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:**

November 30, 1989

☐ **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)	**13-3327481** (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) 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 __.

As of December 31, 1989, a total of 81,874,700 shares of Beatrice Company common stock was outstanding.

PART I. FINANCIAL INFORMATION

BEATRICE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions, except share data)

	November 30, 1989 (Unaudited)	February 28, 1989
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17	$ 95
Receivables, less allowance for doubtful accounts of $13	314	288
Inventories	530	464
Other current assets	193	157
Total current assets	1,054	1,004
Property, plant and equipment, less accumulated depreciation of $290 and $231, respectively	710	759
Intangible assets, principally goodwill	1,775	1,883
Other noncurrent assets	155	140
	$3,694	$3,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 125	$ —
Accounts payable	308	310
Accrued expenses	358	421
Current maturities of long-term debt	121	163
Total current liabilities	912	894
Long-term debt	979	1,252
Noncurrent and deferred income taxes	414	368
Other noncurrent liabilities	530	456
Stockholders' equity:		
Preferred stock, par value $.01 per share; no shares issued and outstanding	—	—
Common stock, par value $.01 per share; 81,874,700 and 81,700,000 shares issued and outstanding, respectively	1	1
Additional capital	420	418
Retained earnings	433	393
Cumulative foreign currency translation adjustment	5	4
Total stockholders' equity	859	816
	$3,694	$3,786

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	
	1989	1988	1989	1988
Net sales	$1,182	$1,152	$3,185	$3,039
Costs and expenses:				
Cost of sales	881	842	2,358	2,238
Selling and administrative expenses	198	202	584	558
Restructuring charges	42	—	42	—
Amortization of intangible assets	13	12	38	38
Total costs and expenses	1,134	1,056	3,022	2,834
Operating earnings	48	96	163	205
Interest income	3	31	13	97
Interest expense	(51)	(98)	(159)	(308)
Gain on sale of Fisher	74	—	74	—
Miscellaneous income (expense), net	(12)	(18)	(14)	(6)
Earnings (loss) from continuing operations before income taxes	62	11	77	(12)
Income tax expense	(49)	(12)	(73)	(15)
Earnings (loss) from continuing operations	13	(1)	4	(27)
Discontinued operations:				
Loss from operations, net of income tax expense of nil	—	(1)	—	(3)
Gains on sales, net of income tax (expense) benefit of nil, $12, nil and $(190), respectively	—	70	—	404
Resolution of tax litigation, net of income tax expense of $22	5	—	5	—
Extraordinary items, net of income tax (expense) benefit of nil, $(4), nil and $4, respectively	17	(9)	31	(31)
Net earnings	$ 35	$ 59	$ 40	$ 343
Weighted-average common shares outstanding	82	82	82	82
Common share equivalents	59	57	59	57
	141	139	141	139
Earnings (loss) per share:				
Continuing operations	$ .14	$ .04	$ .15	$ (.08)
Discontinued operations	.03	.49	.03	2.88
Extraordinary items	.12	(.06)	.22	(.22)
Net earnings	$ .29	$ .47	$ .40	$ 2.58

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions)

	Periods Ended November 30,			
	Quarter		Nine Months	
Cash flows from operating activities:	1989	1988	1989	1988
Earnings (loss) from continuing operations	$ 13	$ (1)	$ 4	$ (27)
Adjustments to reconcile earnings (loss) from continuing operations to cash provided (used) by operating activities:				
Depreciation and amortization of intangibles	33	34	103	100
Other items, net	49	26	95	35
Change in working capital, excluding current debt	35	(31)	(156)	(204)
Cash provided (used) by continuing operations	130	28	46	(96)
Net cash used by discontinued operations	—	(13)	—	(43)
Cash provided (used) by operating activities	130	15	46	(139)
Cash flows from investing activities:				
Expenditures for property, plant and equipment	(22)	(29)	(69)	(85)
Proceeds from sale of miscellaneous assets	1	—	24	—
Collection of aircraft sale note receivable	—	—	18	—
Proceeds from divested operations	143	35	143	1,181
Other items, net	7	14	13	26
Cash provided by investing activities	129	20	129	1,122
Cash flows from financing activities:				
Short-term borrowings (repayments), net	(487)	—	125	—
Borrowings of long-term debt	242	—	243	2
Repayments of long-term debt	(2)	(47)	(583)	(477)
Other items, net	(18)	(13)	(38)	(42)
Cash used by financing activities	(265)	(60)	(253)	(517)
Increase (decrease) in cash and cash equivalents	(6)	(25)	(78)	466
Cash and cash equivalents at beginning of period	23	1,458	95	967
Cash and cash equivalents at end of period	$ 17	$1,433	$ 17	$1,433

See Notes to Condensed Consolidated Financial Statements.

