
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended August 31, 1986

BCI HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

1-9119
(Commission File No.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3327481
(I.R.S. Employer
Identification Number)

BCI CONSUMER PRODUCTS CORPORATION

(Exact name of registrant as specified in its charter)

33-2229
(Commission File No.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3327482
(I.R.S. Employer
Identification Number)

BCI U.S. FOOD CORPORATION

(Exact name of registrant as specified in its charter)

33-2229
(Commission File No.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3335392
(I.R.S. Employer
Identification Number)

BCI INTERNATIONAL FOOD CORPORATION

(Exact name of registrant as specified in its charter)

33-2229
(Commission File No.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3335393
(I.R.S. Employer
Identification Number)

BEATRICE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

1-831
(Commission File No.)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-0783330
(I.R.S. Employer
Identification Number)

Two North LaSalle St.

Chicago, Illinois

(Address of principal executive offices)

60602

(Zip Code)

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

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days. Yes ☒. No ☐.

As of October 2, 1986, a total of 81,712,500 shares of BCI Holdings Corporation common stock was outstanding. All of the common stock of the remaining registrants is directly or indirectly owned by BCI Holdings Corporation.

PART I. FINANCIAL INFORMATION

Introduction

On April 17, 1986, BCI Holdings Corporation ("Holdings") completed its acquisition of Beatrice Companies, Inc. ("Beatrice"). On that date a wholly-owned, direct and indirect, subsidiary of Holdings was merged into Beatrice ("Merger"). Holdings and its other direct subsidiaries, BCI Consumer Products Corporation, BCI U.S. Food Corporation and BCI International Food Corporation (collectively, "First Tier Registrants"), were formed solely for purposes of the Merger and prior to the Merger engaged only in activities related to the Merger and its financing.

Holdings is comprised of the operations previously owned by Beatrice; however, the capitalization of Holdings is substantially different from that of Beatrice. The financial information contained herein relates to Holdings ("Successor") for the periods subsequent to the Merger and Beatrice ("Predecessor") for the periods prior to the Merger.

See Note 1 for further information regarding the Merger and its related financing.

BCI HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)

	August 31, 1986 <u>(Successor)</u> <u>(Unaudited)</u>	February 28, 1986 <u>(Predecessor)</u>
ASSETS		
Current assets:		
Cash	\$ 52	\$ 47
Short-term investments	285	178
Receivables, less allowance for doubtful accounts of \$33 and \$31, respectively ..	888	874
Inventories	1,171	1,121
Net current assets of discontinued operations	39	217
Other current assets	307	285
Total current assets	2,742	2,722
Net noncurrent assets of discontinued operations	2,576	1,788
Property, plant and equipment, less accumulated depreciation of \$77 and \$891, respectively	1,852	1,560
Unallocated purchase cost	3,200	—
Intangible assets, principally goodwill	—	1,426
Other noncurrent assets	400	204
	<u>\$10,770</u>	<u>\$7,700</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current maturities of long-term debt:		
Current maturity of Bank Credit Agreement term loan	\$ 420	\$ —
Other	209	734
Accounts payable and accrued expenses	1,700	1,736
Total current liabilities	2,329	2,470
Long-term debt	7,251	1,235
Noncurrent and deferred income taxes	442	562
Other noncurrent liabilities	392	475
Stockholders' equity:		
Preference stock	—	100
Common stock	1	212
Additional capital	416	536
Retained earnings (deficit)	(76)	2,308
Common stock in treasury, at cost	—	(12)
Cumulative foreign currency translation adjustment	15	(186)
Total stockholders' equity	356	2,958
	<u>\$10,770</u>	<u>\$7,700</u>

See accompanying notes.

BCI HOLDINGS CORPORATION

CONDENSED STATEMENT OF CONSOLIDATED EARNINGS (Unaudited)

(In millions, except per share data)

	Quarter Ended August 31,		Six Months Ended August 31,		
	1986	1985	1986		1985
	(Successor)	(Predecessor)	From April 17 (Successor)	To April 16 (Predecessor)	(Predecessor)
Net sales	\$2,445	\$2,289	\$3,608	\$1,117	\$4,594
Operating expenses:					
Cost of sales	1,767	1,692	2,612	819	3,418
Selling and administrative expenses	520	469	774	244	916
Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor)	20	12	29	6	26
Total operating expenses	2,307	2,173	3,415	1,069	4,360
Gross operating earnings	138	116	193	48	234
Other income (expense):					
Interest income	12	8	24	3	18
Interest expense	(159)	(52)	(226)	(26)	(106)
Change in control expenses	—	—	—	(102)	—
Miscellaneous, net	(2)	(5)	—	—	(4)
Total other income (expense)	(149)	(49)	(202)	(125)	(92)
Earnings (loss) before income taxes and discontinued operations	(11)	67	(9)	(77)	142
Income tax expense (benefit)	7	41	13	(34)	80
Earnings (loss) before discontinued operations	(18)	26	(22)	(43)	62
Discontinued operations	9	44	(2)	7	66
Net earnings (loss)	\$ (9)	\$ 70	\$ (24)	\$ (36)	\$ 128
Preferred dividend requirements	(30)		(52)		
Net loss applicable to common stockholders	\$ (39)		\$ (76)		
Weighted average common shares outstanding	81		81		
Loss per share:					
Before discontinued operations	\$ (.59)		\$ (.91)		
Net loss	\$ (.48)		\$ (.93)		

See accompanying notes.

