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, 1987

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)

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

BCI Holdings Corporation

(former name if changed since last report)

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 September 30, 1987, 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)

	August 31, 1987 (Unaudited)	February 28, 1987
ASSETS		
Current assets:		
Cash and short-term investments	$ 537	$ 46
Receivables, less allowance for doubtful accounts of $14	327	384
Inventories	688	617
Net current assets of discontinued operations	255	409
Other current assets	132	129
Total current assets	1,939	1,585
Property, plant and equipment, less accumulated depreciation of $132 and $85, respectively	851	863
Intangible assets, principally goodwill and unallocated purchase cost, respectively	2,591	2,636
Net noncurrent assets of discontinued operations	227	1,492
Other noncurrent assets	311	348
	$ 5,919	$6,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 3	$ 4
Accounts payable and accrued expenses	1,026	1,101
Current maturities of long-term debt	126	125
Total current liabilities	1,155	1,230
Long-term debt	3,752	4,244
Noncurrent and deferred income taxes	461	459
Other noncurrent liabilities	677	683
Contingent liabilities	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings (deficit)	(579)	(121)
Cumulative foreign currency translation adjustment	34	10
Total stockholders' equity	(126)	308
	$ 5,919	$6,924

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED INCOME STATEMENT
(Unaudited)

(In millions, except per share data)

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Net sales	$1,117	$1,103	$2,192	$2,161
Costs and expenses:				
Cost of sales	820	789	1,585	1,554
Selling and administrative expenses	211	232	439	463
Amortization of intangible assets	17	15	34	26
Total costs and expenses	1,048	1,036	2,058	2,043
Operating earnings	69	67	134	118
Interest expense	(94)	(85)	(182)	(127)
Change in control expenses	—	—	—	(84)
Miscellaneous income (expense), net	(19)	—	(19)	8
Loss from ongoing operations before income taxes	(44)	(18)	(67)	(85)
Income tax expense (benefit)	2	3	10	(22)
Loss from ongoing operations	(46)	(21)	(77)	(63)
Earnings (loss) from discontinued operations, net of income tax expense of $27, $15, $36 and $27, respectively	(12)	12	(35)	13
Extraordinary items, net of $8 income tax benefit in the six months 1986	(6)	—	(6)	(10)
Net loss	(64)	(9)	(118)	(60)
Preferred dividend requirements	—	(30)	—	(52)
Net loss of Predecessor	—	—	—	36
Net loss applicable to common stockholders	$ (64)	$ (39)	$ (118)	$ (76)
Weighted-average common shares outstanding	82	81	82	81
Loss per share:				
Ongoing operations	$ (.56)	$ (.63)	$ (.94)	$ (.93)
Discontinued operations	(.15)	.15	(.43)	(.01)
Extraordinary items	(.07)	—	(.07)	—
Net loss	$ (.78)	$ (.48)	$(1.44)	$ (.94)

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

(In millions)

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Cash provided (used) by operations:				
Loss from ongoing operations	$ (46)	$ (21)	$ (77)	$ (63)
Items not involving cash:				
Depreciation and amortization of intangibles	39	37	80	71
Interest payable in Exchange Debentures	—	16	—	16
Other items, net	3	11	6	(15)
Changes in working capital, excluding current debt	(44)	(178)	(135)	(119)
Cash used by ongoing operations	(48)	(135)	(126)	(110)
Net cash provided (used) by discontinued operations	7	112	(16)	56
Net cash used by extraordinary items	(4)	—	(4)	(10)
Cash used by operations	(45)	(23)	(146)	(64)
Cash provided (used) by investment activities:				
Net expenditures for property, plant and equipment	(29)	(16)	(49)	(35)
Net proceeds from divested operations and other asset sales	444	262	444	262
E-II Notes repayment	800	—	800	—
Effect of Merger	—	—	—	437
Other items, net	(17)	(17)	23	9
Cash provided by investment activities	1,198	229	1,218	673
Cash provided (used) by financing activities, excluding the Merger:				
Change in debt	(583)	(205)	(496)	(317)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	—	1,230	—	1,230
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	—	(1,230)	—	(1,230)
Common stock issued upon conversion of preference stock and debentures	—	—	—	41
Preference stock and debentures retired upon conversion into common stock	—	—	—	(41)
Common stock issued for exercises of stock options and stock warrants	—	—	—	20
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	—	60	—	74
Dividends paid in Redeemable Preferred Stock	—	(52)	—	(52)
Other items, net	(10)	(116)	(5)	(28)
Cash used by financing activities	(593)	(313)	(501)	(303)
Cash provided (used) before cash dividends	560	(107)	571	306
Cash dividends paid or accrued	(80)	—	(80)	(53)
Increase (decrease) in cash and short-term investments	480	(107)	491	253
Cash and short-term investments at beginning of period	57	360	46	—
Cash and short-term investments at end of period	$ 537	$ 253	$ 537	$ 253

