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 November 30, 1988

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** (Address of principal executive offices)	**60602** (Zip Code)

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

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

As of January 9, 1989, a total of 81,700,000 shares of Beatrice Company common stock was outstanding.

PART I. FINANCIAL INFORMATION

BEATRICE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

	November 30, 1988 (Unaudited)	February 29, 1988
ASSETS		
Current assets:		
Cash and cash equivalents	$1,433	$ 967
Receivables, less allowance for doubtful accounts of $16 and $16, respectively	322	266
Inventories	523	476
Net current assets of discontinued operations	—	85
Other current assets	176	152
Total current assets	2,454	1,946
Property, plant and equipment, less accumulated depreciation of $219 and $156, respectively	795	783
Intangible assets, principally goodwill	1,896	2,077
Net noncurrent assets of discontinued operations	—	478
Other noncurrent assets	246	268
	$5,391	$5,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 68	$ 19
Accounts payable and accrued expenses	771	843
Total current liabilities	839	862
Long-term debt	2,854	3,341
Noncurrent and deferred income taxes	394	370
Other noncurrent liabilities	471	490
Stockholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional capital	418	418
Retained earnings	411	68
Cumulative foreign currency translation adjustment	3	2
Total stockholders' equity	833	489
	$5,391	$5,552

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

(In millions, except per share data)

	Periods ended November 30,			
	Quarter		Nine Months	
	1988	1987	1988	1987
Net sales	$1,152	$1,106	$3,039	$2,874
Costs and expenses:				
Cost of sales	842	828	2,238	2,137
Selling and administrative expenses	202	175	558	513
Amortization of intangible assets	13	14	38	42
Total costs and expenses	1,057	1,017	2,834	2,692
Operating earnings	95	89	205	182
Interest income	31	8	97	21
Interest expense	(98)	(91)	(308)	(253)
Miscellaneous income (expense), net	(18)	(2)	(7)	(34)
Earnings (loss) from continuing operations before income taxes	10	4	(13)	(84)
Income tax expense	12	10	15	18
Loss from continuing operations	(2)	(6)	(28)	(102)
Discontinued operations:				
Earnings (loss) from operations, net of income tax expense of nil, benefit of $25 and expense of nil and $14, respectively	(1)	52	(2)	36
Gains on sales, net of income tax benefit of $12 and expense of $55, $190 and $55, respectively	70	422	404	422
Extraordinary items, net of income tax expense of $4, and benefit of $11, $4 and $11, respectively	(8)	(13)	(31)	(19)
Net earnings	$ 59	$ 455	$ 343	$ 337
Weighted-average common shares outstanding	82	82	82	82
Common share equivalents	57	57	57	57
	139	139	139	139
Earnings (loss) per share:				
Continuing operations	$ .03	$ .01	$ (.09)	$ (.55)
Discontinued operations	.50	3.41	2.89	3.29
Extraordinary items	(.06)	(.09)	(.22)	(.14)
Net earnings	$ .47	$ 3.33	$ 2.58	$ 2.60

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions)

	Period ended November 30,			
	Quarter		Nine Months	
Cash flows from operations:	1988	1987	1988	1987
Net earnings	$ 59	$ 455	$ 343	$ 337
Adjustments to reconcile net earnings to cash provided (used) by continuing operations:				
Depreciation and amortization of intangibles	34	33	100	99
Other noncash items, net	26	15	35	33
Change in working capital, excluding current debt	(31)	(85)	(204)	(211)
Gains on sales of discontinued operations	(70)	(422)	(404)	(422)
(Earnings) loss from discontinued operations	1	(52)	2	(36)
Extraordinary loss	8	13	31	19
Cash provided (used) by continuing operations	27	(43)	(97)	(181)
Net cash provided (used) by discontinued operations	(12)	14	(42)	15
Cash provided (used) by operations	15	(29)	(139)	(166)
Cash flows from investment activities:				
Expenditures for property, plant and equipment	(29)	(35)	(85)	(82)
Proceeds from sales of property, plant and equipment	12	8	16	21
Proceeds from divested operations	35	846	1,156	1,290
Repayment to Beatrice of the E-II notes	—	—	—	800
Other items, net	2	26	9	46
Cash provided by investment activities	20	845	1,096	2,075
Cash flows from financing activities:				
Short-term borrowings (repayments), net	—	(3)	—	(4)
Borrowings of long-term debt	—	638	2	638
Repurchases of long-term debt	(47)	(1,061)	(477)	(1,559)
Cash distribution paid	—	—	—	(71)
Other items, net	(13)	5	(16)	(25)
Cash used by financing activities	(60)	(421)	(491)	(1,021)
Increase (decrease) in cash and cash equivalents	(25)	395	466	888
Cash and cash equivalents at beginning of period	1,458	536	967	43
Cash and cash equivalents at end of period	$ 1,433	$ 931	$ 1,433	$ 931