BCI HOLDINGS CORPORATION

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(Unaudited)

(In millions)

	Six Months Ended August 31,		
	1986		1985
	From April 17 (Successor)	To April 16 (Predecessor)	
Cash provided (used) by operations:			
Earnings (loss) before discontinued operations	\$ (22)	\$(43)	\$ 62
Items not involving cash:			
Depreciation	77	24	87
Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor)	29	6	26
Deferred taxes and other items, net	19	(31)	35
Changes in working capital excluding short-term debt	(216)	(7)	764
Cash provided (used) by operations before discontinued operations	(113)	(51)	974
Net cash provided (used) by discontinued operations	167	(25)	2
Cash provided (used) by operations	54	(76)	976
Cash provided (used) by investment activities:			
Net expenditures for property, plant and equipment	(77)	(23)	(106)
Net noncurrent assets of divested operations	215	—	82
Other items, net	24	(4)	(2)
Cash provided (used) by investment activities	162	(27)	(26)
Cash provided (used) by financing activities:			
Change in debt	(462)	148	(1,300)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	1,230	—	—
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	(1,230)	—	—
Net proceeds from sale of Beatrice common stock	—	—	434
Common stock issued upon conversion of preference stock and debentures	—	42	12
Preference stock and debentures retired upon conversion into common stock	—	(42)	(12)
Common stock issued for exercises of stock options and stock warrants	—	21	5
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	74	—	—
Other items, net	(130)	(14)	(4)
Cash provided (used) for financing activities	(518)	155	(865)
Effect of Merger:			
Funding	7,373	—	—
Cost of acquisition	(6,178)	—	—
Liability for untendered securities	170	—	—
Beatrice debt repaid in Merger	(898)	—	—
Cash and short-term investments at April 16, 1986	224	—	—
Cash provided by Merger	691	—	—
Cash provided before dividend payments	389	52	85
Dividends paid (Successor—Redeemable Preferred Stock; Predecessor—cash)	(52)	(53)	(142)
Increase (decrease) in cash and short-term investments	337	(1)	(57)
Cash and short-term investments at beginning of period	—	225	270
Cash and short-term investments at end of period	<u>\$ 337</u>	<u>\$224</u>	<u>\$ 213</u>

See accompanying notes.

BCI HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACQUISITION OF BEATRICE

BCI Holdings Corporation ("Holdings") and its wholly-owned direct subsidiaries, BCI Consumer Products Corporation, BCI U.S. Food Corporation and BCI International Food Corporation (collectively, "First Tier Registrants"), were formed solely for purposes relating to the acquisition of Beatrice Companies, Inc. ("Beatrice"). The acquisition was completed on April 17, 1986, when a wholly-owned, direct and indirect, subsidiary of Holdings was merged into Beatrice ("Merger"). Prior to that date Holdings and the First Tier Registrants engaged only in activities related to the acquisition.

Merger Consideration

The total cost of the acquisition, including related expenses, was approximately \$6.2 billion. In the Merger, each of Beatrice's then outstanding common shares was converted into the right to receive \$40 cash and $\frac{10}{25}$ of a share of Holdings 15 $\frac{1}{4}$ % Cumulative Exchangeable Preferred Stock ("Redeemable Preferred Stock") with a liquidation preference of \$25 per share (collectively, "Merger Consideration"). In addition, 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.

As described in Note 6, each share of Redeemable Preferred Stock has since been exchanged for 15 $\frac{1}{4}$ % Junior Subordinated Exchange Debentures Due 2002 ("Exchange Debentures"). As such, the portion of Merger Consideration which was to have been paid in Redeemable Preferred Stock will hereafter be paid in Exchange Debentures. At August 31, 1986, \$28 million in such Exchange Debentures remains to be paid and is included in other noncurrent liabilities in the accompanying condensed consolidated balance sheet. The remaining amount of Merger Consideration to be paid in cash, amounting to \$45 million, is included in accounts payable and accrued expenses.

Funding

The following table, in millions, summarizes the sources used to fund the Merger. Further information is contained in Note 6.