BEATRICE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

As used in this Report, the term "Beatrice" means Beatrice Company (formerly BCI Holdings Corporation) and its direct and indirect subsidiaries, unless otherwise suggested or indicated by the context. Beatrice acquired Beatrice Companies, Inc. ("Old Beatrice") on April 17, 1986 in a purchase transaction for approximately $6.2 billion (the "Merger"). Subsequent to the Merger, Beatrice has sold significant portions of its operating businesses. As a result of these sales, Beatrice is now a producer and distributor of processed food products for both consumer and wholesale use.

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.

Intangible assets are amortized using the straight-line method over periods not in excess of 40 years. Accumulated amortization of intangible assets amounted to $174 million and $143 million as of November 30, 1989 and February 28, 1989, respectively.

2. Discontinued Operations

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

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

Results of the above described operations have been segregated as discontinued in the accompanying condensed consolidated financial statements. Net sales were $42 million and $213 million for the quarter and nine months ended November 30, 1988, respectively.

3. Inventories

Inventories, in millions, consist of the following:

	November 30, 1989	February 28, 1989
Raw materials and supplies	$101	$108
Work in process	75	58
Finished goods	354	298
	$530	$464

4. Debt

On October 16, 1989, Beatrice's former bank revolving credit agreement ("Revolving Credit Agreement") was replaced by a new bank revolving credit agreement ("Bank Credit Agreement") which provides for up to $1.3 billion of revolving credit for at least three years. Each year, Beatrice has the option to extend the Bank Credit Agreement for an additional year provided more than 66⅔% of the lenders under the Bank Credit Agreement consent. At Beatrice's option, borrowings under the Bank Credit Agreement bear interest at the prime rate plus ½%, a certificate of deposit based rate plus 1½%, a Eurodollar based rate plus 1¼% or a bid or negotiated rate. Commitment fees ranging from ¼ of 1% to ⅜ of 1% of the unused credit are required. As of November 30, 1989, there were $125 million of borrowings outstanding under this agreement, comprised primarily of bankers' acceptances and Eurodollar based loans. The bankers' acceptances had an average maturity and interest rate of 30 days and 9.3%, respectively. These borrowings were outstanding primarily to support short-term working capital needs and, accordingly, are classified as short-term debt on the condensed consolidated balance sheet. In addition, approximately $357 million standby letters of credit were issued under this agreement, thus temporarily reducing availability for borrowings by a like amount. As of January 10, 1990, these letters of credit had been reduced to $113 million.

On August 14, 1989, Beatrice redeemed all $526 million principal amount outstanding of its Increasing Rate Subordinated Debentures due 2002 ("Increasing Rate Debentures"). Beatrice redeemed the debt at 100% of the principal amount plus accrued interest to the redemption date, resulting in a total cost to Beatrice of $535 million. The funds for the redemption were initially borrowed under the Revolving Credit Agreement.

On November 8, 1989, Beatrice issued $151 million of Senior Subordinated Reset Notes Due 1997 ("Reset Notes"), with an initial interest rate of 13¾%, and $100 million of Senior Subordinated Floating Rate Notes Due 1997 ("Floating Rate Notes"), with an initial rate of 12 15/16%. The notes were issued at 99¾% of their face amount and mature on November 1, 1997. The net proceeds of $242 million were used to repay a portion of the outstanding borrowings under the Bank Credit Agreement.

The interest rate for the Reset Notes will be reset annually beginning November 1, 1990, to a rate that would result in a bid price for the securities equal to 101% of their principal amount; provided that such reset rate will not be set below 13¾% or above 16¼%. The interest rate for the Floating Rate Notes will be adjusted quarterly beginning February 1, 1990 to a rate equal to three months LIBOR plus 4¼%.