See Notes to Condensed Consolidated Financial Statements.

1. Background and Basis of Presentation

Beatrice Company ("Beatrice"), formerly BCI Holdings Corporation, acquired Beatrice Companies, Inc. ("Old Beatrice") on April 17, 1986 in a purchase transaction for approximately $6.2 billion (the "Merger"). Subsequent to the Merger, Beatrice has sold significant portions of its operating businesses, the results of which have been segregated in the condensed consolidated financial statements as discontinued operations (Note 2).

Beatrice adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows", in the third quarter and restated prior periods to be consistent with the current periods' presentation.

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

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

On November 2, 1988 Beatrice completed the sale of BCI Consumer Products Corporation ("BCI Products"), which comprised Beatrice's remaining non-food businesses. On November 30, 1988 Beatrice completed the sale of 60% of the outstanding common stock of the parent of Southern Bakeries, Inc., a baked goods producer and distributor. The remaining 40% will be accounted for as an investment in an unconsolidated subsidiary. Cash proceeds from such transactions approximated $25 million.

In fiscal 1988, Beatrice sold its bottled water operations and Beatrice International Food Company ("Beatrice International"). Beatrice also distributed its ownership in E-II Holdings Inc. ("E-II"), comprising substantially all of Beatrice's then existing nonfood and food specialties businesses, to its stockholders and warrant holders during fiscal 1988 (the "Distribution"). Also, in connection with the Distribution, Beatrice distributed $80 million to its stock, option and warrant holders of which $9 million was accrued for at the time of the Distribution and was paid in January, 1988.

Summary income statement data for the above described discontinued operations follows (in millions):

	Periods ended November 30,			
	Quarter		Nine Months	
	1988	1987	1988	1987
INCOME STATEMENT*:				
Net sales	$ 25	$ 888	$ 157	$3,374
Costs and expenses	(26)	(822)	(151)	(3,155)
Amortization of intangible assets	—	(3)	(1)	(17)
Interest allocation**	—	(36)	(7)	(152)
Earnings (loss) before income tax allocation	(1)	27	(2)	50
Income tax expense (benefit) allocation	—	(25)	—	14
Net earnings (loss)	$ (1)	$ 52	$ (2)	$ 36

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

** *Interest has been allocated based upon the actual or anticipated debt reductions resulting from the application of proceeds received upon sale or the Distribution. To the extent that proceeds received from sales of discontinued operations were not and were not expected to be used to reduce debt at the date of sale or distribution, interest was allocated based upon the ratio of net assets of the discontinued operations to Beatrice's consolidated capitalization.*

3. Inventories

Inventories, in millions, consist of the following:

	November 30, 1988	February 29, 1988
Raw materials and supplies	$106	$128
Work in process	65	62
Finished goods	352	286
	$523	$476

4. Long-term Debt

During the period June 30, 1988 through September 27, 1988, Beatrice repurchased $118 million principal amount of its outstanding 11% Ten Year Senior Notes (the "Senior Notes") and $322 million principal amount of its 12½% Twelve Year Senior Subordinated Debentures (the "Senior Subordinated Debentures"), 12¾% Fifteen Year Subordinated Debentures (the "Subordinated Debentures") and Fifteen Year Floating Rate Junior Subordinated Debentures (the "Junior Debentures").

