

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION (H) (1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED:

August 31, 1990

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
-

1-9119

(Commission File No.)

BEATRICE COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0737263

(I.R.S. Employer
Identification Number)

One ConAgra Drive

Omaha, Nebraska

(Address of principal executive offices)

68102

(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 registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Since August 14, 1990, all outstanding shares of the registrant's common stock have been owned by ConAgra, Inc.

PART I. FINANCIAL INFORMATION

BEATRICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions, except share data)

| | August 31, 1990 (Successor) (Unaudited) | February 28, 1990 (Predecessor) |
|--|--|---------------------------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 26 | \$ 107 |
| Receivables, less allowance for doubtful accounts of \$10 and \$13, respectively | 307 | 272 |
| Inventories | 607 | 467 |
| Other current assets | 53 | 49 |
| Total current assets | 993 | 895 |
| Property, plant and equipment, less accumulated depreciation of \$2 and \$351, respectively | 794 | 710 |
| Unallocated purchase cost | 2,368 | — |
| Intangible assets, principally goodwill | — | 1,770 |
| Net advances to ConAgra | 111 | — |
| Other noncurrent assets | 124 | 151 |
| | <u>\$4,390</u> | <u>\$3,526</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 298 | \$ 275 |
| Accrued expenses | 320 | 397 |
| Current maturities of long-term debt | 15 | 23 |
| Total current liabilities | 633 | 695 |
| Long-term debt | 1,107 | 987 |
| Noncurrent and deferred income taxes | 423 | 419 |
| Other noncurrent liabilities | 894 | 552 |
| Stockholders' equity: | | |
| Preferred stock: Successor, none; Predecessor, par value \$.01 per share, no shares issued and outstanding | — | — |
| Common stock: Successor, par value \$1.00 per share, 1,000 shares outstanding; Predecessor, par value \$.01 per share, 81,874,700 shares outstanding | — | 1 |
| Additional capital | 1,331 | 420 |
| Retained earnings | 2 | 448 |
| Cumulative foreign currency translation adjustment | — | 4 |
| Total stockholders' equity | 1,333 | 873 |
| | <u>\$4,390</u> | <u>\$3,526</u> |

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

(In millions)

| | Periods ended August 31, | | | | | |
|---|--------------------------|----------------|---------------|-------------|----------------|---------------|
| | Quarter | | | Six Months | | |
| | 1990 | | | 1990 | | |
| | From | To | 1989 | From | To | 1989 |
| | August 15 | August 14 | (Predecessor) | August 15 | August 14 | (Predecessor) |
| | (Successor) | (Predecessor) | (Predecessor) | (Successor) | (Predecessor) | (Predecessor) |
| Net sales | \$173 | \$863 | \$1,047 | \$173 | \$1,867 | \$2,003 |
| Costs and expenses: | | | | | | |
| Cost of sales | 135 | 664 | 779 | 135 | 1,417 | 1,477 |
| Selling and administrative expenses | 20 | 175 | 190 | 20 | 364 | 386 |
| Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor) | 3 | 11 | 12 | 3 | 23 | 25 |
| Total costs and expenses | 158 | 850 | 981 | 158 | 1,804 | 1,888 |
| Operating earnings | 15 | 13 | 66 | 15 | 63 | 115 |
| Interest income | 1 | 3 | 5 | 1 | 8 | 10 |
| Interest expense | (8) | (39) | (53) | (8) | (85) | (108) |
| Change in control expenses | — | (20) | — | — | (20) | — |
| Miscellaneous income (expense), net | (1) | (19) | (4) | (1) | (28) | (2) |
| Earnings (loss) before income taxes and extraordinary item | 7 | (62) | 14 | 7 | (62) | 15 |
| Income tax (expense) benefit | (5) | 2 | (14) | (5) | (8) | (24) |
| Earnings (loss) before extraordinary item | 2 | (60) | — | 2 | (70) | (9) |
| Extraordinary item | — | — | 9 | — | — | 14 |
| Net earnings (loss) | <u>\$ 2</u> | <u>\$ (60)</u> | <u>\$ 9</u> | <u>\$ 2</u> | <u>\$ (70)</u> | <u>\$ 5</u> |