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

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

The Company and an investment banking firm are engaged in a process which may result in the sale of all of the outstanding stock of the Company. There is no certainty that this process will result in any offers for the Company or, if offers are received, that they will be acceptable to the Company's stockholders.

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

Unless otherwise stated, fiscal 1987 includes the periods both before and after the Merger. The accompanying condensed consolidated income statement for the six months ended August 31, 1986 includes the following amounts attributable to the Predecessor (in millions):

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

Per share data for such period excludes amounts attributable to the Predecessor due to the significantly different capital structures existing before and after the Merger.

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

2. Discontinued Operations

In August 1987 BCI entered into an agreement to sell substantially all of its non-U.S. food businesses. This sale is expected to be completed during the third quarter for anticipated net cash proceeds approximating $970 million resulting in a gain of approximately $500 million. In connection with the allocation of purchase cost (Note 1) these businesses were valued based upon the ratio of their aggregate fair market value to the aggregate fair market value of Beatrice as determined by an independent investment banking firm as of the Merger date, after reflecting the effects of businesses sold or under contract for sale as of May 1987. See also Note 8.

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

On July 2, 1987 BCI distributed its ownership in a newly formed subsidiary, E-II Holdings Inc. ("E-II"), to its stockholders and warrant holders (the "Distribution"). Concurrent with the Distribution BCI transferred 15 operating companies, comprising substantially all of its nonfood and food specialty businesses, to E-II in exchange for 41.1 million E-II common shares. Such shares were then distributed to BCI stockholders and warrant holders in the ratio of one E-II common share for every three BCI common shares held or entitled to be acquired under warrants. BCI option holders received one E-II common stock option for every three BCI common stock options held and the option price for each BCI common share under option was reduced from $5 to $4. The option price for E-II common shares is $3. Intercompany indebtedness, aggregating $800 million and evidenced by 11.25% senior promissory notes (the "E-II Notes"), remained payable to BCI after the Distribution and was repaid on July 9, 1987. All other intercompany amounts were capitalized or contributed to E-II. The net assets distributed reflect an allocation of purchase cost (Note 1) based upon the ratio of the aggregate fair market value of the E-II businesses to the aggregate fair market value of Beatrice as determined by an independent investment banking firm as of the Merger date, after reflecting the effects of businesses sold or under contract for sale as of May 1987. See also Notes 3, 5, 6 and 7.

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

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

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
INCOME STATEMENT*:				
Net sales and operating revenues	$ 939	$ 2,091	$ 2,062	$ 4,208
Costs and expenses	(881)	(1,914)	(1,957)	(3,909)
Amortization of intangible assets	(3)	(18)	(8)	(32)
Interest allocation**	(40)	(132)	(96)	(227)
Earnings before income tax allocation	15	27	1	40
Income tax expense allocation	27	15	36	27
Net earnings (loss)	$ (12)	$ 12	$ (35)	$ 13

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

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

	August 31, 1987	February 28, 1987
BALANCE SHEET:		
Current assets	$ 732	$1,151
Current liabilities	(477)	(742)
Net current assets of discontinued operations	255	409
Property, plant and equipment, net	358	817
Intangible assets, principally goodwill and unallocated purchase cost, respectively	5	863
Long-term debt	(35)	(84)
Other, net	(101)	(104)
Net noncurrent assets of discontinued operations	227	1,492
Net assets of discontinued operations	$ 482	$1,901

3. Transactions With E-II

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

Included in accounts payable and accrued expenses as of August 31, 1987 are amounts, aggregating $37 million, due to E-II for cash items which were in-transit as of the Distribution date and which have since been settled.