On December 2, 1988, Beatrice began a solicitation (the "Solicitation") to obtain consents from the holders of record as of November 28, 1988, of Beatrice's Senior Notes, Senior Subordinated Debentures and Subordinated Debentures (collectively, the "Securities") to provide for certain amendments to the indentures under which the Securities were issued. The amendments, which became effective December 1988, eliminated almost all of the restrictive convenants in the indentures and will provide the company with greater financial flexibility.

Concurrently, Beatrice made an Offer to Purchase for Cash (the "Tender Offer") any and all of the Securities. Purchase prices for the Securities included accrued interest.

Holders of the Securities who consented to the amendments and who tendered securities pursuant to the Tender Offer received the following amounts for each $1,000 principal amount of their respective securities:

	Consent Payment	Purchase Price*	Total*
Senior Notes	$25	$1,010	$1,035
Senior Subordinated Debentures	$55	$1,015	$1,070
Subordinated Debentures	$55	$1,025	$1,080

** Does not include accrued interest.*

Consents were received on $257 million, $495 million and $572 million principal amount of the Senior Notes, Senior Subordinated Debentures and Subordinated Debentures, respectively, resulting in consent payments of $6 million, $27 million and $32 million, respectively.

Tenders were received on approximately $262 million, $509 million and $618 million aggregate principal amount of Senior Notes, Senior Subordinated Debentures and Subordinated Debentures, respectively, resulting in a total cost of $271 million, $531 million, and $650 million, respectively, including premiums and accrued interest. As of January 10, 1989, the outstanding principal amounts of Senior Notes, Senior Subordinated Debentures and Subordinated Debentures were $19 million, $23 million and $14 million, respectively.

Additionally, Beatrice is actively analyzing financing alternatives to permit it to redeem its outstanding Junior Debentures and its Increasing Rate Subordinated Debentures due 2002, although no final decisions have been made. The terms of the Junior Debentures currently restrict the payment of dividends on common stock. As of November 30, 1988, approximately $50 million of retained earnings was available for dividends on common stock.

In June 1987, Beatrice entered into a revolving credit agreement (the "Revolving Credit Agreement") with a group of banks which refinanced and replaced its former Bank Credit Agreement and Working Capital Facility which, at the time of refinancing, had provided revolving lines of credit aggregating $1.2 billion. The new agreement provided for an initial aggregate commitment of $1.2 billion which is subject to mandatory reductions in the event certain assets are sold. The sale of Tropicana (Note 2) resulted in a $300 million mandatory reduction. At Beatrice's option, borrowings under the Revolving Credit Agreement bear interest at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required. As of November 30, 1988 there were no borrowings outstanding under this agreement, however, approximately $223 million of standby letters of credit were issued under this Agreement, thus temporarily reducing availability for borrowings by a like amount.

5. Contingent Liabilities

Beatrice and its subsidiaries are engaged in various litigation proceedings, including the income tax matter described in Note 6, which occur in the ordinary course of business. In the opinion of management, there are no claims or litigation pending as of the quarter ended November 30, 1988 to which Beatrice is a party which are expected to have a materially adverse effect on its consolidated financial condition.

6. Income Taxes

In the fiscal year ended February 29, 1988, the consolidated statement of earnings reflected credits of $256 million due to a reduction of estimated liabilities for income taxes and related interest, resulting from a favorable U.S. Tax Court decision on February 2, 1988. A deposit of $119 million made in July 1986 by Esmark, Inc. ("Esmark"), an entity acquired by Beatrice in June 1984, to the Internal Revenue Service ("IRS"), which is expected to be refunded to Beatrice upon ultimate disposition of the case, is included in other current assets as of November 30, 1988. The decision related to a transaction in 1980 between Mobil-TransOcean Company ("Mobil") and Esmark, wherein Esmark transferred the outstanding shares of Vickers Energy Corporation ("Vickers"), a wholly-owned subsidiary whose sole asset at the time was its investment in TransOcean Oil, Inc., to Mobil in exchange for Esmark common stock and cash. Mobil had previously acquired the Esmark shares in a cash tender offer. Esmark believed that the exchange of its shares for Vickers shares constituted a nontaxable redemption and, therefore, Esmark was not required to recognize a taxable gain on the exchange. In March 1983, the IRS issued a revenue ruling which indicated that it might challenge Esmark's position. In June 1984, the IRS assessed a deficiency in connection with the exchange of approximately $115 million, exclusive of interest. Esmark and, subsequently, Beatrice believed the position taken by the IRS had no merit and vigorously contested the case. The favorable U.S. Tax Court decision on February 2, 1988 upheld that position and found Esmark to be free of any tax liability on the exchange. The IRS filed an appeal to the U.S. Tax Court decision with the U.S. Appellate Court on October 17, 1988. The ultimate liabilities, if any, which may result from the appeal cannot be predicted with certainty. However, in the opinion of Beatrice's management, which is supported by special legal counsel, the probability of the IRS prevailing in the appeal is not likely.