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(In millions)

| | Periods ended August 31, | | | | | |
|---|----------------------------------|----------------------------------|--------------|----------------------------------|----------------------------------|--------------|
| | Quarter | | | Six Months | | |
| | 1990 | | 1989 | 1990 | | 1989 |
| | From August 15 (Successor) | To August 14 (Predecessor) | | From August 15 (Successor) | To August 14 (Predecessor) | |
| Cash flows from operating activities: | | | | | | |
| Earnings (loss) before extraordinary item | \$ 2 | \$ (60) | \$ — | \$ 2 | \$ (70) | \$ (9) |
| Adjustments to reconcile earnings (loss) before extraordinary item to cash provided (used) by operating activities: | | | | | | |
| Depreciation | 2 | 18 | 23 | 2 | 40 | 45 |
| Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor) | 3 | 11 | 12 | 3 | 23 | 25 |
| Other items, net | 3 | 32 | 22 | 3 | 59 | 46 |
| Change in working capital, excluding current debt | (19) | (79) | (137) | (19) | (210) | (191) |
| Cash used by operating activities | (9) | (78) | (80) | (9) | (158) | (84) |
| Cash flows from investing activities: | | | | | | |
| Expenditures for property, plant and equipment | (2) | (35) | (24) | (2) | (58) | (47) |
| Proceeds from sales of miscellaneous assets | — | — | — | — | — | 41 |
| Other items, net | — | 7 | 3 | — | 9 | 6 |
| Cash used by investing activities | (2) | (28) | (21) | (2) | (49) | — |
| Cash flows from financing activities: | | | | | | |
| Borrowings (repayments) of short-term debt, net | (84) | 84 | 75 | (84) | 84 | 75 |
| Borrowings of long-term debt | — | 2 | 538 | — | 91 | 538 |
| Repayments of long-term debt | — | (16) | (579) | — | (37) | (581) |
| Exercise of warrants | — | 209 | — | — | 209 | — |
| Cash and cash equivalents acquired from Predecessor | 232 | — | — | 232 | — | — |
| Net advances to ConAgra | (111) | — | — | (111) | — | — |
| Other items, net | — | (13) | (10) | — | (15) | (20) |
| Cash provided by financing activities | 37 | 266 | 24 | 37 | 332 | 12 |
| Increase (decrease) in cash and cash equivalents | 26 | 160 | (77) | 26 | 125 | (72) |
| Cash and cash equivalents at beginning of period | — | 72 | 100 | — | 107 | 95 |
| Cash and cash equivalents at end of period | <u>\$ 26</u> | <u>\$ 232</u> | <u>\$ 23</u> | <u>\$ 26</u> | <u>\$ 232</u> | <u>\$ 23</u> |

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Change in Control

Merger

On August 14, 1990, ConAgra, Inc. ("ConAgra") completed its acquisition of Beatrice Company ("Old Beatrice"). On that date, Old Beatrice was merged with CAGSUB, Inc. ("CAGSUB"), a wholly-owned subsidiary of ConAgra ("Merger"). CAGSUB was the surviving corporation of the Merger and, as part of the Merger, changed its name to Beatrice Company ("Beatrice").

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

Merger Consideration

On August 14, 1990, all of the voting securities of Old Beatrice were converted into the right to receive the purchase price ("Merger Consideration") which consisted of 11,076,151 shares of ConAgra common stock, 141,955 shares of ConAgra Class E \$2,500 cumulative convertible voting preferred stock, Series 1 (the "Convertible Preferred") and approximately \$628 million cash (net of certain warrant exercise proceeds). ConAgra and certain former stockholders of Old Beatrice are parties to a Registration Rights and Standstill Agreement dated as of June 7, 1990 with respect to the common stock and Convertible Preferred.

