 96; however, due to its complexity and various alternatives regarding implementation, Beatrice has not yet reached a decision as to when the new accounting standard will be adopted or to what extent, if any, its application will be retroactive. Accordingly, it is not possible to reasonably estimate the impact on Beatrice's financial statements at this time.

In connection with the allocation of purchase cost (Note 2), deferred income tax benefits in excess of those expected to be realized were not recognized as assets. In fiscal 1988, Beatrice realized tax benefits of $95 million attributable to differences between the tax bases of certain assets and liabilities as of the Merger and the amounts allocated to those assets and liabilities under purchase accounting. Tax benefits amounting to $30 million, which relate to fiscal 1987 transactions, have been used to reduce goodwill and tax benefits amounting to $65 million, which relate to fiscal 1988 transactions, have been used to reduce the income tax expense applicable to the gain on sale of Beatrice International. The tax expense applicable to the gain has also been reduced by $23 million for the effect of foreign tax credits that arise from and are available to reduce U.S. federal income taxes on the gain.

Substantially all continuing operations are subject only to U.S. federal, state and local income taxes. State and local income tax benefits may not be realized on a portion of Beatrice's pre-tax losses.

Income tax expense (benefit), in millions, consists of:

	1988	1987	1986
Currently payable provision:			
U.S. federal	$(33)	$(35)	$(108)
U.S. state and local	17	17	(16)
Non-U.S.	4	3	11
	(12)	(15)	(113)
Deferred provision:			
U.S. federal:			
Accelerated depreciation	10	—	11
Reserves and accruals	(3)	—	83
Other	—	—	11
U.S. state and local	—	—	19
Non-U.S.	—	1	1
	7	1	125
	$ (5)	$(14)	$ 12

The following is a reconciliation of the income tax expense (benefit) from that computed at the U.S. statutory rate of 38% in fiscal 1988 and 46% in fiscal 1987 and 1986, in millions:

	1988	1987	1986
Income tax expense (benefit) at U.S. statutory rate	$(42)	$(61)	$—
Effect of:			
Non-deductible amortization and depreciation	26	42	23
Rate differential on non-U.S. earnings	—	(5)	(1)
State taxes, net of U.S. federal benefit	11	8	2
Non-deductible compensation	—	4	—
Investment tax credit	—	—	(5)
Other	—	(2)	(7)
Income tax expense	$ (5)	$(14)	$12

15. Extraordinary Items

In connection with the purchases of senior notes and the acquisitions of other Merger Notes (Note 8), Beatrice incurred pre-tax extraordinary charges in fiscal 1988 of $21 million for premiums paid and $9 million for the write-off of unamortized deferred financing fees.

In connection with the Bank Credit Agreement described in Note 7, Beatrice incurred financing fees that were to be amortized to expense over the term of the Bank Credit Agreement. By February 28, 1987, the initial borrowings under the agreement had been repaid through the application of the net cash proceeds received from the disposal of various businesses (Note 3). As a result, unamortized financing fees and other related costs amounting to $68 million pre-tax were charged to earnings as an extraordinary expense in fiscal 1987. Also in fiscal 1987, Old Beatrice redeemed or repaid certain debt issues at prices in excess of the stated values through direct redemptions or payments to trustee escrow accounts. The excess amount paid resulted in a pre-tax extraordinary charge of $18 million.

16. Pension and Postretirement Plans

In fiscal 1987, Beatrice adopted Statements of Financial Accounting Standards No. 87, Employers' Accounting for Pensions ("FAS 87") and No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

Pension Plans

In conjunction with the adoption of FAS 87 for U.S. defined benefit pension plans, the allocation of purchase cost to Old Beatrice's net assets included the recognition of an asset for plans which had plan assets in excess of the projected benefit obligation and the recognition of a liability for plans which had a projected benefit obligation in excess of plan assets.

U.S. defined benefit pension plans

Beatrice has defined benefit pension plans which cover substantially all U.S. salaried employees and certain groups of U.S. hourly-paid employees. Plans covering salaried employees generally provide pension benefits to employees who complete five or more years of service. Pension benefits are generally based upon years of service and compensation during the final years of employment. Plans covering hourly-paid employees generally provide pension benefits of fixed amounts for each year of service.

Net periodic pension cost under FAS 87 for U.S. defined benefit plans was $13 million in fiscal 1988 and 1987. Pension expense in fiscal 1986 was $16 million. FAS 87 does not permit the restatement of expense in years prior to the adoption of FAS 87.