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

7. Extraordinary Items

In connection with the purchases of Securities and Junior Debentures during the first nine months of fiscal 1989 (Note 4), Beatrice incurred pre-tax extraordinary charges of $24 million for premiums paid and $9 million for the write-off of unamortized deferred financing fees and also incurred a $2 million loss on the early retirement of other debt.

Beatrice also acquired certain amounts of Securities during the first nine months of fiscal 1988 at an aggregate premium of $21 million and wrote-off associated deferred financing fees of $9 million.

8. Earnings Per Share

Earnings per share are computed assuming the proceeds from the exercise of common share equivalents are applied to reduce long-term debt, resulting in a reduction of interest expense, net of related income taxes, of $6 million and $16 million for the quarter and nine months ended November 30, 1988 and $8 million and $24 million for the quarter and nine months ended November 30, 1987. The earnings (loss) per share from continuing operations for the quarters and nine-month periods ended November 30, 1988 and 1987 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.02, $.07, $.34 and $1.24, respectively.

9. Subsequent Events

On September 15, 1988, Playtex Holdings, Inc. ("Playtex") announced that it had agreed to be sold for $9.60 in cash and $1.00 of a new 14% pay-in-kind preferred stock for each common share and that it would redeem its existing preferred stock. Beatrice's investment in Playtex as of November 30, 1988 consisted of 10 million common shares as well as 3 million shares of preferred stock with an aggregate redemption value of $75 million. This transaction was completed December 30, 1988 and Beatrice tendered its securities to Playtex for payment on such date pursuant to the terms of the sale.

10. Reorganization

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

The following condensed consolidating financial statements present the following:

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

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

CONDENSED CONSOLIDATING BALANCE SHEET
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
As of November 30, 1988:					
Assets:					
Cash and cash equivalents	$ 12	$ 3	$ 8	$1,410	$1,433
Receivables, net	162	84	72	4	322
Inventories	384	90	49	—	523
Other current assets	44	1	7	124	176
Total current assets	602	178	136	1,538	2,454
Net property, plant and equipment	449	199	73	74	795
Intangible assets, principally goodwill	1,095	708	93	—	1,896
Other noncurrent assets	16	2	102	126	246
	$2,162	$1,087	$ 404	$1,738	$5,391
Liabilities and Stockholders' Equity:					
Current maturities of long-term debt	$ 13	$ —	$ 2	$ 53	$ 68
Accounts payable and accrued expenses	342	110	78	241	771
Total current liabilities	355	110	80	294	839
Long-term debt	213	5	14	2,622	2,854
Noncurrent and deferred income taxes	72	—	—	322	394
Other noncurrent liabilities	40	10	7	414	471
Net intercompany investments and advances	1,482	962	303	(2,747)	—
Stockholders' equity	—	—	—	833	833
	$2,162	$1,087	$ 404	$1,738	$5,391
As of February 29, 1988:					
Assets:					
Cash and cash equivalents	$ 8	$ 2	$ 8	$ 949	$ 967
Receivables, net	142	56	60	8	266
Inventories	318	111	47	—	476
Net current assets of discontinued operations	—	—	72	13	85
Other current assets	53	1	6	92	152
Total current assets	521	170	193	1,062	1,946
Net property, plant and equipment	439	205	67	72	783
Intangible assets, principally goodwill	1,200	776	101	—	2,077
Net noncurrent assets of discontinued operations	—	—	553	(75)	478
Other noncurrent assets	16	1	114	137	268
	$2,176	$1,152	$1,028	$1,196	$5,552
Liabilities and Stockholders' Equity:					
Current maturities of long-term debt	$ 12	$ —	$ 2	$ 5	$ 19
Accounts payable and accrued expenses	281	128	82	352	843
Total current liabilities	293	128	84	357	862
Long-term debt	219	5	13	3,104	3,341
Noncurrent and deferred income taxes	71	—	—	299	370
Other noncurrent liabilities	42	5	6	437	490
Net intercompany investments and advances	1,551	1,014	925	(3,490)	—
Stockholders' equity	—	—	—	489	489
	$2,176	$1,152	$1,028	$1,196	$5,552