5. Legal Proceedings and Contingencies

Beatrice and its subsidiaries are engaged in various litigation proceedings incident to their respective businesses, including 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 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). Various state tax authorities are also examining tax returns of 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. However, 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 these matters will not have a material adverse effect on Beatrice's consolidated financial condition.

6. Restructuring Charges

Concurrent with its current year capital expenditure program, Beatrice completed an evaluation of the efficiency, capacity and utilization of its operating facilities. This review resulted in the decision to close and/or consolidate certain of these facilities. Expenses of $42 million have been recognized in the quarter ended November 30, 1989 in connection with such activities.

7. Sale of Fisher Nut

On October 13, 1989, Beatrice/Hunt-Wesson, Inc., a subsidiary of Beatrice, completed the sale of its Fisher Nut business line ("Fisher"), resulting in an after-tax gain on the sale of approximately $40 million. Fisher is a manufacturer and marketer of a variety of high-quality nuts and nut products.

8. Income Taxes

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, state and non-U.S. income taxes and differences between the book and tax bases of certain assets sold during fiscal 1990. 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 each of the quarters ended November 30, 1989 and May 31, 1988, Beatrice realized a portion of such previously unrecognized tax benefits attributable to differences between the tax bases of certain assets and liabilities as of the Merger and the amounts allocated to those assets and liabilities under purchase accounting. Certain of these tax benefits, amounting to $42 million in fiscal 1990 and $143 million in fiscal 1989, related to a fiscal 1987 transaction (occurring during the purchase cost allocation period) and were used to reduce goodwill. In addition, tax benefits amounting to $25 million, which related to fiscal 1989 transactions, were used to reduce the income tax expense applicable to the gain on the sale of Tropicana in fiscal 1989.

Beatrice has a net operating loss carryforward, after current year utilization (Note 10), of $78 million at November 30, 1989 which expires in fiscal 2004. In addition, Beatrice has an alternative minimum tax ("AMT") credit of $38 million which represents the excess of fiscal 1989's AMT liability over the regular tax liability. This AMT credit can be carried forward indefinitely to reduce the regular tax liabilities of future years.

9. Resolution of Tax Litigation

On September 15, 1989, the U.S. Court of Appeals upheld the U.S. Tax Court decision rendered on February 2, 1988, regarding the disposition in 1980 of TransOcean Oil, Inc. by Esmark, Inc. ("Esmark"), an entity acquired by Old Beatrice in 1984 and subsequently sold by certain subsidiaries of Beatrice in July 1986. The U.S. Tax Court decision affirmed Esmark's, and subsequently Beatrice's, position that Esmark had executed the transactions related to the disposition in a manner that constituted a nontaxable redemption, and, therefore, that Esmark was not required to recognize a taxable gain. All rights of the Internal Revenue Service ("IRS") to seek any further review were waived or have expired and, on December 5, 1989, Beatrice received a refund of $165 million from the IRS. The $165 million, consisting of a refund of $119 million deposit made by Esmark to the IRS in July 1986 plus accrued interest from the date of payment, is included in other current assets as of November 30, 1989. As a result of receiving such refund, Beatrice, after giving effect to certain amounts which are reimbursable to the buyer of Esmark under certain indemnity agreements, will be required to recognize additional taxable income, upon which tax expense of $22 million has been provided.

10. Extraordinary Item

Beatrice utilized $91 million of its previously existing $169 million net operating loss carryforward in the nine month period ended November 30, 1989 to offset U.S. federal taxes otherwise payable. The benefit of this utilization is reflected as an extraordinary item in the accompanying condensed consolidated statement of earnings in fiscal 1990.

In connection with purchases of debt during the nine month period ended November 30, 1988, Beatrice incurred pre-tax extraordinary charges of $24 million for premiums paid, $9 million for the write-off of unamortized deferred financing fees and a $2 million loss on the early retirement of other debt.

11. 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 for both quarters ended November 30 and $17 million and $16 million for the nine month periods ended November 30, 1989 and 1988, respectively. The loss per share from continuing operations for the quarter and nine months ended November 30, 1988 is also required to reflect the effects of these common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.01 and $.33, respectively.