Bank borrowings	\$3,100
Debt securities issued	2,700
Common stock and Warrants issued	417
Redeemable Preferred Stock issued	1,156
	<u>\$7,373</u>

Purchase Accounting

Holdings is accounting for the Merger as a purchase transaction. Beatrice's net assets are included in the accompanying condensed consolidated balance sheet of Holdings at values reflecting a preliminary allocation of the purchase cost to such net assets pending, among other things, the results of asset appraisals and the disposal of certain operations (Note 4). The excess of purchase cost over net tangible assets acquired is captioned "Unallocated purchase cost" and is being amortized over forty years on the straight-line method. The preliminary allocation to Beatrice's net assets is summarized as follows, in millions:

Current assets	\$3,183
Current liabilities	(3,307)
Net noncurrent tangible assets	985
Unallocated purchase cost	5,317
	<u>\$6,178</u>

Pro Forma Results of Operations

Had the Merger, its related financing and the transactions described below occurred at the beginning of the periods presented, unaudited pro forma Holdings' results of operations, in millions, would have been as follows:

	Quarter Ended August 31,		Six Months Ended August 31,	
	1986	1985	1986	1985
Net sales	\$2,445	\$2,271	\$4,725	\$4,494
Loss before discontinued operations	\$ (35)	\$ (37)	\$ (74)	\$ (62)
Loss before discontinued operations per Holdings common share	\$ (.43)	\$ (.45)	\$ (.91)	\$ (.76)

Pro forma information also reflects the following transactions as if each had occurred at the beginning of these periods and as if any resultant proceeds had been applied to reduce debt and related interest costs:

- The exchange of Redeemable Preferred Stock for Exchange Debentures (Note 6)
- The retirement of certain of Beatrice's existing debt (Note 6)
- Various Beatrice capital stock issuances and business divestitures occurring during fiscal 1986
- Reduced debt levels and interest costs, assuming the estimated net proceeds for businesses sold, under contract for sale or announced for sale had been received (Note 4)

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, and is not intended to be a projection of future results.

2. ACCOUNTING POLICIES

The accounting policies described in Beatrice's Annual Report on Form 10-K for the fiscal year ended February 28, 1986, have been adopted by Holdings, as applicable.

Financial Statements. The financial information contained herein relates to Holdings ("Successor") for the periods subsequent to the Merger and Beatrice ("Predecessor") for the periods prior to the Merger. Beatrice's February 28, 1986 condensed consolidated balance sheet has been derived from the audited February 28, 1986 consolidated balance sheet. In the opinion of management, the unaudited information presented as of August 31, 1986 and for the periods ended April 16, 1986, August 31, 1986 and 1985 reflects all adjustments necessary, which consist only of normal recurring adjustments and, for Successor periods, purchase accounting adjustments, for a fair presentation of the interim period financial information.

Reclassifications. Certain Predecessor amounts in the condensed consolidated financial statements have been reclassified to conform to the presentation used for the Successor.

Loss Per Share. Fully diluted loss per share amounts are not presented, as the exercise or conversion of the common stock options and Warrants, described in Note 6, would be anti-dilutive.

3. INVENTORIES

Inventories, in millions, consist of the following:

	August 31, 1986 (Successor)	Feb. 28, 1986 (Predecessor)
Raw materials and supplies	\$ 350	\$ 316
Work in process	161	166
Finished goods	660	639
	<u>\$1,171</u>	<u>\$1,121</u>

4. DISCONTINUED OPERATIONS

Holdings is currently reorganizing Beatrice and is identifying operations to be sold. As decisions are made, the underlying net assets and related operating results of operations identified for sale are segregated in the financial statements as discontinued operations. Any prior period financial information presented is also restated.

The tables below present summarized financial information for discontinued operations. These include specialty printing, warehousing and North American soft drink bottling operations, as well as the leasing, personal products, knitwear and Avis businesses. Included in the Successor financial data presented is a preliminary allocation of Holdings' purchase cost based upon estimated net proceeds to be received upon the sale of the underlying operations. Any difference between the estimated net proceeds and the amounts actually received may result in an adjustment to the allocation of purchase cost. The use of proceeds received is restricted under the Merger-related financing agreements (Note 6).

Summary income statement and balance sheet data, in millions, for these operations follow:

	Quarter Ended August 31,		Six Months Ended August 31,		
	1986	1985	1986		1985
	(Successor)	(Predecessor)	From April 17 (Successor)	To April 16 (Predecessor)	(Predecessor)
INCOME STATEMENT DATA*:					
Net sales and operating revenues	\$699	\$924	\$1,117	\$428	\$1,828
Costs and expenses	<u>598</u>	<u>821</u>	<u>993</u>	<u>393</u>	<u>1,656</u>
Subtotal	101	103	124	35	172
Amortization of estimated net proceeds in excess of net tangible assets (Successor) and intangible assets (Predecessor)	(12)	(6)	(18)	(4)	(12)
Allocation of corporate interest expense**	<u>(71)</u>	<u>(27)</u>	<u>(102)</u>	<u>(14)</u>	<u>(55)</u>
Earnings before income taxes	18	70	4	17	105
Income tax expense	<u>9</u>	<u>26</u>	<u>6</u>	<u>10</u>	<u>39</u>
Net earnings (loss)	<u>\$ 9</u>	<u>\$ 44</u>	<u>\$ (2)</u>	<u>\$ 7</u>	<u>\$ 66</u>

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

**Corporate interest expense has been allocated by the Successor based on the anticipated debt reductions resulting from the application of estimated net proceeds to be received from the sale of discontinued operations and by the Predecessor 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.