Net periodic pension cost, in millions, consists of the following components:

	1988	1987
Service cost—benefits earned during the period	$13	$12
Interest cost on the projected benefit obligation	26	23
Actual return on plan assets	(10)	(51)
Net amortization and deferral	(16)	29
Net periodic pension cost	$13	$13

The following table sets forth the U.S. defined benefit pension plans' funded status and amounts recognized in the accompanying consolidated balance sheet, in millions:

	1988		1987	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefit obligation	$(255)	$(25)	$(259)	$(27)
Nonvested benefit obligation	(12)	(2)	(12)	(2)
Accumulated benefit obligation	(267)	(27)	(271)	(29)
Value of future pay increases	(44)	(5)	(41)	(4)
Projected benefit obligation	(311)	(32)	(312)	(33)
Plan assets at fair value	336	17	346	12
Projected benefit obligation less than (in excess of) plan assets	25	(15)	34	(21)
Prior service cost not yet recognized in net periodic pension cost	1	1	1	1
Unrecognized net gain from past experience different from that assumed	(44)	—	(46)	(1)
Accrued pension cost	$ (18)	$(14)	$ (11)	$(21)
Accrued pension cost classified as:				
Other noncurrent assets	$ —	$ —	$ 2	$ 1
Accrued expenses	(2)	(1)	(6)	(3)
Other noncurrent liabilities	(16)	(13)	(7)	(19)
	$ (18)	$(14)	$ (11)	$(21)

The valuation of the projected benefit obligation at the end of fiscal 1988 and 1987 assumed a weighted-average discount rate of 8.6% and 8.1%, respectively, and a weighted-average rate of increase in the compensation level of 5.8% in each year. Net periodic pension cost in fiscal 1988 and 1987 assumed an expected long-term rate of return on assets of 8.5%. Benefit obligation and plan asset information at February 28, 1987 has been revised to reflect final valuation information provided by Beatrice's consulting actuaries and plan trustees.

Plan assets are primarily invested in equity securities and fixed income instruments. The plans do not have significant liabilities other than benefit obligations. Beatrice's funding policy is to contribute amounts equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

U.S. defined contribution pension plans

Beatrice sponsors a defined contribution pension plan, the Beatrice Employee Savings Trust ("BEST"). BEST is qualified under Section 401(a) and 401(k) of the Internal Revenue Code and is offered to salaried employees and certain groups of hourly-paid employees of substantially all U.S. operations. BEST allows employees to defer up to 17% of their eligible compensation. Beatrice and participating operations provide matching contributions of up to 50% of the amount of employee salary deferral contributions (up to 6% of compensation). Employees are 50% vested in the matching company contributions after three years of service and are fully vested after five years of service. Expense for employer-sponsored U.S. defined contribution pension plans was $10 million, $6 million and $5 million in fiscal 1988, 1987 and 1986, respectively.

U.S. multiemployer pension plans

Beatrice contributes to several multiemployer pension plans. These plans generally provide pension benefits to certain groups of U.S. hourly-paid employees not covered by an employer-sponsored defined benefit pension plan. Expense amounted to $5 million in fiscal 1988 and 1987 and $4 million in fiscal 1986.

Postretirement Plans

Beatrice provides postretirement health care benefits to certain groups of U.S. retirees. Approximately 52% of all current U.S. personnel may become eligible for such benefits if they were to retire from Beatrice. The cost of providing these benefits in fiscal 1988, 1987 and 1986 was $15 million, $14 million and $16 million, respectively. The effect on earnings of postretirement life insurance and non-U.S. postretirement health care is immaterial.

17. Reorganization

Subsequent to the Merger, Old Beatrice's Board of Directors approved a Plan of Complete Liquidation and Dissolution ("Plan") for Old Beatrice which was completed during fiscal 1988. The Plan involved Old Beatrice exchanging substantially all of its net assets in return for Old Beatrice common stock and the cancellation of notes receivable from Old Beatrice held by Beatrice and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Subsidiaries. Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consisted of investments in Old Beatrice common stock and intercompany notes receivable from Old Beatrice and payable to the First Tier Subsidiaries. Beatrice International has since been sold.

The following consolidating financial statements as of and for the years ended the last day of February 1988 and 1987 present:

- Condensed consolidated income statements and balance sheets for NSI, Swift-Eckrich and the Beatrice U.S. Food first tier subsidiary;
- Condensed income statement and balance sheet for the parent company only (Beatrice), including the elimination of its investments in its wholly-owned subsidiaries; and
- Condensed consolidated income statement and balance sheet for Beatrice.