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

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
Nine months ended November 30, 1988:					
Net sales	$1,382	$1,035	$ 627	$ (5)	$3,039
Operating expenses	1,239	965	605	25	2,834
Operating earnings (loss)	143	70	22	(30)	205
Intercompany income (expense), net	(30)	(72)	39	63	—
Interest income	1	—	6	90	97
Interest expense	(20)	(1)	(1)	(286)	(308)
Miscellaneous income (expense), net	—	—	2	(9)	(7)
Earnings (loss) from continuing operations before income taxes	94	(3)	68	(172)	(13)
Income tax expense (benefit)	50	8	21	(64)	15
Earnings (loss) from continuing operations	44	(11)	47	(108)	(28)
Discontinued operations	—	—	329	73	402
Extraordinary items	—	—	—	(31)	(31)
Net earnings (loss)	$ 44	$ (11)	$ 376	$ (66)	$ 343
Nine months ended November 30, 1987:					
Net sales	$1,206	$1,030	$ 638	$ —	$2,874
Operating expenses	1,078	959	625	30	2,692
Operating earnings (loss)	128	71	13	(30)	182
Intercompany income (expense), net	(45)	(56)	(7)	108	—
Interest income	1	—	1	19	21
Interest expense	(19)	(1)	(4)	(229)	(253)
Miscellaneous income (expense), net	—	1	4	(39)	(34)
Earnings (loss) from continuing operations before income taxes	65	15	7	(171)	(84)
Income tax expense (benefit)	43	19	2	(46)	18
Earnings (loss) from continuing operations	22	(4)	5	(125)	(102)
Discontinued operations	—	—	(2)	460	458
Extraordinary items	—	—	—	(19)	(19)
Net earnings (loss)	$ 22	$ (4)	$ 3	$ 316	$ 337

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

OPERATIONS

Beatrice's continuing operations conduct business primarily in the processed food industry through the production and distribution of branded food products. These operations manufacture and distribute grocery, meat and cheese products throughout the U.S. and certain Canadian provinces. The following discussion addresses the results of continuing operations for the quarters and nine-month periods ended November 30, 1988 and 1987.

Quarters Ended November 30, 1988 and 1987

Net sales for the quarter increased $46 million, or 4% over the prior year's quarter. Volume gains were experienced in grocery and cheese, primarily in microwave popcorn, ready-to-eat pudding, ketchup, spaghetti sauce and retail cheese lines offset by a volume decrease in whole turkey products. The volume gains resulted from third quarter incentive programs, an increased demand for tomato products and the introduction of new retail cheese products while the turkey volume decrease for the quarter was caused by the timing of turkey offerings.

Operating earnings increased $6 million or 7% over the prior year's quarter primarily due to the increase in net sales, selling prices increasing more rapidly than meat raw material costs and lower corporate administrative expenses. Partially offsetting these favorable variances were higher raw materials costs for milk, cheese and vegetable oil and higher grocery and cheese promotional costs.

Losses of $2 million from continuing operations were realized versus a $6 million loss in the prior year's quarter. The improvement is primarily a result of an increase in interest income and operating earnings partially offset by higher interest expense and unfavorable foreign currency translations of foreign denominated debt.

In the current quarter an extraordinary charge of $4 million, net of $4 million tax expense, resulted from the acquisition of Junior Debentures and other debt.