	August 31, 1986 (Successor)	Feb. 28, 1986 (Predecessor)
BALANCE SHEET DATA:		
Current assets	\$ 593	\$ 630
Current liabilities	(554)	(591)
Net current assets of discontinued operations sold	<u>—</u>	<u>178</u>
Net current assets of discontinued operations	39	217
Property, plant and equipment, net	750	780
Estimated net proceeds in excess of net tangible assets (Successor) and intangible assets (Predecessor)	1,932	835
Long-term debt	(65)	(78)
Other, net	(41)	(17)
Net noncurrent assets of discontinued operations sold	<u>—</u>	<u>268</u>
Net noncurrent assets of discontinued operations	2,576	1,788
Net assets of discontinued operations	<u>\$2,615</u>	<u>\$2,005</u>

During the quarter ended August 31, 1986, the leasing, knitwear and Avis businesses were sold and subsequently, during September 1986, the North American soft drink bottling operations were sold. Through September 30, 1986, net proceeds of approximately \$1.2 billion have been received and are being used to reduce Merger-related debt. At August 31, 1986, net proceeds of \$252 million had been received of which \$205 million had been applied to reduce Merger-related debt. (Note 6).

An agreement in principal has also been reached for the sale of the personal products businesses which anticipates Holdings acquiring a 20 percent common equity interest in the acquiring company.

Holdings is also considering a public offering for a portion of its International Food segment.

5. INCOME TAXES

Holdings' effective tax rate for the periods presented differs from the U.S. Federal statutory rate of 46% primarily as a result of state income taxes and non-deductible depreciation and amortization attributable to acquisitions and, in the Successor periods, the Merger.

6. CAPITALIZATION

The following table summarizes the effect of the Merger and other transactions on the capitalization of Beatrice at February 28, 1986, and that of Holdings at August 31, 1986.

	February 28, 1986 (Predecessor)	Activity to April 16 (In millions, except share data)	Merger	Divestiture Proceeds	Other	August 31, 1986 (Successor)
SHORT-TERM DEBT AND CURRENT MATURITIES OF LONG-TERM DEBT:						
Current maturity of Bank Credit Agreement term loan (9.7%*)	\$ —	\$ —	\$ 625	\$ (205)	\$ —	\$ 420
Other	734	381	(831)	—	(75)	209
Total short-term	<u>734</u>	<u>381</u>	<u>(206)</u>	<u>(205)</u>	<u>(75)</u>	<u>629</u>
LONG-TERM DEBT:						
Beatrice Consolidated:						
9¼% sinking fund debentures due to 2000	41	(41)	—	—	—	—
8½% sinking fund debentures due 1989 to 2008	34	(34)	—	—	—	—
10½% sinking fund debentures due 1991 to 2010	98	(98)	—	—	—	—
11½% notes, due to 1995	45	(45)	—	—	—	—
All other	1,081	(16)	—	—	6	1,071
Merger-related:						
Bank Credit Agreement:						
Term loan due 1987 to 1993 (9.7%*)	—	—	3,100	(205)	—	2,895
Revolving loan due to 1988 (10.6%*)	—	—	200	—	(200)	—
11% senior notes due to 1996	—	—	600	—	—	600
12½% senior subordinated debentures due to 1998	—	—	800	—	—	800
12¾% subordinated debentures due to 2001	—	—	950	—	—	950
Floating rate junior subordinated debentures due to 2001 (12.8%*)	—	—	150	—	—	150
Exchange Debentures	—	—	—	—	1,251	1,251
Subtotal	1,299	(234)	5,800	(205)	1,057	7,717
Less current maturities	64	(12)	625	(205)	(6)	466
Total long-term	<u>1,235</u>	<u>(222)</u>	<u>5,175</u>	<u>—</u>	<u>1,063</u>	<u>7,251</u>
MINORITY INTERESTS	67	(3)	—	—	(2)	62
REDEEMABLE PREFERRED STOCK	—	—	1,156	—	(1,156)	—
STOCKHOLDERS' EQUITY:						
Preference stock	100	(41)	(59)	—	—	—
Beatrice common stock (115,928,577 shares outstanding at Merger date)	212	2	(214)	—	—	—
Holdings common stock (authorized 200,000,000 shares, issued 81,477,500 shares)	—	—	1	—	—	1
Retained earnings and other equity	2,646	(28)	(2,202)	—	(61)	355
Total stockholders' equity	<u>2,958</u>	<u>(67)</u>	<u>(2,474)</u>	<u>—</u>	<u>(61)</u>	<u>356</u>
TOTAL CAPITALIZATION	<u>\$4,994</u>	<u>\$ 89</u>	<u>\$ 3,651</u>	<u>\$ (205)</u>	<u>\$ (231)</u>	<u>\$8,298</u>

*Percentage represents weighted average interest rate during the period ended August 31, 1986.

