SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended May 31, 1989

BEATRICE COMPANY

(Exact name of registrant as specified in its charter)

1-9119	**Delaware**	**13-3327481**
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Two North LaSalle St. **Chicago, Illinois**	**60602**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (312) 558-4000

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

As of June 30, 1989, a total of 81,700,000 shares of Beatrice Company common stock was outstanding.

PART I. FINANCIAL INFORMATION

BEATRICE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

	May 31, 1989 (Unaudited)	February 28, 1989
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100	$ 95
Receivables, less allowance for doubtful accounts of $13	264	288
Inventories	444	464
Other current assets	151	157
Total current assets	959	1,004
Property, plant and equipment, less accumulated depreciation of $253 and $231, respectively	759	759
Intangible assets, principally goodwill	1,871	1,883
Other noncurrent assets	136	140
	$3,725	$3,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 650	$ 731
Current maturities of long-term debt	167	163
Total current liabilities	817	894
Long-term debt	1,244	1,252
Noncurrent and deferred income taxes	372	368
Other noncurrent liabilities	480	456
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings	389	393
Cumulative foreign currency translation adjustment	4	4
Total stockholders' equity	812	816
	$3,725	$3,786

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

(In millions, except per share data)

	Quarter ended May 31, 1989	Quarter ended May 31, 1988
Net sales	$ 956	$ 914
Costs and expenses:		
Cost of sales	698	672
Selling and administrative expenses	196	179
Amortization of intangible assets	13	14
Total costs and expenses	907	865
Operating earnings	49	49
Interest income	5	32
Interest expense	(55)	(103)
Miscellaneous income (expense), net	2	(7)
Earnings (loss) from continuing operations before income taxes	1	(29)
Income tax expense	(10)	(1)
Loss from continuing operations	(9)	(30)
Discontinued operations:		
Loss from operations, net of income tax expense of nil	—	(1)
Gain on sale of Tropicana, net of income tax expense of $202	—	334
Extraordinary item	5	—
Net earnings (loss)	$ (4)	$ 303
Weighted-average common shares outstanding	82	82
Common share equivalents	—	57
	82	139
Earnings (loss) per share:		
Continuing operations	$(.11)	$(.17)
Discontinued operations	—	2.39
Extraordinary item	.06	—
Net earnings (loss)	$(.05)	$2.22

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions)

	Quarter ended May 31, 1989	Quarter ended May 31, 1988
Cash flows from operating activities:		
Loss from continuing operations	$ (9)	$ (30)
Adjustments to reconcile loss from continuing operations to cash provided (used) by operating activities:		
Depreciation and amortization of intangibles	35	34
Other items, net	24	18
Change in working capital, excluding current debt	(54)	(56)
Cash used by continuing operations	(4)	(34)
Net cash used by discontinued operations	—	(24)
Cash used by operating activities	(4)	(58)
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(23)	(20)
Proceeds from sale of miscellaneous assets	23	—
Collection of aircraft sale note receivable	18	—
Proceeds from divested operations	—	1,146
Other items, net	3	4
Cash provided by investing activities	21	1,130
Cash flows from financing activities:		
Repayments of long-term debt	(2)	(5)
Other items, net	(10)	(21)
Cash used by financing activities	(12)	(26)
Increase in cash and cash equivalents	5	1,046
Cash and cash equivalents at beginning of period	95	967
Cash and cash equivalents at end of period	$ 100	$ 2,013

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

Beatrice Company ("Beatrice"), formerly BCI Holdings Corporation, acquired Beatrice Companies, Inc. ("Old Beatrice") on April 17, 1986 in a purchase transaction for approximately $6.2 billion (the "Merger"). Subsequent to the Merger, Beatrice has sold significant portions of its operating businesses. As a result of these sales, Beatrice is now primarily a producer and distributor of branded food products.

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

Beatrice adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows", in the third quarter of fiscal 1989. The first quarter of fiscal 1989 has been restated to be consistent with the current year's presentation. This standard requires the reporting of cash flows separately for operating, investing and financing activities. This presentational change has no impact on Beatrice's financial position or results of operations.