Net earnings of $59 million were realized versus $455 million in the prior year's quarter. The difference of $414 relates almost solely to the gain of $422 million on the sale of Beatrice International and earnings from discontinued operations of $52 million in the prior year's quarter versus the gain of $70 million in the current quarter on the sale of the BCI Products and Southern Bakeries, Inc..

Nine Months Ended November 30, 1988 and 1987

Net sales for the nine months increased $165 million or 6% over the prior year. Volume gains were experienced in most grocery categories, however, meat and cheese volume was virtually equal to last year.

Operating earnings increased $23 million or 13% over last year due primarily to increased grocery sales and lower administrative costs. Higher milk and cheese raw material costs, as well as higher promotional costs, partially offset these favorable variances.

A loss of $28 million from continuing operations was realized versus a loss of $102 million in the prior year. This improvement was primarily a result of an increase in interest income of $76 million, favorable operating earnings, favorable foreign currency translations and the absense of $25 million of expenses incurred in fiscal 1988 in connection with obtaining consents to modify certain debt agreements. These favorable variances were partially offset by an increase in interest expense of $55 million resulting from a decreased allocation of interest to discontinued operations offset by lower interest expenses as a result of reduced debt.

Net earnings of $343 million were realized versus $337 million in the prior year. The favorable variance resulted from reduced losses from continuing operations offset by higher gains on the sales of discontinued operations and greater earnings from discontinued operations in the prior year along with increased extraordinary losses in the current year.

Financial Condition

The financial condition of Beatrice was significantly strengthened in fiscal 1989 as a result of the successful completion of the sale of Tropicana in the first quarter. This disposal resulted in net cash proceeds of approximately $1.1 billion after taxes currently payable.

Beatrice further strengthened its financial condition by repurchasing $440 million principal amount of Securities and Junior Debentures between June 30, 1988 and September 27, 1988 for a total cost, including premiums and accrued interest, of $478 million. An additional $1,389 million principal amount of the Securities was acquired pursuant to the Tender Offer which expired on January 3, 1989 (Note 4).

After taking into account the Solicitation and Tender Offer (Note 4) and the sale of Beatrice's interest in Playtex (Note 9), Beatrice had cash and cash equivalents of approximately $100 million as of January 12, 1989. However, management believes that existing credit lines and cash flow from operations will continue to be able to adequately fund operating requirements as well as service debt requirements.

Net capital expenditures in the first nine months of fiscal 1989 aggregated $72 million.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The response to Item 5(a) of this Form 10-Q is incorporated herein by reference.

Item 5. Other Information.

(a) Consent Solicitation and Tender Offer.

On December 2, 1988 Beatrice began a Consent Solicitation (the "Solicitation") and Offer to Purchase for Cash (the "Tender Offer") with respect to its 11% Ten Year Senior Notes (the "Senior Notes"), 12½% Twelve Year Senior Subordinated Debentures (the "Senior Subordinated Debentures") and 12¾% Fifteen Year Subordinated Debentures (the "Subordinated Debentures") (collectively, the "Securities"). The Solicitation solicited consents to amendments to the indentures (the "Indentures") under which the Securities were issued. Consents were received on $257 million, $495 million and $572 million principal amount of the Senior Notes, Senior Subordinated Debentures and Subordinated Debentures, respectively, representing 91%, 93% and 91%, respectively, of the outstanding principal amount of each such issue.

The amendments eliminated all of the covenants contained in Sections *4.03. Limitations on Indebtedness, 4.04. Limitation on Incurrence of Indebtedness by Subsidiaries, 4.05. Limitations on Dividends, Other Distributions and Certain Payments by Beatrice, 4.07. Limitation on Payment Restrictions Affecting Subsidiaries, 4.08. Sales of Assets, 4.09. Limitation on Creation of Liens* and *4.12. Notice of Defaults*. The amendments also eliminated all of the restrictions under Section 5.01 of the Indentures on mergers, consolidations and the transfer of all or substantially all of Beatrice's assets to another entity other than requirements that the continuing person be Beatrice or another domestic corporation and that such continuing person expressly assume by a supplemental indenture all of the obligations of Beatrice under the Securities and the Indentures. The amendments also deleted cross defaults and unsatisfied judgments as events of default under Section 6.01 of the Indentures.