Short-Term Debt and Current Maturities of Long-Term Debt

In connection with the Merger, Holdings entered into a Working Capital Facility with certain of the banks associated with the Bank Credit Agreement discussed below. The Working Capital Facility provides revolving lines of credit aggregating \$600 million to April 1988 bearing interest, at Holdings' option, at a Eurodollar deposit-based rate plus 2¼%, the prime rate plus 1½% or a certificate of deposit-based rate plus 2½%. Letters of credit and bankers acceptances are also available under this facility at comparable rates. Commitment fees of ½ of 1% of the unused portion of the facility are also required. After April 1988, this facility is reduced to \$400 million; however, an additional \$200 million is available if such amounts have not been previously drawn down under the revolving loan portion of the Bank Credit Agreement described below. Beatrice's short-term domestic credit facilities which existed at February 28, 1986 were repaid in the Merger and subsequently cancelled. At August 31, 1986, letters of credit totaling \$117 million were outstanding under the Working Capital Facility.

Beatrice Consolidated Long-Term Debt

Immediately prior to the Merger, 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 pre-tax expense of \$18 million (Note 7).

Merger-Related Long-Term Debt

For purposes of financing the Merger and the aforementioned debt redemptions, Holdings obtained \$2.5 billion through the issuance of the 11% senior notes, 12½% senior subordinated debentures, 12¾% subordinated debentures and floating rate junior subordinated debentures described in the foregoing table. Also, Holdings and a group of banks entered into a Bank Credit Agreement aggregating \$3.5 billion, of which \$3.1 billion was initially available under a 7½ year term loan and \$400 million is available under a two year revolving loan. Any outstanding amount on the revolving loan at the end of two years is to be added to the term loan. Borrowings under the Bank Credit Agreement bear interest, at Holdings' option, at a Eurodollar deposit-based rate plus 2¼%, the prime rate plus 1½% or a certificate of deposit-based rate plus 2½%. Commitment fees of ½ of 1% of the unused credit are also required.

The Merger-related debt, including the Working Capital Facility, is guaranteed by the First Tier Registrants and Beatrice. (See Note 8 for guarantors' financial information). Substantially all of the assets of Holdings, Beatrice and the First Tier Registrants are pledged as collateral. The agreements require the maintenance of certain financial ratios and restrict the (a) payment of dividends, (b) incurrence of indebtedness and guarantees, (c) creation of liens and (d) types of business activities and investments.

As described in Note 4, net proceeds of approximately \$1.2 billion have been received from the sales of businesses. The terms of the Merger-related debt agreements restrict use of any such net proceeds to the payment of the term loan and an offer to prepay the 11% senior notes. Net proceeds of up to \$1 billion are allocated entirely to the term loan and the remainder is allocated equally between the term loan and the 11% senior notes. Any amounts allocated to the 11% senior notes which are not accepted upon expiration of the offer must be applied to the term loan. Through September 30, 1986, the term loan has been allocated payments aggregating \$1.1 billion and an offer, expiring on October 20, 1986, to purchase \$91 million of the 11% senior notes has been made.

On August 1, 1986, Holdings exchanged each share of its outstanding Redeemable Preferred Stock for \$25 principal amount of Exchange Debentures. The Exchange Debentures bear interest at 15¼% per annum which may, through April 1992, be paid in cash or additional Exchange Debentures, at Holdings' option. However, the Bank Credit Agreement requires that Holdings exercise its option to pay interest in additional Exchange Debentures.

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. On August 1, 1986, each outstanding share of Redeemable

Preferred Stock was exchanged for \$25 principal amount of Exchange Debentures. Approximately 49.2 million shares were exchanged, including shares issued in payment of the dividend for the period April 17 to July 31, 1986.

Preference Stock

During August 1986, Beatrice redeemed all outstanding shares of its Series A Cumulative Convertible Preference Stock at \$52.845 per share.

Common Stock

Beatrice's outstanding common stock at April 17, 1986, was converted in the Merger into the right to receive Merger Consideration and cancelled.

Holdings common stock, with a par value of \$.01 per share, is majority-owned by entities formed by Kohlberg Kravis Roberts & Co. for purposes of effecting the acquisition of Beatrice. The remaining shares are held by certain executive employees of Holdings or its subsidiaries. The Merger-related debt agreements, described above, restrict payment of dividends to the common stockholders.