2. Discontinued Operations

On November 2, 1988, Beatrice completed the sale of BCI Products which comprised Beatrice's remaining nonfood businesses. On November 30, 1988, the sale of 60% of the outstanding common stock of Beatrice Bakeries, Inc., the parent of Southern Bakeries, Inc., a baked goods producer and distributor, was completed. The remaining 40% was sold to the same buyer on February 13, 1989. Cash proceeds from such transactions approximated $28 million.

On April 8, 1988, the sale of Tropicana Products, Inc., a producer and distributor of juice and juice based products, was completed for net cash proceeds of $1.1 billion, after taxes currently payable, resulting in a net gain of $334 million.

Results of the above described operations have been segregated as discontinued in the accompanying condensed consolidated financial statements. Net sales were $122 million for the quarter ended May 31, 1988.

3. Inventories

Inventories, in millions, consist of the following:

	May 31, 1989	February 28, 1989
Raw materials and supplies	$127	$108
Work in process	51	58
Finished goods	266	298
	$444	$464

4. Long-term Debt

The terms of Beatrice's Increasing Rate Subordinated Debentures due 2002 ("Increasing Rate Debentures") restrict the payment of dividends on common stock. As of May 31, 1989, approximately $56 million of retained earnings was available for dividends on common stock. On July 13, 1989, Beatrice authorized the trustee to call for redemption at par on August 14, 1989 all of Beatrice's $526.3 million principal amount of Increasing Rate Debentures.

Beatrice has a revolving credit agreement with a group of banks which currently provides for a commitment of $900 million. As of May 31, 1989 there were no borrowings outstanding under this agreement, however, approximately $221 million of standby letters of credit were issued under this agreement, thus temporarily reducing availability for borrowings by a like amount.

5. Contingent Liabilities

Beatrice and its subsidiaries are engaged in various litigation proceedings incident to their respective businesses, including the income tax matter described in Note 6, and various environmental matters. Beatrice and various of its subsidiaries have agreed to indemnify divested businesses or the purchasers thereof for various legal proceedings and are subject to tax audits for various years. It is not possible at this time to determine the ultimate liabilities that may arise from these matters. However, after taking into account accrued liabilities that have been recorded and possible recoveries from third parties, management is of the opinion that the resolution of these matters will not have a material adverse effect on Beatrice's consolidated financial condition.

6. Income Taxes

In the fiscal year ended February 29, 1988, the consolidated statement of earnings reflected credits of $256 million due to a reduction of estimated liabilities for income taxes and related interest, resulting from a favorable U.S. Tax Court decision on February 2, 1988. A deposit of $119 million made in July 1986 by Esmark, Inc. ("Esmark"), an entity acquired by Beatrice in June 1984, to the Internal Revenue Service ("IRS"), which is expected to be refunded to Beatrice upon ultimate disposition of the case, is included in other current assets as of May 31, 1989. 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 filed an appeal of the U.S. Tax Court decision with the U.S. Court of Appeals on October 17, 1988. The parties argued such appeal on May 31, 1989. The ultimate liabilities, if any, which may result from the 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 the appeal is not likely.

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

7. Extraordinary Item

A portion of Beatrice's previously existing $69 million net operating loss carryforward was utilized in the first quarter of fiscal 1990 to offset U.S. federal taxes otherwise payable. The benefit of this utilization is reflected as an extraordinary item in the accompanying condensed consolidated statement of earnings. The remaining net operating loss carryforward of $55 million expires in fiscal 2004.

8. Earnings Per Share

Common share equivalents are excluded from the computation of loss per share for the quarter ended May 31, 1989 as the effect is antidilutive. Earnings per share for the quarter ended May 31, 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 $5 million. The loss per share from continuing operations for the quarter ended May 31, 1988 is also required to reflect the effects of these common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.37.