Purchase Accounting

The Merger is being accounted for as a purchase. Old Beatrice's net assets are included in the accompanying condensed consolidated balance sheet of Beatrice at values representing a preliminary allocation of the purchase price to such net assets. The excess of purchase price over the preliminary valuation of the net tangible assets acquired is captioned "Unallocated purchase cost" and is being amortized over forty years on the straight-line method. The preliminary purchase price allocation is subject to change when additional information concerning asset and liability valuations is obtained. Therefore, the final allocation may differ from the preliminary allocation. The preliminary allocation to Old Beatrice's net assets is summarized as follows, in millions:

| | |
|---|----------------|
| Old Beatrice net assets acquired | \$1,012 |
| Change in values: | |
| Net property, plant and equipment | 75 |
| Unallocated purchase cost | 2,371 |
| Intangible assets, principally goodwill | (1,747) |
| Other noncurrent assets | (23) |
| Long-term debt | (30) |
| Other noncurrent liabilities | (327) |
| Beatrice net assets | <u>\$1,331</u> |

2. Accounting Policies

Financial Statements. In the opinion of management, the unaudited information presented as of August 31, 1990 and for the periods ended August 14, 1990 and August 31, 1990 and 1989 reflects all adjustments necessary, which consist only of purchase accounting adjustments for the Successor period August 15 to August 31, 1990 and normal recurring adjustments, for a fair presentation of the interim period financial information.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Transactions with ConAgra. Net amounts receivable from ConAgra consist primarily of cash advances inclusive of intercompany interest accruals. These advances bear interest generally at a rate reflective of ConAgra's short-term borrowing rate. Interest income related to these net advances amounted to \$0.3 million and is included in miscellaneous income (expense) in the accompanying condensed consolidated statement of earnings for the Successor period.

Earnings/Loss Per Share. Earnings/loss per share amounts are not presented as Beatrice is a wholly-owned subsidiary of ConAgra.

3. Inventories

Inventories, in millions, consist of the following:

| | August 31, 1990 | February 28, 1990 |
|---------------------------------|--------------------|----------------------|
| Raw materials and supplies..... | \$128 | \$120 |
| Work in process | 68 | 67 |
| Finished goods | <u>411</u> | <u>280</u> |
| | <u>\$607</u> | <u>\$467</u> |

4. Debt

Old Beatrice's bank revolving credit agreement was terminated by Beatrice subsequent to the Merger. On October 5, 1990, Beatrice repaid \$90 million which had been borrowed under a term loan agreement scheduled to mature on April 5, 1998. In addition, Beatrice gave notice in September 1990 that it will redeem the senior subordinated reset notes due 1997 and the senior subordinated floating rate notes due 1997 on November 1, 1990. The funding for both redemptions will be advanced to Beatrice from ConAgra.

5. Legal Proceedings and Contingencies

Beatrice and its subsidiaries are engaged in various litigation proceedings incident to their respective businesses and in various environmental and other matters. Beatrice and various of its subsidiaries have agreed to indemnify divested businesses or the purchasers thereof for various legal proceedings and tax matters. The federal income tax returns of Old Beatrice and its predecessors for the fiscal years ended 1985 through 1987 are currently under audit by the Internal Revenue Service. Beatrice is currently negotiating with the Appellate Division of the Internal Revenue Service proposed deficiencies previously claimed for fiscal years ended prior to 1985 (principally fiscal years ended 1982 through 1984). Additionally, the federal income tax returns of Norton Simon, Inc. ("NSI"), a wholly-owned subsidiary of Beatrice, have been audited by the Internal Revenue Service for the fiscal years ended 1982 and 1983 and a report has been issued. NSI has timely protested the findings contained in the examining agent's report and is negotiating with the Appellate Division of the Internal Revenue Service in an attempt to resolve disputed items. Various state tax authorities are also examining tax returns of Old Beatrice and its predecessors for prior taxable years, including, in the case of one state, years back to fiscal 1978. Beatrice expects that additional claims will be asserted for additional taxes. It is not possible at this time to determine the ultimate liabilities that may arise from these matters. Beatrice has established substantial reserves for these matters which are reflected on its consolidated balance sheet. The liabilities include interest accrued for tax claims.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

After taking into account accrued liabilities that have been recorded and possible recoveries from third parties, management is of the opinion that the disposition of the above matters will not have a material adverse effect on Beatrice's consolidated financial condition.