4. Inventories

Inventories, in millions, consist of the following:

	August 31, 1987	February 28, 1987
Raw materials and supplies	$158	$ 150
Work in process	139	138
Finished goods	391	329
	$688	$ 617

5. Long-term Debt

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

Pursuant to a tender offer which expired on September 3, BCI purchased $101 million principal amount of its 11% senior notes at an aggregate premium of $4 million. Also in September an additional $97 million principal amount of other debt securities was acquired at an aggregate premium of $7 million. Had these transactions occurred during the second quarter, BCI would have realized an extraordinary expense, including associated deferred financing fees, of approximately $14 million or $.17 per share. See also Note 8.

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

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

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

On June 25, 1987 BCI entered into a Revolving Credit Agreement with a group of banks which refinanced and replaced its former Bank Credit Agreement and Working Capital Credit Agreement. The new agreement provides for an initial aggregate commitment of up to $1.2 billion which is subject to mandatory reductions in the event certain assets are sold. Borrowings bear interest, at BCI's option, at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or at a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required.

6. Stockholders' Equity

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

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

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustment
Balance at February 28, 1987	$ 1	$ 418	$ (121)	$ 10
Net loss	—	—	(118)	—
Foreign currency translation adjustment	—	—	—	24
Stockholder distributions:				
E-II common shares	—	—	(260)	—
Cash	—	—	(80)	—
Balance at August 31, 1987	$ 1	$ 418	$ (579)	$ 34

7. Contingent Liabilities

In connection with the Distribution (Note 2), BCI and E-II entered into indemnification agreements which provide for the settlement of claims or damages which may arise for periods prior to the Distribution. Neither BCI or E-II management is aware of any significant impending liabilities that would give rise to claims under these agreements. Also, in the opinion of BCI management there are no claims or litigation pending which are expected to have a materially adverse effect on the consolidated financial condition of BCI.

8. Summarized Pro Forma Balance Sheet

Had the sale of the non-U.S. food businesses (Note 2) and the September 1987 debt repurchases (Note 5) been completed on August 31, 1987, the summarized unaudited pro forma balance sheet would have been as follows (in millions):

		Adjustments		
	Historical	Divestiture	Debt Repurchases	Pro Forma
ASSETS:				
Cash and short-term investments	$ 537	$970	$(215)	$1,292
Other current assets	1,402	(255)	—	1,147
Total current assets	1,939	715	(215)	2,439
Property, plant and equipment, net	851	—	—	851
Intangible assets	2,591	—	—	2,591
Other noncurrent assets	538	(227)	(3)	308
Total assets	$5,919	$488	$(218)	$6,189
LIABILITIES AND STOCKHOLDERS' EQUITY:				
Total current liabilities	$1,155	$—	$ (6)	$1,149
Long-term debt	3,752	—	(198)	3,554
Other noncurrent liabilities	1,138	—	—	1,138
Total liabilities	6,045	—	(204)	5,841
Stockholders' equity	(126)	488	(14)	348
Total liabilities and stockholders' equity	$5,919	$488	$(218)	$6,189

9. Income Taxes

BCI's effective tax rate for the periods presented differs from the U.S. federal statutory rate primarily as a result of state income taxes and non-deductible depreciation and amortization attributable to acquisitions and the Merger.