Holdings has reserved 16 million shares of common stock for sales of common stock to employees and employee stock options. As of August 31, 1986, 13.3 million stock options had been granted to employees at an exercise price of \$5 per share. No stock options were exercisable as of August 31, 1986.

Holdings has also reserved 41.7 million shares of common stock for warrants sold in connection with the Merger ("Warrants"). The 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.

7. CHANGE IN CONTROL EXPENSES

Pre-tax change in control expenses for the Predecessor period March 1 to April 16, 1986 consist of the following, in millions:

Accelerated compensation	\$ 39
Fees and other expenses	31
Debt premiums (Note 6)	18
Employee stock option plans	14
	<u>\$102</u>

Beatrice's employee incentive plans and executive compensation agreements contained provisions which required the acceleration of certain compensation payments in the event of a change in the control of Beatrice. These provisions were activated by the Merger. The fees and other expenses related to investment banking and legal services, proxy costs and other expenses of Beatrice resulting from the Merger. Additionally, certain unexercised stock options were acquired just prior to the Merger.

8. REORGANIZATION

On May 29, 1986, Beatrice's Board of Directors approved a Plan of Complete Liquidation and Dissolution ("Plan") for Beatrice. The Plan involves Beatrice exchanging substantially all of its net assets in return for Beatrice common stock and the cancellation of notes receivable from Beatrice held by Holdings and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Registrants. Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consist of investments in Beatrice common stock and intercompany notes receivable from Beatrice and payable to the First Tier Registrants.

During the second quarter, Beatrice received and cancelled 12.2 million shares of common stock held by certain of the Second Tier Subsidiaries. The Second Tier Subsidiaries involved also cancelled notes receivable from Beatrice aggregating \$2.4 billion and received Beatrice's equity interests in various operating subsidiaries, notably those of the North American bottling operations and the personal products businesses.

The table which follows presents consolidating financial information for Holdings. Investments in Beatrice common stock are stated at cost and eliminated in the eliminations column. Intercompany notes and related interest effects are also eliminated in the eliminations column. Exchanges between Beatrice and the Second Tier Subsidiaries are reflected as if each had occurred at the beginning of the period. Thus, the operating results of entities owned by the Second Tier Subsidiaries are consolidated with the First Tier Registrants for the full period presented while the operating results of Beatrice include only those entities which have not yet been exchanged. The common stock of Beatrice and the First Tier Registrants has a par value of \$.01. Beatrice has 107,751,841 common shares outstanding and each of the First Tier Registrants have 100 common shares outstanding.

BCI HOLDINGS CORPORATION
CONSOLIDATING SUMMARIZED FINANCIAL INFORMATION
(In millions)

INCOME STATEMENT DATA (April 17 to August 31, 1986):

	First Tier Registrants			Holdings	Eliminations	Consolidated
	Beatrice	BCI Consumer Products Corporation	BCI U.S. Food Corporation	BCI International Food Corporation		
Net sales	\$3,519	\$ —	\$ 88	\$ —	\$ 1	\$ 3,608
Operating expenses	3,318	—	80	—	1	3,415
Gross operating earnings	201	—	8	—	—	193
Intercompany interest income (expense), net	(174)	—	(2)	—	(48)	—
Interest expense	(82)	—	—	—	102	(226)
Other income (expense)	27	—	—	—	—	24
Earnings (loss) before income taxes and discontinued operations	(28)	—	6	—	54	(9)
Income tax expense (benefit)	(5)	—	3	—	26	13
Earnings (loss) before discontinued operations	(23)	—	3	—	28	(22)
Discontinued operations	9	10	7	—	(28)	(2)
Net earnings (loss)	\$ (14)	\$ 10	\$ 10	\$ —	\$ —	\$ (24)

BALANCE SHEET DATA (As of August 31, 1986):