6. Stockholders' Equity

The following table summarizes the effect of the Merger and other transactions on the stockholders' equity of Old Beatrice at February 28, 1990, and that of Beatrice at August 31, 1990.

| | February 28, 1990 (Predecessor) | Predecessor Activity (In millions, except share data) | Merger | Successor Activity | August 31, 1990 (Successor) |
|--|---------------------------------------|---|---------------|-----------------------|-----------------------------------|
| STOCKHOLDERS' EQUITY: | | | | | |
| Preferred stock | \$ — | \$ — | \$ — | \$ — | \$ — |
| Old Beatrice common stock (123,608,581 shares outstanding at Merger date) | 1 | — | (1) | — | — |
| Beatrice common stock (1,000 shares authorized and issued) | — | — | — | — | — |
| Additional capital | 420 | 209 | 702 | — | 1,331 |
| Retained earnings | 448 | (70) | (378) | 2 | 2 |
| Cumulative foreign currency translation adjustment | 4 | — | (4) | — | — |
| Total stockholders' equity | <u>\$ 873</u> | <u>\$ 139</u> | <u>\$ 319</u> | <u>\$ 2</u> | <u>\$1,333</u> |

Preferred Stock

Beatrice's capitalization does not consist of any preferred stock. Old Beatrice had 250 million shares of authorized and unissued preferred stock with a par value of \$.01 per share.

Common Stock

Beatrice common stock has a par value of \$1.00 per share. 1,000 shares are authorized and outstanding.

Old Beatrice common stock was converted in the Merger into the right to receive Merger Consideration.

Immediately prior to the Merger, warrants to acquire 41,739,131 shares of Old Beatrice common stock at an exercise price of \$5 per share were exercised. The total proceeds received by Old Beatrice upon the exercise of these warrants were \$209 million.

Subsequent to the Merger, options to acquire 15,822,000 and 4,073,050 shares of Old Beatrice common stock at \$4 and \$10 per share, respectively, were cancelled and the holders of such options received \$119 million and \$6 million from ConAgra in consideration of such cancellations, respectively.

7. Change in Control Expenses

Pre-tax change in control expenses for the Predecessor period March 1 to August 14, 1990 consist of the following, in millions:

| | |
|--------------------------------|-------------|
| Fees and other expenses | \$15 |
| Accelerated compensation | <u>5</u> |
| | <u>\$20</u> |

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fees and other expenses related to investment banking and legal services and other expenses of Old Beatrice resulting from the Merger. Old 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 Old Beatrice. These provisions were activated by the Merger.

8. Income Taxes

The effective tax rate differs from the U.S. federal statutory rate primarily as a result of non-deductible amortization and depreciation and state income taxes. Beatrice's federal income tax liability for each of the past three fiscal years was determined under the alternative minimum tax ("AMT") system. As a result, at February 28, 1990, Beatrice had AMT credits of \$82 million of which \$21 million is recorded as recoverable U.S. federal income taxes as of both August 31, 1990 and February 28, 1990. The remaining credits can be carried forward indefinitely to reduce the regular tax liabilities of future years.

9. Extraordinary Item

A net operating loss carryforward was utilized in the six months ended August 31, 1989 to offset U.S. federal taxes otherwise payable, the benefit of which is reflected as an extraordinary item in the accompanying condensed consolidated statement of earnings for the period then ended.

10. Consolidating Financial Statements

The following condensed consolidating financial statements present the following:

- Condensed consolidated balance sheets and statements of earnings for NSI, Swift-Eckrich, Inc. ("Swift-Eckrich") and Beatrice U.S. Food Corp. ("Beatrice U.S. Food");
- 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.

The condensed consolidating statement of earnings for the six months ended August 31, 1990 includes the Predecessor and Successor periods. Purchase accounting adjustments associated with the Merger are reflected in the condensed financial statements for the parent company (Beatrice) and have not been pushed down to NSI, Swift-Eckrich, and/or Beatrice U.S. Food.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

(Unaudited)