12. Consolidating Financial Statements

The following condensed consolidating financial statements as of the dates and for the fiscal periods indicated present:

- Condensed consolidated balance sheets and statements of earnings for Norton Simon, Inc. ("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.

CONDENSED CONSOLIDATING BALANCE SHEET
(Unaudited)
(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
As of November 30, 1989:					
Assets:					
Cash and cash equivalents	$ 3	$ 2	$ 9	$ 3	$ 17
Receivables, net	148	83	83	—	314
Inventories	385	89	56	—	530
Other current assets	47	3	3	140	193
Total current assets	583	177	151	143	1,054
Net property, plant and equipment	434	169	74	33	710
Intangible assets, principally goodwill	1,014	673	88	—	1,775
Other noncurrent assets	39	2	69	45	155
	$2,070	$1,021	$382	$ 221	$3,694
Liabilities and Stockholders' Equity:					
Short-term debt	$ 65	$ —	$—	$ 60	$ 125
Accounts payable and accrued expenses	287	105	72	202	666
Current maturities of long-term debt	19	—	1	101	121
Total current liabilities	371	105	73	363	912
Long-term debt	196	5	14	764	979
Noncurrent and deferred income taxes	58	—	—	356	414
Other noncurrent liabilities	82	13	8	427	530
Net intercompany investments and advances	1,363	898	287	(2,548)	—
Stockholders' equity	—	—	—	859	859
	$2,070	$1,021	$382	$ 221	$3,694
As of February 28, 1989:					
Assets:					
Cash and cash equivalents	$ 11	$ 2	$ 8	$ 74	$ 95
Receivables, net	141	65	63	19	288
Inventories	319	98	47	—	464
Other current assets	52	2	6	97	157
Total current assets	523	167	124	190	1,004
Net property, plant and equipment	457	191	75	36	759
Intangible assets, principally goodwill	1,088	703	92	—	1,883
Other noncurrent assets	15	3	96	26	140
	$2,083	$1,064	$387	$ 252	$3,786
Liabilities and Stockholders' Equity:					
Accounts payable and accrued expenses	$ 345	$ 111	$ 56	$ 219	$ 731
Current maturities of long-term debt	12	—	1	150	163
Total current liabilities	357	111	57	369	894
Long-term debt	209	5	14	1,024	1,252
Noncurrent and deferred income taxes	28	—	—	340	368
Other noncurrent liabilities	11	6	6	433	456
Net intercompany investments and advances	1,478	942	310	(2,730)	—
Stockholders' equity	—	—	—	816	816
	$2,083	$1,064	$387	$ 252	$3,786

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

	NSI	Swift-Eckrich	Beatrice U.S. Food	Beatrice	Consolidated
Nine months ended November 30, 1989:					
Net sales	$1,439	$1,045	$704	$ (3)	$3,185
Operating expenses	1,310	1,002	688	22	3,022
Operating earnings (loss)	129	43	16	(25)	163
Intercompany income (expense), net	(23)	(52)	54	21	—
Interest income	1	—	7	5	13
Interest expense	(26)	—	(1)	(132)	(159)
Miscellaneous income (expense), net	74	—	—	(14)	60
Earnings (loss) from continuing operations before income taxes	155	(9)	76	(145)	77
Income tax (expense) benefit	(82)	(5)	(31)	45	(73)
Earnings (loss) from continuing operations	73	(14)	45	(100)	4
Discontinued operations	—	—	—	5	5
Extraordinary item	—	—	—	31	31
Net earnings (loss)	$ 73	$ (14)	$ 45	$ (64)	$ 40
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	(8)	(6)
Earnings (loss) from continuing operations before income taxes	94	(3)	68	(171)	(12)
Income tax (expense) benefit	(50)	(8)	(21)	64	(15)
Earnings (loss) from continuing operations	44	(11)	47	(107)	(27)
Discontinued operations	—	—	329	72	401
Extraordinary items	—	—	—	(31)	(31)
Net earnings (loss)	$ 44	$ (11)	$376	$ (66)	$ 343

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

RESULTS OF OPERATIONS

Beatrice's continuing operations conduct business in the food industry through the production and distribution of processed 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, 1989 and 1988.