9. Consolidating Financial Statements

The following condensed consolidating financial statements present the following:

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

CONDENSED CONSOLIDATING BALANCE SHEET
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
As of May 31, 1989:					
Assets:					
Cash and cash equivalents	$ 8	$ 2	$ 19	$ 71	$ 100
Receivables, net	120	75	68	1	264
Inventories	257	137	50	—	444
Other current assets	50	2	3	96	151
Total current assets	435	216	140	168	959
Net property, plant and equipment	461	188	75	35	759
Intangible assets, principally goodwill	1,081	698	92	—	1,871
Other noncurrent assets	39	2	71	24	136
	$2,016	$1,104	$ 378	$ 227	$3,725
Liabilities and Stockholders' Equity:					
Accounts payable and accrued expenses	$ 275	$ 102	$ 61	$ 212	$ 650
Current maturities of long-term debt	18	—	1	148	167
Total current liabilities	293	102	62	360	817
Long-term debt	201	5	14	1,024	1,244
Noncurrent and deferred income taxes	30	—	—	342	372
Other noncurrent liabilities	35	8	8	429	480
Net intercompany investments and advances	1,457	989	294	(2,740)	—
Stockholders' equity	—	—	—	812	812
	$2,016	$1,104	$ 378	$ 227	$3,725
As of February 28, 1989:					
Assets:					
Cash and cash equivalents	$ 11	$ 2	$ 8	$ 74	$ 95
Receivables, net	141	65	63	19	288
Inventories	319	98	47	—	464
Other current assets	52	2	6	97	157
Total current assets	523	167	124	190	1,004
Net property, plant and equipment	457	191	75	36	759
Intangible assets, principally goodwill	1,088	703	92	—	1,883
Other noncurrent assets	15	3	96	26	140
	$2,083	$1,064	$ 387	$ 252	$3,786
Liabilities and Stockholders' Equity:					
Accounts payable and accrued expenses	$ 345	$ 111	$ 56	$ 219	$ 731
Current maturities of long-term debt	12	—	1	150	163
Total current liabilities	357	111	57	369	894
Long-term debt	209	5	14	1,024	1,252
Noncurrent and deferred income taxes	28	—	—	340	368
Other noncurrent liabilities	11	6	6	433	456
Net intercompany investments and advances	1,478	942	310	(2,730)	—
Stockholders' equity	—	—	—	816	816
	$2,083	$1,064	$ 387	$ 252	$3,786

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
Quarter ended May 31, 1989:					
Net sales	$435	$304	$218	$ (1)	$956
Operating expenses	399	287	214	7	907
Operating earnings (loss)	36	17	4	(8)	49
Intercompany income (expense), net	(7)	(18)	19	6	—
Interest income	—	—	2	3	5
Interest expense	(8)	—	—	(47)	(55)
Miscellaneous income (expense), net	—	—	—	2	2
Earnings (loss) from continuing operations before income taxes	21	(1)	25	(44)	1
Income tax (expense) benefit	(11)	(2)	(15)	18	(10)
Earnings (loss) from continuing operations	10	(3)	10	(26)	(9)
Extraordinary item	—	—	—	5	5
Net earnings (loss)	$ 10	$ (3)	$ 10	$(21)	$ (4)
Quarter ended May 31, 1988:					
Net sales	$413	$301	$201	$ (1)	$914
Operating expenses	374	286	194	11	865
Operating earnings (loss)	39	15	7	(12)	49
Intercompany income (expense), net	(12)	(18)	7	23	—
Interest income	—	—	3	29	32
Interest expense	(7)	—	—	(96)	(103)
Miscellaneous income (expense), net	—	—	—	(7)	(7)
Earnings (loss) from continuing operations before income taxes	20	(3)	17	(63)	(29)
Income tax (expense) benefit	(12)	(2)	(6)	19	(1)
Earnings (loss) from continuing operations	8	(5)	11	(44)	(30)
Discontinued operations	—	—	333	—	333
Net earnings (loss)	$ 8	$ (5)	$344	$(44)	$303

BEATRICE COMPANY

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

Operations

Beatrice's continuing operations conduct business primarily in the processed food industry through the production and distribution of branded food products. These operations manufacture and distribute grocery, meat and cheese products throughout the U.S. and certain Canadian provinces. The following discussion addresses the results of continuing operations for the quarters ended May 31, 1989 and 1988.