(In millions)

| | NSI | Swift-Eckrich | Beatrice U.S. Food | Beatrice | Consolidated |
|---|----------------|----------------|--------------------|---------------|----------------|
| As of August 31, 1990 (Successor): | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 10 | \$ 2 | \$ 9 | \$ 5 | \$ 26 |
| Receivables, net. | 138 | 92 | 77 | — | 307 |
| Inventories | 383 | 144 | 80 | — | 607 |
| Other current assets | 58 | 3 | 4 | (12) | 53 |
| Total current assets | 589 | 241 | 170 | (7) | 993 |
| Net property, plant and equipment | 452 | 173 | 72 | 97 | 794 |
| Unallocated purchase cost | 997 | 662 | 86 | 623 | 2,368 |
| Net advances to ConAgra | — | — | — | 111 | 111 |
| Other noncurrent assets | 39 | 3 | 64 | 18 | 124 |
| | <u>\$2,077</u> | <u>\$1,079</u> | <u>\$ 392</u> | <u>\$ 842</u> | <u>\$4,390</u> |
| Liabilities and Stockholders' Equity: | | | | | |
| Accounts payable and accrued expenses | \$ 257 | \$ 114 | \$ 73 | \$ 174 | \$ 618 |
| Current maturities of long-term debt | 13 | — | 1 | 1 | 15 |
| Total current liabilities | 270 | 114 | 74 | 175 | 633 |
| Long-term debt | 185 | 6 | 12 | 904 | 1,107 |
| Noncurrent and deferred income taxes | 62 | — | — | 361 | 423 |
| Other noncurrent liabilities | 86 | 10 | 8 | 790 | 894 |
| Net intercompany investments and advances | 1,474 | 949 | 298 | (2,721) | — |
| Stockholders' equity | — | — | — | 1,333 | 1,333 |
| | <u>\$2,077</u> | <u>\$1,079</u> | <u>\$ 392</u> | <u>\$ 842</u> | <u>\$4,390</u> |
| As of February 28, 1990 (Predecessor): | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 7 | \$ 1 | \$ 10 | \$ 89 | \$ 107 |
| Receivables, net. | 137 | 68 | 67 | — | 272 |
| Inventories | 315 | 104 | 48 | — | 467 |
| Other current assets | 55 | 2 | 3 | (11) | 49 |
| Total current assets | 514 | 175 | 128 | 78 | 895 |
| Net property, plant and equipment | 439 | 172 | 75 | 24 | 710 |
| Intangible assets, principally goodwill | 1,011 | 671 | 88 | — | 1,770 |
| Other noncurrent assets | 39 | 2 | 64 | 46 | 151 |
| | <u>\$2,003</u> | <u>\$1,020</u> | <u>\$ 355</u> | <u>\$ 148</u> | <u>\$3,526</u> |
| Liabilities and Stockholders' Equity: | | | | | |
| Accounts payable and accrued expenses | \$ 262 | \$ 107 | \$ 62 | \$ 241 | \$ 672 |
| Current maturities of long-term debt | 19 | — | 2 | 2 | 23 |
| Total current liabilities | 281 | 107 | 64 | 243 | 695 |
| Long-term debt | 190 | 5 | 11 | 781 | 987 |
| Noncurrent and deferred income taxes | 59 | — | — | 360 | 419 |
| Other noncurrent liabilities | 85 | 12 | 9 | 446 | 552 |
| Net intercompany investments and advances | 1,388 | 896 | 271 | (2,555) | — |
| Stockholders' equity | — | — | — | 873 | 873 |
| | <u>\$2,003</u> | <u>\$1,020</u> | <u>\$ 355</u> | <u>\$ 148</u> | <u>\$3,526</u> |

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

(Unaudited)

(In millions)