For purposes of these financial statements, the Plan is assumed to have been completed on March 1, 1986. Also, the fiscal year 1987 condensed consolidating income statement includes both the Predecessor and Successor periods.

CONDENSED CONSOLIDATING BALANCE SHEET
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
As of February 29, 1988:					
Assets:					
Cash and cash equivalents	$ 8	$ 2	$ 8	$ 952	$ 970
Receivables, net	142	56	60	33	291
Inventories	318	111	47	20	496
Net current assets of discontinued operations	—	—	72	—	72
Other current assets	53	1	6	95	155
Total current assets	521	170	193	1,100	1,984
Net property, plant and equipment	439	205	67	107	818
Intangible assets, principally goodwill	1,200	776	102	14	2,092
Net noncurrent assets of discontinued operations	—	—	553	—	553
Other noncurrent assets	16	1	113	134	264
	$2,176	$1,152	$1,028	$1,355	$5,711
Liabilities and Stockholders' Equity:					
Current maturities of long-term debt	$ 12	$ —	$ 2	$ 7	$ 21
Accounts payable and accrued expenses	281	128	189	281	879
Total current liabilities	293	128	191	288	900
Long-term debt	219	5	13	3,135	3,372
Noncurrent and deferred incomes taxes	71	—	—	299	370
Other noncurrent liabilities	42	5	6	527	580
Net intercompany investments and advances	1,551	1,014	818	(3,383)	—
Stockholders' equity	—	—	—	489	489
	$2,176	$1,152	$1,028	$1,355	$5,711
As of February 28, 1987:					
Assets:					
Cash and cash equivalents	$ 7	$ 1	$ 17	$ 20	$ 45
Receivables, net	167	59	59	55	340
Inventories	353	101	41	15	510
Net current assets of discontinued operations	—	—	46	390	436
Other current assets	42	1	5	74	122
Total current assets	569	162	168	554	1,453
Net property, plant and equipment	432	208	66	70	776
Intangible assets, principally unallocated purchase cost	—	—	—	2,174	2,174
Net noncurrent assets of discontinued operations	—	—	1,104	936	2,040
Other noncurrent assets	18	1	149	176	344
	$1,019	$ 371	$1,487	$3,910	$6,787
Liabilities and Stockholders' Equity:					
Short-term debt and current maturities of long-term debt	$ 15	$ —	$ 3	$ 110	$ 128
Accounts payable and accrued expenses	306	163	149	352	970
Total current liabilities	321	163	152	462	1,098
Long-term debt	228	5	22	3,988	4,243
Noncurrent and deferred income taxes	90	—	(1)	370	459
Other noncurrent liabilities	37	4	6	632	679
Net intercompany investments and advances	343	199	1,308	(1,850)	—
Stockholders' equity	—	—	—	308	308
	$1,019	$ 371	$1,487	$3,910	$6,787

CONDENSED CONSOLIDATING INCOME STATEMENT
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
Fiscal year ended February 29, 1988:					
Net sales	$1,735	$1,313	$ 853	$ 111	$4,012
Operating expenses	1,540	1,227	823	165	3,755
Operating earnings	195	86	30	(54)	257
Intercompany interest income (expense), net	(57)	(74)	(2)	133	—
Interest expense	(28)	(1)	(2)	(316)	(347)
Other income (expense), net	1	—	15	(36)	(20)
Earnings (loss) from continuing operations before income taxes	111	11	41	(273)	(110)
Income tax expense (benefit)	67	19	17	(108)	(5)
Earnings (loss) from continuing operations	44	(8)	24	(165)	(105)
Discontinued operations	—	—	(6)	659	653
Extraordinary items	—	—	—	(19)	(19)
Net earnings (loss)	$ 44	$ (8)	$ 18	$ 475	$ 529

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
Fiscal year ended February 28, 1987:					
Net sales	$1,712	$1,318	$ 830	$ 91	$3,951
Operating expenses	1,500	1,204	801	222	3,727
Operating earnings	212	114	29	(131)	224
Intercompany interest income (expense), net	(71)	(31)	(14)	116	—
Interest expense	(25)	(1)	(3)	(255)	(284)
Other income (expense), net	6	—	20	(98)	(72)
Earnings (loss) from continuing operations before income taxes	122	82	32	(368)	(132)
Income tax expense (benefit)	72	43	19	(148)	(14)
Earnings (loss) from continuing operations	50	39	13	(220)	(118)
Discontinued operations	4	—	94	(39)	59
Extraordinary items	—	—	—	(46)	(46)
Net earnings (loss)	$ 54	$ 39	$ 107	$ (305)	$ (105)