Quarters Ended May 31, 1989 and 1988

Net sales for the quarter increased $42 million, or 5%, over the prior year's quarter. The increased sales were due to volume gains, particularly in ready-to-eat puddings and fruits, barbecue sauce, regular popcorn and deli meats, as well as increased selling prices for retail cheese lines and whole bird and packaged turkey products. The sales increases for these products were partially offset by planned volume decreases, compared to prior year, in certain tomato based and turkey products due to a temporary limited availability of raw materials.

Operating earnings for the current quarter were equal to the prior year's quarter. The increase in net sales, improved margins on meat products and lower corporate administrative expenses were offset by higher raw material costs for milk, an increase in promotional costs for grocery products and lower selling prices for whey and whey cream, by-products of manufacturing cheese products.

The loss from continuing operations was significantly reduced from that realized in the prior year's quarter. The improvement was primarily due to a $48 million reduction in interest expense and a favorable variance in the translation of foreign denominated debt partially offset by a $27 million decrease in interest income. The decrease in both interest expense and interest income is a result of the utilization of cash and cash equivalents throughout fiscal 1989 to reduce debt by approximately $2.0 billion since May 1988. As a result, earnings were favorably impacted due to the elimination of the unfavorable spread between interest paid and interest earned.

A net loss of $4 million was realized versus net earnings of $303 million in the prior year's quarter. The difference relates primarily to the absence in the current quarter of the $334 million gain on the sale of Tropicana in the first quarter of fiscal 1989 partially offset by the improved results from continuing operations in the current quarter and an extraordinary credit of $5 million which resulted from the utilization of a net operating loss carryforward.

Financial Condition

Beatrice had cash and cash equivalents of $100 million as of May 31, 1989. Management believes that existing credit facilities and cash flow from operations will continue to be able to adequately fund operating requirements as well as service debt requirements. Beatrice is currently negotiating an extension, to June 30, 1991, of its current bank revolving credit agreement. On July 13, 1989, Beatrice authorized the trustee to call for redemption at par on August 14, 1989 all of Beatrice's $526.3 million principal amount of the Increasing Rate Debentures. The redemption will be financed under the current revolving credit agreement, however, management is continuing to explore various financing alternatives such as a new revolving credit agreement and raising funds through public or private offerings of subordinated indebtedness in connection with Beatrice's recapitalization efforts.

Capital expenditures in the first three months of fiscal 1990 aggregated $23 million. Also, during the first quarter of fiscal 1990, Beatrice sold miscellaneous non-operating assets for proceeds of approximately $23 million.

In June 1989, Beatrice announced that Beatrice/Hunt-Wesson, Inc. intends to sell its Fisher Nut business ("Fisher"). Fisher is a manufacturer and marketer of a variety of high-quality nuts and nut products.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibit:

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

(b) Reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BEATRICE COMPANY

By /s/ WILLIAM P. CARMICHAEL
William P. Carmichael
Senior Vice President and Chief Financial Officer

By /s/ MICHAEL L. GOLDBERG
Michael L. Goldberg
Vice President and Controller

July 13, 1989

EXHIBIT 11

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

(In millions, except per share data)

	Quarter ended May 31, 1989	Quarter ended May 31, 1988
Loss from continuing operations	$ (9)	$ (30)
Reduction of interest expense resulting from application of proceeds from exercise of common share equivalents	—	5
Loss from continuing operations applicable to common shares and common share equivalents	(9)	(25)
Earnings from discontinued operations	—	333
Extraordinary items	5	—
Net earnings (loss) applicable to common shares and common share equivalents	$ (4)	$ 308
Average common shares outstanding during the period	82	82
Common share equivalents	—	57
Total average common shares and common share equivalents	82	139
Earnings (loss) per share:		
Continuing operations(A)	$(.11)	$(.17)
Discontinued operations	—	2.39
Extraordinary items	.06	—
Net earnings (loss)	$(.05)	$2.22

(A) The loss per share from continuing operations for the quarter ended May 31, 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.37.