	Beatrice	BCI Consumer Products Corporation	BCI U.S. Food Corporation	BCI International Food Corporation	Holdings	Eliminations	Consolidated
Assets:							
Cash and short-term investments	\$ 335	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 337
Receivables, net	873	—	15	—	—	—	888
Inventories	1,145	—	26	—	—	—	1,171
Net current assets of discontinued operations	(1)	12	28	—	—	—	39
Other current assets	288	6	13	—	—	—	307
Total current assets	2,640	18	82	—	2	—	2,742
Investment in Beatrice (at cost) (Note A)	—	76	120	41	1,232	(1,469)	—
Investment in First Tier Registrants	—	—	—	—	404	(404)	—
Intercompany notes and interest receivable	249	1,198	1,848	554	6,042	(9,891)	—
Net noncurrent assets of discontinued operations	272	1,373	931	—	—	—	2,576
Property, plant and equipment, net	1,819	33	33	—	—	—	1,852
Unallocated purchase cost	2,988	93	105	14	—	—	3,200
Other noncurrent assets	239	2	12	—	147	—	400
Total assets	\$8,207	\$2,760	\$3,131	\$ 609	\$7,827	\$(11,764)	\$10,770
Liabilities and Stockholders' Equity:							
Short-term debt and current maturities of long-term debt	\$ 209	\$ —	\$ —	\$ —	\$ 420	\$ —	\$ 629
Accounts payable and accrued expenses	1,556	—	24	—	120	—	1,700
Total current liabilities	1,765	—	24	—	540	—	2,329
Intercompany notes and interest payable	3,607	2,546	2,921	568	249	(9,891)	—
Other net noncurrent intercompany amounts	(469)	70	(90)	—	489	—	—
Long-term debt	1,013	—	11	—	6,227	—	7,251
Noncurrent and deferred income taxes	432	(32)	55	—	(13)	—	442
Other noncurrent liabilities	390	(1)	3	—	—	—	392
Stockholders' equity:							
Common stock	1	—	—	—	1	(1)	1
Additional capital	1,468	166	197	41	416	(1,872)	416
Retained earnings (deficit)	(14)	10	10	—	(82)	—	(76)
Cumulative foreign currency translation adjustment	14	1	—	—	—	—	15
Total stockholders' equity	1,469	177	207	41	335	(1,873)	356
Total liabilities and stockholders' equity	\$8,207	\$2,760	\$3,131	\$ 609	\$7,827	\$(11,764)	\$10,770
Note A—Percentage of Beatrice common stock owned		5.2%	8.2%	2.8%	83.8%		

BCI HOLDINGS CORPORATION
DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

The table presented below and the following discussion summarize Holdings' ("Successor") results of ongoing operations for the quarter and six month periods ended August 31, 1986 and 1985. The results of operations for the six month period ended August 31, 1986, include the results of operations for Beatrice ("Predecessor") for the period March 1 to April 16, 1986, and Holdings for the period April 17 to August 31, 1986. Results of operations for the 1985 periods presented and discussed below are solely those of the Predecessor.

NET SALES AND GROSS OPERATING EARNINGS BY BUSINESS SEGMENT

	(Unaudited) (In millions)							
	Quarter Ended August 31,				Six Months Ended August 31,			
	Net Sales		Gross Operating Earnings		Net Sales		Gross Operating Earnings	
	1986	1985	1986	1985	1986	1985	1986	1985
U.S. Food	\$1,448	\$1,451	\$105	\$ 92	\$2,846	\$2,926	\$195	\$191
International Food	702	536	37	28	1,304	1,013	55	47
Consumer Durables	295	284	14	24	575	555	29	55
	2,445	2,271	156	144	4,725	4,494	279	293
Businesses divested through August 31, 1986	—	18	—	3	—	100	—	(1)
Total segments	<u>\$2,445</u>	<u>\$2,289</u>	156	147	<u>\$4,725</u>	<u>\$4,594</u>	279	292
Unallocated operating expense			(18)	(31)			(38)	(58)
Gross operating earnings			<u>\$138</u>	<u>\$116</u>			<u>\$241</u>	<u>\$234</u>

OPERATIONS

Quarter Ended August 31, 1986 and 1985

Summary

Net sales and segment earnings of ongoing operations increased eight percent from the prior period. Considering the results of businesses divested through August 31, 1986, net sales and segment earnings increased seven percent and six percent, respectively. Significantly higher interest expense resulting from Merger-related debt was the primary cause for the decline in results before discontinued operations, from earnings of \$26 million to a loss of \$18 million. The decrease in net earnings, from earnings of \$70 million to a loss of \$9 million, also reflected the increased interest expense.

Segment Results

U.S. Food net sales were relatively even with the prior year. Lower selling prices, new product introductions and successful promotions caused significant volume increases in fruit juices. Volume improvements were also experienced in a number of other product categories including turkey, oil, peanut butter and oriental. Volume gains were partially offset by volume declines in dairy and cheese products. Lower oil and fruit juice raw material costs were passed on to the consumer through lower selling prices which impacted the dollar value of net sales. Additionally, sales were lost when the segment exited the fresh meats business. Segment earnings rose 14 percent due to improved margins, increased volumes and significantly lower segment expenses.

Favorable exchange rates in European currencies were the major cause for the 31 percent improvement in International Food net sales and 32 percent increase in earnings. Volume gains in Europe, Latin America

and Canada also contributed to the sales increase. Earnings improvements at European ice cream operations and lower administrative costs in Latin America also positively affected earnings.

Consumer Durables net sales increased to \$295 million. Favorable exchange rates at operations outside the U.S. were the primary reason for the sales increase. Volume declines in luggage reflected sluggishness in the U.S. marketplace due to the curtailment of international travel. However, increases in new housing starts resulted in improved sales volumes of home products. Excluding foreign currency exchange effects, all major operations reported lower earnings causing segment earnings to decline to \$14 million. Additionally, a work stoppage at the furniture operations earlier in the year continued to impact segment results.