| | <u>NSI</u> | <u>Swift- Eckrich</u> | <u>Beatrice U.S. Food</u> | <u>Beatrice</u> | <u>Consolidated</u> |
|---|--------------|---------------------------|-------------------------------|-----------------|---------------------|
| Six months ended August 31, 1990: | | | | | |
| Net sales | \$861 | \$686 | \$495 | \$ (2) | \$2,040 |
| Operating expenses | <u>789</u> | <u>673</u> | <u>488</u> | <u>12</u> | <u>1,962</u> |
| Operating earnings (loss) | 72 | 13 | 7 | (14) | 78 |
| Intercompany income (expense), net | (16) | (33) | 34 | 15 | — |
| Interest income | 1 | — | 5 | 3 | 9 |
| Interest expense | (13) | — | — | (80) | (93) |
| Change in control expenses | — | — | — | (20) | (20) |
| Miscellaneous income (expense), net | <u>—</u> | <u>—</u> | <u>(3)</u> | <u>(26)</u> | <u>(29)</u> |
| Earnings (loss) before income taxes | 44 | (20) | 43 | (122) | (55) |
| Income tax (expense) benefit | <u>(25)</u> | <u>1</u> | <u>(15)</u> | <u>26</u> | <u>(13)</u> |
| Net earnings (loss) | <u>\$ 19</u> | <u>\$(19)</u> | <u>\$ 28</u> | <u>\$(96)</u> | <u>\$ (68)</u> |
| Six months ended August 31, 1989: | | | | | |
| Net sales | \$900 | \$664 | \$441 | \$ (2) | \$2,003 |
| Operating expenses | <u>815</u> | <u>625</u> | <u>433</u> | <u>15</u> | <u>1,888</u> |
| Operating earnings (loss) | 85 | 39 | 8 | (17) | 115 |
| Intercompany income (expense), net | (15) | (35) | 37 | 13 | — |
| Interest income | 1 | — | 5 | 4 | 10 |
| Interest expense | (16) | — | (1) | (91) | (108) |
| Miscellaneous income (expense), net | <u>—</u> | <u>—</u> | <u>—</u> | <u>(2)</u> | <u>(2)</u> |
| Earnings (loss) before income taxes and extraordinary item | 55 | 4 | 49 | (93) | 15 |
| Income tax (expense) benefit | <u>(29)</u> | <u>(7)</u> | <u>(23)</u> | <u>35</u> | <u>(24)</u> |
| Earnings (loss) before extraordinary item | 26 | (3) | 26 | (58) | (9) |
| Extraordinary item | <u>—</u> | <u>—</u> | <u>—</u> | <u>14</u> | <u>14</u> |
| Net earnings (loss) | <u>\$ 26</u> | <u>\$(3)</u> | <u>\$ 26</u> | <u>\$(44)</u> | <u>\$ 5</u> |

BEATRICE COMPANY

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

Pursuant to Instruction H to Form 10-Q, the following discussion of operations is limited.

RESULTS OF OPERATIONS

Beatrice's 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 operations for the six months ended August 31, 1990 and 1989. The six months ended August 31, 1990 include the Predecessor and Successor periods.

Six Months Ended August 31, 1990 and 1989

Net sales for the six months increased \$37 million, or 2%, over the prior year. The increased sales were due to volume gains, particularly in retail oil products, retail and foodservice tomato-based products, ethnic foods, microwave popcorn, shelf-stable pudding, consumer packaged poultry and foodservice meat products. Also contributing to the increase were higher selling prices for deli meat products and cheese products which reflected the rising cost of raw materials. These sales increases were partially offset by: volume declines in snack products and peanut butter, due to competitive pressures, and whole bird turkeys, due to planned volume decreases; and lower selling prices for tomato-based products as a result of a significantly larger tomato crop in the current year. The sale of the Fisher Nut business line on October 13, 1989 and a decision late in fiscal 1990 to exit the industrial oil business also had an unfavorable impact as a result of the absence of sales from these business lines.

Operating earnings were \$78 million versus \$115 million in the prior year. The improvement in net sales was offset by lower profit margins due in large part to higher raw material costs for crude oil, red meat and milk. The decrease was also due to higher advertising and marketing expenditures for new product introductions and to defend market share against new competition.

A net loss of \$68 million was realized versus net earnings of \$5 million in the prior year. The difference was primarily the result of the lower operating earnings, an unfavorable variance in the translation of foreign denominated debt, the change of control expenses incurred as a result of the Merger and the absence in the current period of a \$14 million extraordinary credit realized in the prior year due to the utilization of a net operating loss carryforward, partially offset by lower interest expense.

PART II. OTHER INFORMATION

Item 5—Other Information

Frederick B. Rentschler, President and Chief Executive Officer and a director of Old Beatrice resigned from Beatrice upon the completion of the Merger.

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

On or about June 15, 1990, Beatrice filed a current report on Form 8-K regarding the agreement to enter into the Merger referred to in Note 1 of Notes to Condensed Consolidated Financial Statements and certain related matters.

On or about August 23, 1990, Beatrice filed a current report on Form 8-K regarding the completion of the Merger and change in control of the registrant referred to in Note 1 of Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

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

October 11, 1990

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