Copies of the amendments are filed as Exhibits 4.01, 4.02 and 4.03 to this Form 10-Q.

The Tender Offer prices were $1,010, $1,015 and $1,025, plus accrued interest, per $1,000 principal amount for the Senior Notes, the Senior Subordinated Debentures and the Subordinated Debentures respectively. Beatrice acquired $262 million, $509 million and $618 million of the Senior Notes, the Senior Subordinated Debentures and the Subordinated Debentures, respectively, in the Tender Offer. See Note 4 to Notes to Condensed Consolidated Financial Statements contained in Part I of this Form 10-Q for information about the amount of Securities outstanding after consummation of the Tender Offer.

(b) Change in Directors.

In connection with the proposed acquisition of RJR Nabisco, Inc. by a corporation formed by Kohlberg Kravis Roberts & Co. ("KKR"), Henry R. Kravis, Paul E. Raether and George R. Roberts resigned effective as of December 9, 1988 from the Board of Directors of Beatrice and from each of the Board committees on which they served. As a result, the remaining directors reduced the number of positions on the Board from eight to six and appointed Michael W. Michelson as a director to replace Mr. Kravis on the Board and on the Executive Committee, Audit Committee, Compensation and Benefits Committee and Stock Option Committee.

Mr. Michelson has been a General Partner of KKR since January 1987 and was previously an Associate at KKR since August 1981. He is also a director of Fred Meyer, Inc., Owens-Illinois, Inc., Red Lion Properties, Inc. and Union Texas Petroleum Holdings, Inc.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit Number	Description of Exhibits
4.01	Third Supplement, dated as of December 22, 1988, to Indenture dated as of April 15, 1986, as amended, relating to 11% Ten Year Senior Notes among Beatrice Company, as Issuer, Beatrice U.S. Food Corp., as Guarantor, and Irving Trust Company, as Trustee.
4.02	Third Supplement, dated as of December 29, 1988, to Indenture dated as of April 15, 1986, as amended, relating to 12½% Twelve Year Senior Subordinated Debentures among Beatrice Company, as Issuer, Beatrice U.S. Food Corp., as Guarantor, and Harris Trust and Savings Bank, as Trustee.
4.03	Third Supplement, dated as of December 30, 1988, to Indenture dated as of April 15, 1986, as amended, relating to 12¾% Fifteen Year Subordinated Debentures among Beatrice Company, as Issuer, Beatrice U.S. Food Corp., as Guarantor, and The Citizens and Southern National Bank, as Trustee.
11.	Statement re computation of earnings per share. Historical Computation of Earnings (Loss) Per Share.

(b) Reports on Form 8-K.

None

SIGNATURES

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

BEATRICE COMPANY

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

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

January 13, 1989

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

(In millions, except per share data)

	Periods ended November 30,			
	Quarter		Nine Months	
	1988	1987	1988	1987
Loss from continuing operations	$ (2)	$ (6)	$ (28)	$(102)
Reduction of interest expense resulting from application of proceeds from exercise of common share equivalents	6	8	16	24
Earnings (loss) from continuing operations applicable to common shares and common share equivalents	4	2	(12)	(78)
Earnings from discontinued operations	69	474	402	458
Extraordinary items	(8)	(13)	(31)	(19)
Net earnings applicable to common shares and common share equivalents	$ 65	$ 463	$ 359	$ 361
Average common shares outstanding during the period	82	82	82	82
Common share equivalents	57	57	57	57
Total average common shares and common share equivalents	139	139	139	139
Earnings (loss) per share:				
Continuing operations (A)	$ .03	$ .01	$ (.09)	$ (.55)
Discontinued operations	.50	3.41	2.89	3.29
Extraordinary items	(.06)	(.09)	(.22)	(.14)
Net earnings	$ .47	$ 3.33	$ 2.58	$ 2.60

(A) The earnings (loss) per share from continuing operations for the quarters and the nine-month periods ended November 30, 1988 and 1987 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.02, $.07, $.34 and $1.24, respectively.

[THIS PAGE INTENTIONALLY LEFT BLANK]