Other Results

Reduced corporate activities and the phase-out of the automobile racing program sponsorship resulted in a substantial reduction of unallocated operating expense.

Six Months Ended August 31, 1986 and 1985

Summary

Net sales of ongoing operations increased five percent while ongoing segment earnings declined five percent. Considering the results of businesses divested through August 31, 1986, net sales increased three percent and segment earnings decreased four percent. Significantly higher interest expense resulting from Merger-related debt was the primary cause for the decline in results before discontinued operations, from earnings of \$62 million to a loss of \$65 million. The decrease in net earnings from earnings of \$128 million to a loss of \$60 million also reflected the increased interest expense as well as change in control expenses related to the Merger.

Segment Results

U.S. Food net sales declined three percent for the six month period. Lower selling prices, particularly oil products and fruit juices, were the primary reasons for the decrease. Heavy promotion of oil products in the latter part of the prior year shifted sales between fiscal years causing lower volumes early this year. Volume declines in cheese and dairy products and the exit from fresh meats also contributed to the sales decrease. Volume gains in fruit juice sales, stimulated by lower selling prices, new product introductions and promotions, partially offset these effects. Segment earnings increased two percent, primarily due to improved fruit juice margins, lower segment expenses and earnings improvements from specialty products.

Favorable exchange rates in European currencies were the primary cause for the 29 percent improvement in International Food net sales and 17 percent increase in earnings. Volume gains in all major geographic areas also contributed to the sales increase. Earnings improvements at European ice cream operations and lower administrative costs in Latin America also positively affected earnings.

Consumer Durables net sales were four percent higher for the six month period, while segment earnings fell to \$29 million. Favorable exchange rates at operations outside the U.S. contributed much of the sales increase and partially offset the earnings decline. Acquired water treatment operations in Spain and higher volumes of home products also contributed to the sales increase. Both sales and earnings were affected by volume declines in furniture and luggage and lower demand for water treatment services. A nonrecurring real estate gain in the prior period also affected the earnings comparison between years.

Other Results

Reduced corporate activities and the phase-out of the automobile racing program sponsorship resulted in a substantial reduction of unallocated corporate expense. However, higher debt levels resulting from the Merger significantly increased net interest expense.

FINANCIAL CONDITION

In connection with the Merger, Holdings entered into a \$600 million Working Capital Facility to provide for short-term working capital requirements. Holdings believes that this Working Capital Facility and cash flow from operations are sufficient to meet anticipated working capital and other capital expenditure requirements. However, Holdings' financial condition is highly leveraged as a result of the Merger. The anticipated cash flow from operations is not expected to be sufficient to make the first two scheduled principal payments on the Bank Credit Agreement term loan which are due in January and October 1987 and aggregate \$1.3 billion. Consequently, Holdings intends to dispose of businesses or assets in an amount sufficient to provide net proceeds to make these payments on a timely basis. Through September 30, 1986, net proceeds of \$1.1 billion have been used to reduce the scheduled principal payments.

By August 31, 1986, Holdings had completed the sales of its leasing, knitwear and Avis businesses for net proceeds of \$252 million. Subsequently, during September 1986, the sale of the North American soft drink bottling operations was completed for net proceeds of approximately \$1 billion. Holdings has also reached an agreement in principle to sell its personal products businesses for an estimated \$1.2 billion. The agreement anticipates that Holdings will acquire a 20 percent common equity interest in the acquiring company. The sale is expected to be completed during December 1986. Further information on the operations Holdings has sold or intends to dispose of is contained in Note 4 of the Notes to Condensed Consolidated Financial Statements.

Other events during the quarter include the exchange of Redeemable Preferred Stock for Exchange Debentures and the redemption of Beatrice's preference stock as further described in Note 6.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1A(1) Restated Certificate of Incorporation of BCI Holdings Corporation.
- (2) BCI Holdings Corporation Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof.
- (3) Certificate of Amendment of Restated Certificate of Incorporation of BCI Holdings Corporation.
- 3.1E(1) Restated Certificate of Incorporation of Beatrice Companies, Inc. (Included as Exhibit A to Exhibit 3.1E(2) included in this Form 10-Q).
- (2) Certificate of Merger of BCI Merger Corporation Into Beatrice Companies, Inc.
- (3) Certificate of Amendment of Restated Certificate of Incorporation of Beatrice Companies, Inc.

(b) Reports

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this Report to be signed on their behalf by the undersigned thereunto duly authorized.

BCI HOLDINGS CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
*Executive Vice President and
Chief Financial Officer*

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President—Financial

BCI CONSUMER PRODUCTS CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BCI U.S. FOOD CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BCI INTERNATIONAL FOOD CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BEATRICE COMPANIES, INC.

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President—Financial

By /s/ MICHAEL FUNG
Michael Fung
Vice President and Controller

Date: October 10, 1986