Quarters Ended November 30, 1989 and 1988

Net sales for the quarter increased $30 million, or 3%, over the prior year's quarter. The increased sales were due to volume gains, particularly in retail and food service oil products, refrigerated and shelf stable puddings and snack products, peanut butter, microwave popcorn, consumer packaged poultry and deli meats and food service cheese, as well as increased selling prices for food service tomato based products and cheese products. These sales increases were partially offset by volume declines for cocoa products, due to competitive pressures; consumer packaged non-poultry meats due to changing consumer preferences away from red meats to leaner, lighter meat products; and industrial oil products, as well as lower selling prices for whole bird turkeys. During August and September 1989, Eckrich "Lite" products were introduced to respond to the consumer demand for leaner, lighter meat products.

Operating earnings decreased $48 million, or 50%, from the prior year's quarter due primarily to the $42 million of restructuring charges recognized in the current quarter. In addition, the increase in net sales, improved margins on tomato based and oil products and lower trade allowance activity only partially offset the lower margins on whole bird turkeys, higher raw material costs for milk and red meat and lower selling prices for whey and whey cream.

Earnings from continuing operations of $13 million were realized versus a loss of $1 million in the prior year's quarter. The higher earnings were due primarily to the pre-tax gain on the sale of Fisher of $74 million, a $47 million decrease in interest expense and a $6 million decrease in translation losses of foreign denominated debt, partially offset by the lower operating earnings, a $28 million decrease in interest income and, primarily as a result of the gain on Fisher, a $37 million increase in income tax expense. The decrease in both interest expense and interest income was the result of the utilization of cash and cash equivalents to reduce debt by approximately $2.0 billion in fiscal 1989, primarily in the second half of the year. As a result, earnings were favorably impacted due to the elimination of the unfavorable spread between interest paid and interest earned.

Net earnings of $35 million were realized versus $59 million in the prior year's quarter. The lower net earnings for the current quarter results primarily from the absence of the prior year's $70 million gain on the sale of discontinued operations. The net earnings of the current quarter were favorably affected by the above described variances in earnings from continuing operations, $5 million of income related to the resolution of tax litigation, and an extraordinary credit of $17 million resulting from the utilization of a net operating loss carryforward to reduce taxes payable.

Nine Months Ended November 30, 1989 and 1988

Net sales for the nine months increased $146 million, or 5%, over the prior year. The increase in sales was due to volume gains in retail oil products, refrigerated and shelf stable puddings and snack products, peanut butter, microwave popcorn, consumer packaged poultry and deli meats and food service cheese. Also contributing to the increase was higher selling prices for food service tomato based products and cheese products. Sales have also increased as a result of successful new product introductions and product line extensions. Partially offsetting these sales increases were lower sales volume and prices on whole bird turkeys, and lower volumes on industrial oils and consumer packaged non-poultry meat products due to essentially the same reasons as those affecting the current quarter.

Operating earnings decreased $42 million, or 20%, from the prior year. The increase in net sales and the improved margins on oil, cocoa and consumer packaged turkey products were offset by $42 million of restructuring charges, lower margins on ketchup, higher raw material costs for red meat and milk and lower selling prices for whey and whey cream.

The earnings from continuing operations were $4 million versus a loss of $27 million in the prior year. The improvement was due primarily to the $74 million gain on the sale of Fisher, a $149 million reduction in interest expense, partially offset by an $84 million decrease in interest income, the above described decrease in operating earnings and, primarily as a result of these net improvements and the gain on Fisher, a $58 million increase in income tax expense. The decrease in both interest expense and interest income was the result of the utilization of cash and cash equivalents to reduce debt by approximately $2.0 billion in fiscal 1989, primarily in the second half of the year. As a result, earnings were favorably impacted due to the elimination of the unfavorable spread between interest paid and interest earned.

Net earnings of $40 million were realized versus net earnings of $343 million in the prior year. The difference related primarily to the absence in the current year of $404 million of gains on the sales of discontinued operations, partially offset by the improved results from continuing operations in the current year, income of $5 million resulting from the resolution of tax litigation, an extraordinary credit of $31 million in the current year which resulted from the utilization of a net operating loss carryforward to reduce taxes payable and the absence of $31 million of extraordinary charges which were incurred in the prior year as a result of the early retirement of debt.