10. Reorganization

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

The condensed consolidating income statement for the six months ended August 31, 1987 and balance sheet as of August 31, 1987 present the following:

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

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

CONDENSED CONSOLIDATING FINANCIAL STATEMENTS
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	BCI Products	Beatrice International	BCI	Consolidated
INCOME STATEMENT (Six months ended August 31, 1987):							
Net sales	$ 720	$ 639	$ 777	$ 56	$—	$ —	$2,192
Operating expenses	651	598	730	58	—	21	2,058
Operating earnings	69	41	47	(2)	—	(21)	134
Intercompany interest income (expense), net	(22)	(36)	(33)	(34)	—	125	—
Interest expense	(13)	—	(2)	—	—	(167)	(182)
Other income (expense), net	—	—	2	6	—	(27)	(19)
Earnings (loss) from ongoing operations before income taxes	34	5	14	(30)	—	(90)	(67)
Income tax expense (benefit)	23	10	9	(12)	—	(20)	10
Earnings (loss) from ongoing operations	11	(5)	5	(18)	—	(70)	(77)
Loss from discontinued operations	—	—	(9)	(1)	(23)	(2)	(35)
Extraordinary items	—	—	—	—	—	(6)	(6)
Net earnings (loss)	$ 11	$ (5)	$ (4)	$ (19)	$(23)	$ (78)	$ (118)
BALANCE SHEET (As of August 31, 1987):							
Assets:							
Cash and short-term investments	$ 6	$ 2	$ 8	$ 1	$—	$ 520	$ 537
Receivables, net	115	83	102	21	—	6	327
Inventories	383	125	160	20	—	—	688
Net current assets of discontinued operations	—	—	—	—	255	—	255
Other current assets	45	1	6	3	—	77	132
Total current assets	549	211	276	45	255	603	1,939
Property, plant and equipment, net	423	199	159	15	—	55	851
Intangible assets, principally goodwill	1,024	905	662	—	—	—	2,591
Net noncurrent assets of discontinued operations	—	—	—	—	227	—	227
Other noncurrent assets	18	1	72	71	—	149	311
Total assets	$2,014	$1,316	$1,169	$ 131	$482	$ 807	$5,919
Liabilities and Stockholders' Equity:							
Short-term debt and current maturities of long-term debt	$ 14	$ —	$ 6	$ 1	$—	$ 108	$ 129
Accounts payable and accrued expenses	260	160	261	27	—	318	1,026
Total current liabilities	274	160	267	28	—	426	1,155
Long-term debt	222	6	22	4	—	3,498	3,752
Noncurrent and deferred income taxes	35	—	5	—	—	421	461
Other noncurrent liabilities	10	4	11	107	—	545	677
Net intercompany investments and advances	1,473	1,146	864	(8)	482	(3,957)	—
Stockholders' equity:							
Common stock	—	—	—	—	—	1	1
Additional capital	—	—	—	—	—	418	418
Retained earnings (deficit)	—	—	—	—	—	(579)	(579)
Cumulative foreign currency translation adjustment	—	—	—	—	—	34	34
Total stockholders' equity	—	—	—	—	—	(126)	(126)
Total liabilities and stockholders' equity	$2,014	$1,316	$1,169	$ 131	$482	$ 807	$5,919

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

OPERATIONS

BCI's ongoing operations are concentrated in one segment, U.S. Food. The businesses of U.S. Food manufacture and distribute grocery, meat, fruit juice and cheese products throughout the U.S. and certain Canadian provinces. The following discussion addresses the results of BCI's ongoing operations for the quarter and six months ended August 31, 1987 and 1986.

Quarter Ended August 31, 1987 and 1986

Net sales in the second quarter increased slightly over the prior year's quarter. Volume gains were realized in fruit juice products due to new product introductions and other marketing efforts. Minor volume gains were also experienced in cheese and processed meat products. Offsetting these gains were volume declines in grocery and whole turkey products, decreased prices on oil-based products and increased grocery promotional allowances.

Operating earnings increased 3% over the prior year's quarter due primarily to the slight increase in net sales and lower product support and marketing costs for grocery products. Lower corporate administrative costs also contributed to the increase. The finalization of the allocation of purchase cost resulting from the Merger caused amortization of intangible assets to increase approximately $2 million.