18. Quarterly Results of Operations (Unaudited)

The following is a summary, in millions except per share data, of the unaudited quarterly results of operations for fiscal 1988 and 1987:

1988*	First	Second	Third	Fourth
Net sales	$ 892	$ 932	$1,138	$1,050
Cost of sales	$ 649	$ 698	$ 849	$ 758
Loss from continuing operations	$ (37)	$ (62)	$ (5)	$ (1)
Net earnings (loss)	$ (54)	$ (64)	$ 455	$ 192
Earnings (loss) per share:				
Continuing operations	$ (.45)	$ (.76)	$ .02	$ .03
Net earnings (loss)	$ (.66)	$ (.78)	$ 3.33	$ 1.42

1987**	First	Second	Third	Fourth
Net sales	$ 905	$ 949	$1,109	$ 988
Cost of sales	$ 665	$ 690	$ 809	$ 704
Loss from continuing operations	$ (49)	$ (24)	$ (7)	$ (38)
Net earnings (loss)	$ (51)	$ (9)	$ 28	$ (73)
Earnings (loss) per share:				
Continuing operations	$ (.33)	$ (.66)	$ (.02)	$ (.46)
Net earnings (loss)	$ (.45)	$ (.48)	$ .23	$ (.89)

**In the third quarter of fiscal 1988, net earnings included an after-tax gain of $422 million from the sale of Beatrice International (Note 3). The after-tax gain was reduced by $35 million in the fourth quarter as a result of a final review of Beatrice's overall tax position.*

In the fourth quarter of fiscal 1988, net earnings included credits of $256 million due to a reduction in estimated liabilities for taxes and related accrued interest (Note 3).

The sum of the quarterly earnings (loss) per share is less than the earnings per share shown on the statement of consolidated earnings because the assumed conversion of stock options and warrants (Note 10) is dilutive in the third and fourth quarters, as well as the full year, but is anti-dilutive in the first and second quarters. This anti-dilutive effect results from a loss from continuing operations and a net loss in the first and second quarters. The loss per share from continuing operations in the third and fourth quarters, as well as the full year, is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings in each of these periods. The loss per share from continuing operations for the third and fourth quarters and the full year, excluding the effects of these anti-dilutive common share equivalents, would have been $.06, $.01 and $1.28, respectively.

***In the first quarter of fiscal 1987, loss from continuing operations and net loss included after-tax change in control expenses of $45 million (Note 12). Net loss in the first quarter also included a charge for an extraordinary item, net of income taxes, of $10 million for costs incurred in the redemption or repayment of Old Beatrice debt immediately prior to the Merger (Note 15).*

In the fourth quarter of fiscal 1987, loss from continuing operations and net loss included additional amortization of intangibles of $10 million due to changes in the allocation of Old Beatrice's purchase cost, and also included the effects of a reduction in state income tax benefits in the provision for income taxes. Net loss in the fourth quarter also included a charge of $36 million for an extraordinary item, net of income taxes, primarily related to financing fees which were incurred in connection with the Bank Credit Agreement (Note 15).

Per share data applies only to the period subsequent to the Merger due to the significantly different capital structures of Old Beatrice and Beatrice. The sum of the quarterly earnings (loss) per share is more than the loss per share shown on the statement of consolidated earnings because the assumed conversion of stock options and warrants (Note 10) is dilutive in the third quarter, but is anti-dilutive in the first, second and fourth quarters, as well as the full period. This anti-dilutive effect results from a loss from continuing operations and a net loss in the full period, as well as the first, second and fourth quarters. The loss per share from continuing operations in the third quarter is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings in that period. The loss per share from continuing operations for the third quarter, excluding the effects of these anti-dilutive common share equivalents, would have been $.09.