Financial Condition

On August 14, 1989, Beatrice redeemed at par all $526 million principal amount of its Increasing Rate Debentures then outstanding. The funds for the redemption were initially borrowed under the Revolving Credit Agreement. On October 16, 1989, the Revolving Credit Agreement was replaced with the Bank Credit Agreement which provides for up to $1.3 billion of revolving credit for at least three years.

On October 13, 1989, Beatrice/Hunt-Wesson, Inc. completed the sale of its Fisher Nut business. In addition, on November 8, 1989, Beatrice issued $151 million of Senior Subordinated Reset Notes and $100 million of Senior Subordinated Floating Rate Notes, resulting in net proceeds of $242 million. The net proceeds from both of these transactions were used to repay a portion of the outstanding bank borrowings.

As a result of the above described transactions and seasonal working capital requirements, as of November 30, 1989 Beatrice had approximately $17 million of cash and cash equivalents and had borrowings under the Bank Credit Agreement of $125 million. In addition, there were $357 million of standby letters of credit outstanding, which have been reduced to $113 million as of January 10, 1990. Management believes that funds available under the Bank Credit Agreement and cash flow from operations will be sufficient to fund operating requirements, including anticipated capital expenditures, as well as debt service requirements. Management continues to explore various additional financing alternatives in connection with the maturity of debt in future years.

Beatrice has been and currently is considering various alternatives regarding its contemplated recapitalization which would result in the distribution to its shareholders of certain income producing securities. No final decision has been made regarding either the timing or the precise terms of any such distribution. However, it is currently contemplated that such distribution will be implemented early in Beatrice's fiscal year 1991. Management is of the opinion that the implementation of the contemplated recapitalization should not have a significant adverse effect on Beatrice's operations or operating earnings. However, increased interest expense will reduce net earnings and preferred dividends will reduce retained earnings over what they would otherwise be if there were no distribution to shareholders.

Capital expenditures planned for fiscal 1990 approximate $110 million, of which $69 million has been expended during the first nine months. Concurrent with its capital expenditure program, Beatrice completed an evaluation of the efficiency, capacity and utilization of various of its operating facilities. This review resulted in the decision to close and/or consolidate certain of these facilities. Expenses of $42 million have been recognized in the quarter ended November 30, 1989 in connection with such activities. Also during fiscal 1990, Beatrice sold miscellaneous non-operating assets, generating proceeds of approximately $24 million.

On December 5, 1989, Beatrice received a refund of $165 million from the Internal Revenue Service representing the conclusion of the tax litigation related to the disposition in 1980 of TransOcean Oil, Inc. These funds were used to repay borrowings under the Bank Credit Agreement.

PART II. OTHER INFORMATION

Item 1—Legal Proceedings

The tax litigation referred to in Note 9 to the Notes to Condensed Consolidated Financial Statements has been concluded. Note 9 is incorporated herein by reference.

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibit:

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

(b) Reports on Form 8-K.

None.

SIGNATURES

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

BEATRICE COMPANY

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

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

January 11, 1990

EXHIBIT 11

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

(In millions, except per share data)

	Periods ended November 30,			
	Quarter		Nine Months	
	1989	1988	1989	1988
Earnings (loss) from continuing operations	$ 13	$ (1)	$ 4	$ (27)
Reduction of interest expense resulting from application of proceeds from exercise of common share equivalents	6	6	17	16
Earnings (loss) from continuing operations applicable to common shares and common share equivalents	19	5	21	(11)
Earnings from discontinued operations	5	69	5	401
Extraordinary items	17	(9)	31	(31)
Net earnings applicable to common shares and common share equivalents	$ 41	$ 65	$ 57	$ 359
Average common shares outstanding during the period	82	82	82	82
Common share equivalents	59	57	59	57
Total average common shares and common share equivalents	141	139	141	139
Earnings (loss) per share:				
Continuing operations(A)	$ .14	$ .04	$ .15	$(.08)
Discontinued operations	.03	.49	.03	2.88
Extraordinary items	.12	(.06)	.22	(.22)
Net earnings	$ .29	$ .47	$ .40	$2.58

(A) The loss per share from continuing operations for the quarter and nine months ended November 30, 1988 is required to reflect the effects of common share equivalents as a result of Beatrice having net earnings. The loss per share from continuing operations excluding the effects of these common share equivalents would have been $.01 and $.33, respectively.