A loss of $46 million from ongoing operations was realized versus a loss of $21 million in the prior year's quarter. Interest expense increased due primarily to the Exchange Debentures which were outstanding for only a portion of the prior year's quarter. In addition, included in miscellaneous income (expense) in the current quarter is a charge of $25 million for payments made in connection with obtaining modifications to certain of BCI's long-term debt agreements (See Note 5 of the Notes to Condensed Consolidated Financial Statements). Income tax expense in the current period reflects the lack of U.S. federal income tax benefits on losses due to uncertainties regarding realization.

In the current quarter an extraordinary charge of $6 million resulted from the acquisition of $99 million principal amount of previously outstanding 11% senior notes in the open market.

Six Months Ended August 31, 1987 and 1986

Net sales for the six months increased slightly over the prior year. Volume gains were realized in fruit juice products due to new product introductions and other marketing efforts. Minor volume gains were also experienced in cheese products. Offsetting these gains were volume declines in grocery products, decreased prices on oil-based products and the absence of sales from the Soup Starter line of grocery products which was disposed of earlier this year.

Operating earnings increased 14% over the prior year due primarily to the slight increase in net sales, increased margins and lower product support costs for grocery products and decreased corporate administrative costs. Volume increases in fruit juice product sales were offset in part by increased marketing expenses, while declines in grocery products sales were more than offset by improved margins and lower product support costs. Operating earnings were also impacted by lower margins on whole turkey products and increased intangible asset amortization of approximately $8 million due to the finalization of the allocation of purchase cost resulting from the Merger.

A loss of $77 million from ongoing operations was realized versus a loss of $63 million in the prior year. Interest expense increased due primarily to the Merger-related debt and Exchange Debentures which were outstanding for only a portion of the prior year. In addition, included in miscellaneous income (expense) in the current year is a charge of $25 million for payments made in connection with obtaining modifications to certain of BCI's long-term debt agreements (See Note 5 of the Notes to Condensed Consolidated Financial Statements). Change of control expenses of $84 million in the prior year relate to expenses incurred by Beatrice in connection with the Merger. Income tax expense in the current period reflects the lack of U.S. federal income tax benefits on losses due to uncertainties regarding realization.

In the current year an extraordinary charge of $6 million resulted from the acquisition of $99 million principal amount of previously outstanding 11% senior notes in the open market while the prior year includes an extraordinary charge of $10 million related to debt redemptions and repayments made by Beatrice immediately prior to the Merger.

Financial Condition

By August 31, 1987 BCI had sold its bottled water operations, distributed its ownership in a newly formed company, E-II, which contained substantially all of its nonfood and food specialties operations and reduced long-term debt by $492 million. Shortly after the end of the quarter an additional $101 million of outstanding senior debt was repurchased pursuant to a tender offer which expired on September 3, 1987. As described in Note 2 of the Notes to Condensed Consolidated Financial Statements, net cash proceeds of $444 million were received from the bottled water operations sale and $800 million was received from E-II in repayment of the E-II Notes. An agreement to sell substantially all of the non-U.S. food businesses has also been reached and net cash proceeds of approximately $970 million are expected to be received in the third quarter. The anticipated gain of approximately $500 million on this transaction should more than offset the current deficit in stockholders' equity.

BCI currently intends to continue to reduce its long-term debt by utilizing excess cash balances to purchase certain of its outstanding debt issues in the open market. The refinancing of the Exchange Debentures with Increasing Rate Subordinated Debentures which occurred in October 1987 is expected to result in near-term savings in interest costs. Existing credit facilities and operating cash flows continue to be sufficient to meet operating working and other capital requirements.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K.

None

SIGNATURES

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

BEATRICE COMPANY

By /s/ WILLIAM P. CARMICHAEL

William P. Carmichael
Vice President and
Chief Financial Officer

By /s/ MICHAEL FUNG

Michael Fung
Vice President and Controller

October 14, 1987