BEATRICE COMPANY

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Three Years Ended the last day of February
(In millions)

Description	1988	1987	1986
Maintenance and repairs	$ 58	$ 58	$ 55
Advertising costs	$165	$209	$294

Beatrice Company

SUBSIDIARIES AS OF FEBRUARY 29, 1988

Corporate Name	State or Country of Incorporation
BCI Consumer Products Corporation	Delaware
BCI Weskem, Inc.	Delaware
Estech, Inc.	Delaware
Estech of Japan, Inc.	Japan
Weskem, Inc.	Nebraska
International Jensen Incorporated	Delaware
FujiCone, Inc. (50% owned)	Delaware
Jensen Sound Laboratories—International, Inc.	Delaware
Rusty Jones, Inc. (80% owned)	Delaware
Beatrice Finance N.V.	Neth. Antilles
Beatrice Foods Co. (name holding company)	Delaware
Beatrice Foods Finance Europe B.V. (50% owned)	Neth. Antilles
Beatrice Foods Overseas Finance N.V.	Neth. Antilles
Beatrice Foods Finance Europe B.V. (50% owned)	Neth. Antilles
Beatrice Holdings Inc.	Delaware
Beatrice Bakeries Inc.	Delaware
Southern Bakeries, Inc.	Delaware
Beatrice Properties Inc.	Delaware
Beatrice U.S. Food Corp.	Delaware
BCI Divestiture, Inc.	Delaware
American Industries Insurance Co. Ltd.	Bermuda
Beatrice Scientific Co.	Delaware
BFC Corporation	Delaware
Elite Sounds, Inc.	New York
Eschem Canada Inc.	Canada
Estech Investments, Inc.	Delaware
DRE Interstate Aviation, Inc.	Delaware
Radial Credit Services, Inc.	Delaware
Risk Resources, Ltd.	Bermuda
Verglass Corporation	California
Estronics, Inc.	Delaware
Comark, Inc.	Oklahoma
Gam Fashions, Inc.	New York
Georgeland Corp.	Delaware
Jan-U-Wine Foods, Inc. (name holding company)	California
McCall Corporation	Delaware
Delaware Dry Goods Co.	Delaware
Inman Enterprises, Inc.	California
NSGCP, Inc.	Connecticut
Peninsula Lithograph Co., Inc.	California
MKC Corp.	Georgia
Norton Simon Communications, Inc.	Delaware
Norton Simon International Sales Corp.	Delaware
Norton Simon Properties, Inc.	Delaware
Scoco, Inc.	Delaware
Snacks Research Corp.	Illinois

Corporate Name	State or Country of Incorporation
(BCI Divestiture, Inc. subsidiaries continued)	
Swift & Company (name holding company)	Delaware
Swift & Company (KY)	Kentucky
Swift & Company (NJ)	New Jersey
Tansi Productions, Inc.	New York
The McCall Leasing Company	Delaware
Threaders, Inc.	Delaware
Beatrice Cheese, Inc.	Delaware
County Line Cheese Co., Inc.	Indiana
Swissrose International, Inc.	New Jersey
L.L. Cheese Co., Inc.	Delaware
Beatrice Financial Services, Inc.	Delaware
Berliner & Marx, Inc.	Delaware
Tropicana Products, Inc.	Delaware
B & H Projects, Inc.	Florida
Progress Service, Inc.	Florida
Tropicana Products Sales, Inc.	Delaware
Tropicana Transportation Corp.	Delaware
Tropicana Products (Europe) GmbH	Germany
BPS (Delaware), Inc.	Delaware
BCI Aviation, Inc.	Delaware
FRC Holding Inc., II	Delaware
FRC Holding Inc., III	Delaware
Esmark Investments, Inc.	Delaware
FRC Holding Inc., VI	Delaware
Georgetown Interstate Aviation, Inc.	Delaware
Norton Simon, Inc.	Delaware
Hunt Foods and Industries, Inc.	Delaware
Beatrice/Hunt-Wesson, Inc.	Delaware
CUSF Company	Delaware
677901 Ontario Ltd.	Ontario
Aliments Beatrice Quebec Inc.	Canada
Food Producers (Canada) Ltd.	Ontario
Hunt-Universal Robina Corp. (50% owned)	Philippines
Hunt-Wesson Foods International, Ltd.	Delaware
Nippon B-K Foods, Ltd. (50% owned)	Japan
Norton Simon Canada Inc.	Canada
Valencia Advertising Co.	Delaware
Winters Canning Company	California
Rossbay, Inc.	Ohio
The Hunt Center, Inc.	California
Swift-Eckrich, Inc. (formerly Swift & Company)	Delaware
Beatrice Meats, Inc.	Delaware
Blue Coach Foods, Inc.	Delaware
Commercial Research Foundation	Illinois
Swift & Company Packers	Nevada